ALLIANCE & LEICESTER PLC

Company Number 3263713

Annual Report & Accounts
for the year ended 31 December 2006

Registered Office Carlton Park, Narborough, Leicester LE19 0AL

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 2006

Business Review and Principal Activities

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

The directors are not aware, at the date of this report, of any likely major changes in the Group's activities in the next year The Group's business during the year and future plans are reviewed in detail on pages 4 to 24

This report together with the sections which are incorporated by reference, fulfils the requirements of section 234ZZB of the Companies Act 1985

Results and Dividends

The profit before tax for the year ended 31 December 2006 was £568 9m (2005 £547 1m) Basic earnings per share were 96 4p (2005 86 9p)

An interim dividend of 17 6 pence per share (2005 16 8 pence per share) was paid on 9 October 2006

The directors propose a final net dividend for the year of 36 5 pence per share (2005 34 7 pence per share) to be paid on 8 May 2007

Alliance & Leicester plc manages its operations via two main business units – Retail Banking and Commercial Banking Both financial and non-financial performance indicators for each of these divisions are discussed in the business and financial review sections set out on pages 10 to 24 and are summarised on page 2 and in the Group overview on page 8

Directors

The following persons were directors of the Company during the year

Sir Derek Higgs *Chairman*
Mr M P S Barton *Deputy Chairman*
Mr R A Pym *Group Chief Executive*
Mr M R Aish
Mr M J Allen (to 31 12 2006)
Mr R L Banks
Mrs J V Barker
Mr D J Bennett
Mr R J Duke
Mr R M McTighe
Mr C S Rhodes
Mrs M Salmon
Mr E J Watts

The names and brief biographies of the current directors are shown on pages 30 and 31 Mrs J V Barker and Messrs R L Banks and E J Watts will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting

Directors' Interests in Contracts

No director had a material interest at any time during the year in any contract (see Directors' Report on Remuneration from page 39) with the Company or any of its subsidiary undertakings

Directors' Interests in Shares

Directors' interests in the shares in the Company and options to acquire shares are set out in the Directors' Remuneration Report on pages 43 to 45

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 38 on page 86

Corporate Governance

The Group's Statement of Corporate Governance is set out on pages 34 to 37

Social Responsibilities

A summary of the Group's Corporate Responsibility Report is set out on pages 25 to 28

Charitable and Political Donations

No donations were made to political parties Charitable donations are disclosed in the summary of the Corporate Responsibility Report on pages 25 to 28

Staff

Alliance & Leicester values its employees as the key to delivering our business strategy and we recognise our responsibilities to provide a positive working environment

Details on the number of employees and related costs can be found in Notes 9 and 10 on page 68

We are committed to equality of opportunity for all our employees We will not permit discrimination on the grounds of sex, race or national origin, colour, religious belief, disability (mental or physical), marital status, age or sexual orientation

We operate a joint diversity forum with our trade unions, that provides support and guidance on diversity issues, along with an opportunity for all employees to express their views on our diversity agenda

We have a national 'Inform and Consult' forum, chaired by our Chief Executive, which operates alongside our existing trade union structures The forum provides an opportunity for employees to develop a greater understanding of, and to input into, the development of business initiatives Feedback from the forum is published to all Group employees

We provide appropriate levels of reward and recognition for our employees In addition to basic remuneration, we also provide bonus schemes and a number of schemes aimed at recognising and rewarding excellent customer service All of our employees have the ability to share in the success of the Group through a range of share plans

More details on the Group's employee policies and activities can be found in the Group's Corporate Responsibility Report, a summary of which is set out on pages 25 to 28

Creditor Payment Policy

The Group continues to be a signatory of the DTI's Better Payment Practice Code, more details can be found at www payontime co uk It is Group policy to

- agree the terms of payment at the start of business with suppliers,
- ensure suppliers are aware of the payment terms,
- pay in accordance with any contractual and other legal obligations

Trade creditors of the Company for the year ended 31 December 2006 were equivalent to 20 days' purchases (2005 23 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

Principal Risks and Uncertainties

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 and liquidity risk

The Group has established a number of committees and policies to manage these risks These are set out in the Statement of Corporate Governance on pages 34 to 37 and Note 2 to the financial statements on page 58 to 59

Environment

Alliance & Leicester plc recognises that it has a responsibility to act in a way that respects the environment The Group aims to reduce the environmental impact of all our business activities to a practicable minimum, in accordance with robust environmental practices We aim to comply with regulatory and legislative requirements as necessary and avoid any unnecessary costs and penalties We also recognise and report on the key direct impact areas of energy and water, as well as monitoring transport and waste impacts

More details on the Group's environment policies and actions can be found in the Group's Corporate Responsibility Report, a summary of which is set out on pages 25 to 28

Authority to Purchase Shares

During the year, 13,790,794 shares of 50 pence each, representing a nominal value of £6,895,397, were repurchased and cancelled, representing 3 15% of the Company's issued capital as at 31 December 2006 The aggregate consideration (including stamp duty) paid for the shares was £151m The purpose of the share buyback programme was to help manage the Group's capital base

Capital efficiency remains a key financial objective and shareholder authority will again be sought, at the Annual General Meeting, for the Company to purchase in the market up to 65 6 million of its shares, representing some 15% of the issued share capital, in order to retain flexibility in managing the Company's capital requirements

Special Business

The Annual General Meeting will be held on 1 May 2007 Special business to be transacted at the Meeting is set out in full in the Notice of the Annual General Meeting

Auditors

In the case of each of the persons who are directors of the Company at the date when this report was approved

- so far as each of the directors is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

A resolution re-appointing Deloitte & Touche LLP as the Company's auditors and authorising the Group Audit Committee to determine their remuneration will be proposed at the Annual General Meeting

On behalf of the Board

S Lloyd
Group Secretary
20 February 2007

Statement of Corporate Governance

Dear Shareholder,

In this section of our Annual Report & Accounts, we explain the key elements of the Group's corporate governance structure and how we comply with the principles of the Combined Code

The directors of Alliance & Leicester plc are committed to high standards of corporate governance practices, and both personal and corporate integrity We believe that an effective Board is fundamental to the prosperity of the Group and continue to strive for excellence in the way we operate and in our leadership of the Group

In our continuing drive towards transparency and maintaining an effective dialogue with our shareholders, I would welcome any comments that you may have about Alliance & Leicester and our corporate governance

Sir Derek Higgs
Chairman

Compliance Statement

For the year ended 31 December 2006, Alliance & Leicester has applied the principles and complied with the provisions of Section 1 of the Combined Code on Corporate Governance Details of how Alliance & Leicester complied with the Code are summarised in this statement

Board Structure

At the date of this report, the Group Board comprises the Chairman, Sir Derek Higgs, the Group Chief Executive, Richard Pym, three executive directors and seven non-executive directors All of the non-executive directors are considered to be independent by the Board Peter Barton is non-executive Deputy Chairman and Senior Independent Director As a matter of policy, the roles of the Chairman and Group Chief Executive are distinct and complementary

The directors come from diverse business backgrounds and have the appropriate mix of experience and expertise Each actively and effectively contributes to the work of the Board and its Committees The directors are required to report any material change in their circumstances to the Board During 2006, the Chairman reported that he had resigned as Deputy Chairman of The British Land Company PLC and the Group Chief Executive reported that he had become Chairman of Halfords plc The significant other commitments of the directors are monitored and are set out in their biographical details on pages 30 and 31

The Group Secretary is an employee of the Company

Role of the Group Board

The Group Board determines the strategic direction of the Group and reviews operating, financial and risk performance It is the decision-making body for all other matters deemed material to the Group in strategic, financial and reputational terms The non-executive directors constructively challenge the management team and supplement the executive directors' management expertise with a diversity of business skills and experience

The Group Board and its Committees meet regularly The table on page 37 summarises the number of Board and Committee meetings and the level of attendance Formal minutes or reports of each of these meetings are circulated to all Directors

There is a formal schedule of matters reserved to the Group Board, which includes

- formulation of corporate strategies and objectives
- approval of interim and final financial results and payment of dividends,
- the appointment of directors,
- approval of major capital expenditure,
- approval of annual budgets and medium term plans,
- approval of significant changes in the Group structure and product range

The Board has delegated the day-to-day management of the Group to the Group Chief Executive, who is supported by the executive directors and senior executives The Group Chief Executive and executive directors of the Group are responsible to the Board for developing strategy and the profitability and overall performance of the Group

Appointment, Induction and Training of Directors

The composition of the Board is kept under review, with the aim of ensuring that the directors collectively possess the necessary skills and experience to direct the Group's business activities

The process for appointing new directors is determined by the Nomination Committee The balance and mix of appropriate skills and experience of the non-executive directors is taken into account when considering a new appointment Clear selection criteria are agreed by the Committee and an external search consultancy is appointed to identify prospective candidates The short-listed candidates are interviewed by the Chairman, other members of the Nomination Committee and the Group Chief Executive

Newly appointed directors submit themselves for election by shareholders at the first Annual General Meeting after their appointment and at least every three years thereafter An induction programme provides an understanding of the Group and its strategy, products, markets and financial position, and includes guidance on directors' legal responsibilities New non-executive directors also have a series of introductory meetings with senior management of the Group and all non-executive directors make regular visits to the Group's operational locations

All directors have access to the services of the Group Secretary and his colleagues Independent professional advice on issues affecting the Group is also available to all directors, on request via the Group Secretary, at the Group's expense All members of the Board are also encouraged to attend external training and development events to ensure that they maintain the necessary skills and knowledge to fulfil their roles

The appointment of all non-executive directors is documented in a letter of appointment, the standard terms of which are available on the Group website at www alliance-leicester-csr co uk

Board Committees

The Group Board has delegated specific responsibilities to Board Committees The terms of reference for the principal Group Board Committees are available on the Group website at www alliance-leicester-csr co uk The Board reviews the terms of reference of each Committee annually Membership of each Committee is designed to ensure that the best use of the non-executive directors' skills and experience is made to fulfil the Committees' roles effectively The current Board Committee structure and the work of the principal Committees is set out below

Group Board

Nomination Committee	Remuneration Committee	Group Audit Committee	Group Risk Committee

Nomination Committee

The Nomination Committee comprises the Group Chairman and up to four non-executive directors and is responsible for

- evaluating the balance of skills, knowledge, experience and time required of directors and the structure, size and composition of the Group Board and its Committees,
- recommending new appointments to the Group Board and reviewing re-appointments as they become due,
- succession and contingency planning for all Board, Committee and senior management positions, and
- the annual review of performance of non-executive directors and Board Committees

As at 20 February 2007, the Committee members are

Sir Derek Higgs *Chairman*
Mr M P S Barton
Mrs M Salmon
Mr E J Watts

Mr S Lloyd, Group Secretary, is the secretary of the Nomination Committee

During 2006, the Committee's activities included reviewing the Group Board's succession plan and considering the selection criteria for new non-executive directors

Remuneration Committee

The composition and work of the Remuneration Committee and the Group's remuneration policy is described in detail in the Directors' Remuneration Report on pages 39 to 45

Group Audit Committee

The Group Audit Committee comprises five non-executive directors and is responsible for the following areas

- Internal Controls
  - reviewing the effectiveness of the Group's system of internal control,
  - considering the annual Internal Audit and Compliance plans and those departments' activities, resources and organisational structures,
  - approving the annual internal audit and compliance plans and monitoring their progress,
- Financial Reporting
  - reviewing the Annual Report & Accounts and Interim Results on behalf of the Group Board,
  - reviewing management representations,
  - reviewing the changes to accounting policy and compliance with best principles and regulatory requirements,
  - reviewing the control of the financial and business risks, and
  - reviewing the appointment and re-appointment of external auditors and the nature and scope of work to be performed by the external auditors

The Committee meets at least four times a year

During the year the Committee reviewed the level of fees in respect of audit services and oversaw the policy for engaging the Group's External Auditors for audit and non-audit services This policy sets out clearly the types of services the External Auditors are, and are not, allowed to provide, and the criteria that must be met before the agreed services are provided Full details of this policy can be found at www alliance-leicester-csr co uk

In addition the Committee reviews the 'whistle blowing' arrangements, ensuring that employees may raise concerns about possible improprieties in relation to the Group's business or financial reporting

As at 20 February 2007, the Committee members are

Mrs J V Barker *Chairman*
Mr M R Aish
Mr M P S Barton
Mr R J Duke
Mr R M McTighe

The Board considers that the members of the Committee have relevant skills and experience from a range of financial services and technology backgrounds enabling them to apply meaningful independent judgement as part of their role In particular, Mrs J V Barker has the requisite 'recent and relevant financial experience', as recommended by the Combined Code, to ensure that the Committee can fulfil its role effectively

Miss A Ward, Head of Group Internal Audit, is the secretary of the Group Audit Committee and in 2006 the meetings were attended by the Chairman, the Group Chief Executive, the executive directors, the Director of Group Financial Control and Reporting, the Director of Group Risk, the Group Secretary, the Head of Group Compliance and representatives from Deloitte & Touche LLP, and the External Auditors

Group Risk Committee

The Group Risk Committee approves the Group's overall risk appetite, reviews and approves the policy statements relating to credit, market, liquidity and funding and operational risks The Committee also monitors the risks associated with the Group's pension scheme

The Committee also approves the use of the Group's economic capital models in relation to credit, market, operational, pension fund and other risks, for the purposes of assessing capital adequacy and measuring the risk adjusted performance of business units and activities

It receives and considers reports on the status of key current and emerging risks and internal controls relating to those risks The Committee also receives the report from the Group Money Laundering Reporting Officer

An overview of the Group's risk management and control framework can be found on pages 58 and 59

The Committee comprises four independent non-executive directors, the Group Chief Executive and Mr M Thomas, the Director of Group Risk In 2006 meetings were also attended by the Chairman, the executive directors, the Directors of Credit & Risk for the Commercial and Retail Banks, the Director of Lending, the Group Secretary, the Head of Group Compliance, the Head of Group Internal Audit and the Money Laundering Reporting Officer

The Committee members as at 20 February 2007 are

Mr M R Aish *Chairman*
Mrs J V Barker
Mr M P S Barton
Mr R J Duke
Mr R A Pym
Mr M Thomas

Mr D Austen, Head of Credit – Group Risk and Mr R Davies, Head of Operational Risk, act as secretaries to the Group Risk Committee

Chairman's Committee

The Chairman's Committee is empowered to take decisions on matters that require Board approval between Board meetings and comprises the Chairman or a non-executive director, the Deputy Chairman or another non-executive director and the Group Chief Executive or one other executive director

Evaluation of the Group Board and Committees

During 2006, Dr Tracy Long of Boardroom Review, an independent consultancy, carried out an evaluation of the effectiveness of the Board and its Committees, individual directors and the Chairman The process included a written questionnaire, an interview with each director, except Mr M J Allen, due to his ill-health, and the Group Secretary Boardroom Review also attended the November Board meeting and reviewed Board papers for the October and November 2006 Board meetings

The review found that the Group Board and its Committees operate as a strong and effective team which has guided the Company through periods of significant cultural and organisational change in a volatile and competitive external environment. The review made suggestions for enhanced effectiveness in the areas of Board process (papers, agendas and presentations), succession planning and consideration of risk appetite The Board has accepted the comments made and will make changes during this year to reflect them

Statement of Corporate Governance continued

Accountability and Audit

The Board is responsible for the Group's system of internal controls and for monitoring its effectiveness The directors are required by law to establish systems for the control of the conduct of the business under the Financial Services and Markets Act 2000 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

The Board has delegated oversight of the Group's Internal Control Policy to the Group Audit and Group Risk Committees

The Group's system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives, and provide reasonable assurance as to the effectiveness of the safeguards protecting the business against the risk of material error, loss or fraud The Group Risk Committee received reports on the current operation of internal controls in relation to key and emerging risks, and the Group Audit Committee carried out an overall review of the effectiveness of the Group's system of internal control for the year to 31 December 2006 and the period to the date of this report, on behalf of the Board

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 Turnbull Guidance for Directors on the Combined Code

The Board receives monthly reports from the key executives identifying performance against budget, major business issues, the impact of the external business and economic environment on their areas of responsibility and significant risks facing the businesses and how they are being controlled The Board also receives minutes and reports from the Chairmen of the Group Audit Committee and the Group Risk Committee These identify any significant issues relating to the adequacy of the Group's risk management policies and procedures across the full range of risks to which the Group is exposed, and how they are being controlled

Each meeting of the Group Risk Committee and the Group Audit Committee receives a report identifying the effectiveness of internal controls together with specific reports on any major issues The Board keeps itself informed in relation to this issue through the presentation of regular Group Audit Committee and Group Risk Committee "activity" reports to the Group Board, together with the minutes of the Committees' meetings

The key features of the system of business control and risk assessment established by the Board are

- a Group Internal Control Policy requiring all senior managers to identify major risks and monitor the effectiveness of internal controls against key performance indicators applied throughout the business The effectiveness of these controls is confirmed and certified to the Board in February and July each year via the Group Risk Committee and the Group Audit Committee The Group's Internal Audit Department carries out reviews of the self certification process operated by each department or business unit as part of the audit of that department or unit,
- a well defined management structure with clear accountabilities and delegations,
- the Group Audit Committee, the Group Risk Committee and a system of executive management committees, including the Executive Directors' Meeting and the Group Executive Management Committee, enhance and support the oversight role of the Board,
- a comprehensive planning and budgeting process that delivers detailed annual financial forecasts and targets for Board approval,
- management information systems which enable the Board to receive comprehensive monthly analysis of financial and business performance including variance against budget,
- a Group Risk Management function and Group Operational Risk Committee with overarching responsibility for the monitoring and reporting of all major risks to which the Group is exposed, supported by specialist risk functions,
- an Internal Audit function which reports to the Group Audit Committee 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 major compliance and regulatory risks,
- a Financial Crime Steering Group, chaired by the Group Chief Executive, which considers the potential exposure of the Group to loss through financial crime and the controls in place to mitigate the risk of such loss,
- a Money Laundering Reporting Officer and anti-money laundering procedures, and controls including training programmes for all staff,
- documented procedures and authority levels to ensure that risks involved in major projects are properly assessed and controlled, and
- internal assurances given by senior managers to the Board that all risks affecting the business have been reviewed and identify any risks that need to be reported to the auditors for the purposes of S234ZA of the Companies Act

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

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

Relations with Shareholders

The Company's investor relations programme is tailored to meet different shareholder requirements

Institutional shareholders may attend meetings, conference calls, presentations and results briefings The Company's major institutional shareholders have the opportunity to meet regularly with the Company's management and have the opportunity to request a meeting with the Chairman or non-executive directors via the Company's website A representative from an institutional shareholder was invited to, and attended, a meeting of the Group Board in 2006 as part of the Group's communication programme with institutional investors The Chairman and non-executive directors attend results presentations and the Senior Independent Director is available to deal with any concerns raised by institutional shareholders which cannot be resolved in the first instance by contacting the Chairman or Group Chief Executive

Communication with private shareholders is primarily managed by the Group Secretary All shareholders have the opportunity to meet the directors at the Annual General Meeting, which is held in the evening at the Company's Leicestershire head office Shareholders who are unable to attend are encouraged to vote by proxy and may appoint their proxy by post, on the internet or via CREST There is also a website, www alliance-leicester-shareregistrars co uk, offering a variety of services for shareholders such as amending a mandate instruction, changing address details, registering to receive communications electronically and downloading stock transfer forms

The Company website provides investors and potential investors with information about the Company's financial performance and results, share price, announcements to the market, group policies, terms of reference for Board Committees and a number of frequently asked questions and answers Shareholders may also contact the investor relations or shareholder services managers via the website

Attendance at Board and Committee Meetings during 2006

	Group Board	Remuneration	Nomination	Audit	Risk
Total number of meetings held in 2006	9	5	5	5	5
Sir Derek Higgs, Chairman	9		5		
Mr R A Pym	9				5
Mr M P S Barton	9	5	5	5	4
Mr M R Aish	9			5	5
Mr M J Allen	6	4	5		
Mr R L Banks	9				
Mrs J V Barker	9			5	5
Mr D J Bennett	9				
Mr R J Duke	8			4	5
Mr R M McTighe	9	5		4	
Mr C S Rhodes	9				
Mrs M Salmon	9	5	5		
Mr E J Watts	8		5		

During the year apologies were received from Mr Duke and Mr Watts for one Group Board meeting and from Mr M P S Barton and Mr R M McTighe for one Committee meeting owing to commitments outside Alliance & Leicester All directors receive the Board papers and have the opportunity to raise questions via the Chairman or Group Secretary if they are unable to attend

Prior to his retirement, Mr Allen was prevented by illness from attending a number of Group Board and Committee meetings

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS), and have also elected to prepare financial statements for the Company in accordance with IFRS Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards Directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985

The directors are responsible for the maintenance and integrity of the company website Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions

Directors' Remuneration Report

This report explains how the Company has applied the principles of good governance set out in the Combined Code and the disclosures required by Schedule 7A to the Companies Act 1985 The report of the auditors on the financial statements set out on page 46 confirms that the scope of their report covers where required, the disclosures contained in or referred to in this report that are specified for their audit by the UK Listing Authority and under the Companies Act

The report has been approved by the Board and shareholders will be invited to approve it at the Annual General Meeting on 1 May 2007

Unaudited information

Remuneration Committee

Role

The Remuneration Committee ('the Committee') is responsible for determining the pay and benefits (including pension arrangements) and contractual arrangements for the Chairman, executive directors and the Group Secretary, and for overseeing the Group's share plans The Committee also recommends and monitors the structure and levels of remuneration for senior managers throughout the Group In fulfilling its role, the Committee develops and recommends to the Board remuneration strategies that drive and reward performance It operates under the delegated authority of the Board and its terms of reference are available to view on the Group's website at www alliance-leicester-csr co uk

During the year, the Committee, inter alia, (a) reviewed the remuneration of the executive directors, Group Secretary and senior managers of the Group, particularly in light of new age discrimination legislation, (b) adopted changes to the Group's share plans on receipt of shareholder approval, (c) implemented the Restricted Share Plan approved at the 2006 Annual General Meeting, (d) monitored the vesting of awards under the Executive Share Option and the Deferred Bonus plans, (e) reviewed the performance of external advisers to the Committee in relation to executive remuneration and share plans, and (f) reviewed the Committee's terms of reference in the light of amendments to the Combined Code

Membership and Meetings

The Committee comprises the following non-executive directors

Mr M P S Barton *Committee Chairman*
Mr M J Allen (until 31 December 2006)
Sir Derek Higgs (from 1 January 2007)
Mr R M McTighe
Mrs M Salmon

The Group Secretary, Mr S Lloyd, acted as secretary to the Committee throughout 2006 and provided professional advice to the Committee on governance issues

The number of Committee meetings held during 2006 and directors' attendance is set out on page 37 At the invitation of the Chairman of the Committee, the Group Chief Executive and the Director of Human Resources, Ms F Rodford, attend, and prior to his appointment to the Committee the Chairman attended, Committee meetings to provide background and context on matters relating to the remuneration of the executive directors and senior managers

These individuals are not present when the Committee discusses matters directly relating to their personal remuneration

The Committee's performance is evaluated on an annual basis and the results are reported to the Board The evaluation process is set out in the Statement of Corporate Governance on pages 34 to 37

Advisers

The Committee and the Group used the services of Towers Perrin during the year to provide general remuneration advice and comparator information, and Mercer Human Resource Consulting ('Mercer') to advise specifically on pension related issues Mercer also acts as actuary and adviser to the Group's pension scheme and advises the Company on matters relating to the operation of the pension scheme With the agreement of the Group Audit Committee, the Group's external auditor, Deloitte & Touche LLP, continued to provide specialist advice on technical aspects of the Group's share plans New Bridge Street Consultants were appointed by the Committee to replace Deloitte & Touche LLP with effect from 1 February 2007

During the year the Committee appointed New Bridge Street Consultants to act as independent advisers to the Committee on remuneration issues for the executive directors and senior management

Remuneration Policy

To deliver the strategic objective of increasing shareholder value, the Group needs to attract and retain high calibre people and create appropriate reward opportunities for them The Board's remuneration policy for executive directors and senior managers is aligned with this objective and rewards both individual and company performance, measured against performance criteria that are relevant and realistic but also challenging, to encourage good performance Remuneration arrangements will continue to focus on incentive plans that encourage delivery of strategic and operating plans and shareholder value

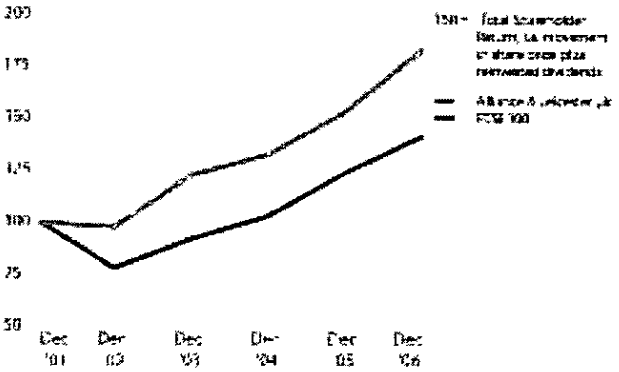
Under Committee guidelines, each executive director is required to build up over a period of five years and retain whilst a director, a minimum holding of shares in the Company with a value equivalent to his annual basic salary

The Committee monitors the bonus scheme and share awards for all senior managers in the Group

In 2007, annual salary will continue to be set at levels not normally exceeding market median, whilst bonuses and long term incentive plans will enable executives to receive up to upper quartile competitive levels, but only for the delivery of upper quartile levels of performance The Committee reviews all elements of these reward packages by benchmarking against other banks and financial services organisations

Performance Graph

The performance graph below shows the Company's performance, measured by Total Shareholder Return ('TSR'), in comparison with the FTSE 100 Index over the five years ended 31 December 2006 The FTSE Index was chosen as it is a broad equity market index of which the Company forms a constituent



Components of the Remuneration Package

Basic Salary

Basic salaries of executive directors are set by reference to information from independent advisers on a specific financial services comparator group and general market trends within companies in the FTSE 100 Index The Committee reviews such information in light of the performance of both the Company and the relevant individual, and has proper regard to pay levels throughout the Company Salary levels are reviewed annually in July (unless an individual's responsibilities change) and may vary depending on each executive director's experience, responsibilities and personal contribution Current basic annual salaries are as follows

Name	R A Pym	D J Bennett	C S Rhodes	R L Banks
Amount	£645,100	£378,900	£348,200	£322,600

Details of executive directors' salaries paid in 2006 are set out on page 42

Directors' Remuneration Report continued

Senior managers' salary levels are also assessed annually against those of other major UK based financial institutions and FTSE 100 companies and the Company seeks to set pay levels around market median

At 31 December 2006, the average basic salary for the most senior Group managers was £177,125 The salary banding for this group is as follows

Salary Band (£)	Number of Managers
125,000-150,000	4
150,000-175,000	9
175,000-200,000	1
200,000-225,000	1
225,000-250,000	1
250,000-275,000	2
Grand Total	18

Annual Bonus

For 2006, bonuses were contingent on achievement of performance targets set by the Committee These combined Group targets for pre-tax profit and return on equity with individual performance targets Both the return on equity (RoE) target, of between 17% and 23%, and the pre-tax profit (PBT) target were calculated on a sliding scale A multiplier of 0 5 would be applied for meeting the PBT target and a further multiplier of 0 5 for achieving 20% RoE, rising to a maximum combined multiplier of 1 6 for achieving a defined level of PBT and an RoE of 23% Group targets were consistent for all senior managers and directors eligible to participate in the bonus scheme For individual performance targets a multiplier of up to 1 25 is applied Assessment of executive directors' performance against their individual objectives was carried out by the Committee Individual performance objectives were directly linked to achievement of the Group's strategic targets

An executive director's bonus for on-target performance was 75% of salary with a maximum of 150% of salary for exceptional performance The actual bonus was arrived at by calculating the combined multiplier for achieved group targets, multiplied by the relevant individual performance multiplier and applying the resulting multiple to 75% of the relevant executive director's salary It is intended that the same bonus scheme will operate in 2007

It is not the Committee's policy to award transaction related bonuses to executive directors Bonuses are discretionary and non-pensionable

Share Options

All executive, associate and divisional directors were eligible in 2006 for the grant of executive options under the Alliance & Leicester Company Share Option Plans

Grants are made in two tranches following the final and interim results

Executive Options granted prior to 2006 were linked to the achievement of compound earnings per share ('EPS') growth over a three year performance period of RPI+9% The achievement of this target results in full vesting However, options granted from 2006 will vest on a sliding scale 50% of options awarded will become exercisable at EPS growth of RPI+3% per annum and 100% of awards will become exercisable if EPS growth equals or exceeds RPI+5% per annum over the three year performance period Straight-line interpolation will be used for achievement between those points The Committee considers this performance condition to be appropriate as a means of focusing directors on generating earnings growth, and accords with best practice

The aggregate value of new shares, for which options to subscribe may be granted to each director in any year, cannot exceed a maximum total annual amount of two times basic salary Typical grants have been 150% of basic salary for executive directors and 100% for associate and divisional directors For 2007 it is intended to reduce the grant level for executive directors to 100% of basic salary but to increase the grant level under the Performance Share Plan to 150% of annual basic salary (see page 41 for details) The intended grant levels for associate and divisional directors for 2007 will be in the range of 100% to 150% of annual basic salary

Options normally vest after three years subject to attainment of the relevant performance conditions Provisions previously existed for the re-testing of performance after year 4 and year 5, calculated from the base grant year and based on percentage growth in EPS exceeding the increase in RPI by at least 12% (year 4) or 15% (year 5) No re-testing of performance will take place for grants made in 2005 and thereafter Options granted prior to 2002 are subject to performance conditions that may be measured over any three-year period, within the term of the option

The Company Share Option Plan rules state that options are exercisable prior to the third anniversary of the date of grant where an option holder ceases to be employed by the Company by reason of death, injury, ill-health, disability, redundancy, retirement or transfer of the employing company outside the Group Also, in these circumstances, any performance conditions attaching to the exercise of the options awarded prior to 2006 cease to apply The Committee may exercise discretion over the vesting of awards in any other circumstances

For awards made from 2006, if any of these events should take place, the number of shares over which the option can be exercised will be determined by the Committee, having regard to the amount of time elapsed since the grant of the option, and the extent to which performance conditions have been met

Senior managers (excluding executive, associate and divisional directors) participate in a Restricted Share Plan under which awards usually ranging up to 15% of basic salary (depending on individual performance ratings) are made However, under the plan awards up to 150% of basic salary are permitted and it is intended, exceptionally, to make awards of up to 135% to a small number of Senior Managers (excluding executive, associate and divisional directors) in connection with delivery of the Group's transformation programmes relating to its new core banking and telephony systems These awards will be subject to performance targets

Fair Value Volatility

The Committee recognises that fair value accounting volatility arises from the requirement in IAS 39 to measure all derivatives at fair value, with changes in fair value recorded in the income statement unless designated as part of a hedging relationship The volatility from derivative fair value movements can be mitigated by hedging, but in practice some accounting volatility will remain, even where hedges are used to match the risk exposure on an economic basis Therefore, for grants made from 2005, the Committee has agreed that calculation of the underlying EPS should exclude fair value accounting volatility, which is consistent with the calculation of one of the Group's other primary strategic targets, return on equity, which also excludes this

Long Term Incentive Plans

Deferred Bonus Plan

The last grant of deferred and matching options to executive directors was made in 2005, relating to annual bonuses awarded for 2004 Existing awards of matched shares under the plan only begin to vest when median TSR performance relative to the peer group is achieved, with linear progression from one matching share at median performance up to three matching shares for upper quartile performance The constituents of the peer group, excluding the Company are

Barclays Bank plc	Northern Rock plc
Bradford & Bingley plc	HBOS plc
The Royal Bank of Scotland Group plc	Lloyds TSB Group plc

The rights to matching shares cannot normally be exercised for three years, except in the circumstances set out below, and lapse if not exercised within seven years TSR was considered by the Committee to be a suitable measure for this type of plan as it provided clear links with the creation of shareholder value Further details are set out on page 45

Under the Deferred Bonus Plan, options may be exercised prior to the third anniversary of the date of grant where the executive director ceases to be employed by reason of death, injury, ill-health, disability or at the discretion of the Plan Trustees, based on the recommendations by the Committee, in any other circumstances Performance conditions apply unless waived by the

Committee and are normally subject to a three-year performance period, without re-testing

Senior managers (excluding executive, associate and divisional directors) participate in the new deferred bonus plan introduced in 2006 No performance conditions will apply to the exercise of options under this plan If the Committee decided to allow directors to participate in the plan in future, a performance condition would be attached to the matching options

Performance Share Plan
Executive directors and, since 2006, associate and divisional directors participate in the Alliance & Leicester Performance Share Plan The annual award under the plan will normally be over shares and accrued dividends to the value of 100% to 150% of annual salary, having regard to the performance of the business and the individual Awards of shares are reduced by the anticipated dividends accruing over the performance period to better align the awards with shareholder returns Accrued dividends will be paid in cash in proportion to the number of shares vesting

The maximum annual award under the Rules of the Plan is 200% of annual salary

The performance period is three years, with no re-testing For grants made in 2005 and 2006 the performance test is in two parts

- 50% of the award vests in line with the Company's TSR performance relative to a peer group of banks which consists of the following

Allied Irish Banks plc	Bank of Ireland plc
Barclays Bank plc	Bradford & Bingley plc
HBOS plc	HSBC plc
Lloyds TSB Group plc	Northern Rock plc
Standard Chartered plc	The Royal Bank of Scotland Group plc

  30% of this part of the award is payable at median performance and maximum vesting is for achieving upper quartile performance, with straight-line interpolation between these points

- the other 50% of the award vests according to the Company's adjusted EPS growth relative to inflation over each performance period

  30% of this part of the award will vest when the adjusted EPS growth equals RPI + 3% per annum over the performance period, with full vesting at a growth of RPI + 8% per annum, and straight-line interpolation applying between these points

For awards made in 2007 the performance test will be in three parts

- One third of the award will vest in line with the Company's relative TSR performance, with Friends Provident and Legal & General replacing HSBC and Standard Chartered in the peer group of banks
- One third of the award will vest according to the Company's adjusted EPS growth, on the same basis as the current EPS target
- One third of the award will vest according to the Company's performance against its RoE target 30% of this award will vest when the Company achieves an RoE of 20%, with full vesting for achieving an RoE of 24% and straight-line interpolation applying between these points

In the event of a change of control of the Group taking place, the Committee, in its absolute discretion, will determine the extent to which an award may vest, having regard to the length of time that it has been held and the extent to which the performance targets have been satisfied

If an individual leaves the Group, an award that has not vested will normally lapse However, in exceptional circumstances (for example, as a result of retirement) the rules of the plan allow awards to vest early at the discretion of the Committee

Shares delivered in connection with the plan will be sourced from newly issued or treasury shares, subject to the usual dilution limits, or from market purchases

None of these benefits is pensionable

In March 2006, Performance Share Plan awards were made to directors with a maximum value including accrued dividends of-

- 125% of annual basic salary for executive directors, and
- 100% of annual basic salary for associate and divisional directors,

subject to the achievement of the performance conditions set out above As indicated earlier in the section entitled "Share Options", for 2007 it is intended to increase the grant level for executive directors to 150% of annual basic salary, including anticipated dividends accruing over the performance period It is intended that the grant levels for associate and divisional directors will be in the range of 100% to 150% of annual basic salary, including anticipated dividends accruing over the performance period

Employee Share Plans
Executive directors also participate in the Company's existing Employee Share Plans, including the Savings Related Share Option Plan and the Company's Share Incentive Plan, on the same basis as all other employees There are no performance conditions attached to these plans

Service Contracts
Executive directors have service contracts that continue until terminated by twelve months' notice (but which in any event terminate on their 65th birthday)

The contractual provisions state that, if the employment of an executive director is terminated by the Company for any reason (other than due cause) without twelve months' notice being given, the director is entitled to receive payment of twelve months' basic salary and pension benefits In addition, the Committee, having regard to the individual director's performance for the period worked, may in its absolute discretion award a cash bonus in respect of the period worked Life insurance and medical insurance cover will be maintained for twelve months from the termination date On termination by the Company no such payments of salary and pensions benefits will exceed a payment based on the number of months from the date of termination of employment to the executive director's normal retirement date There is no provision for receipt of additional compensation in the event of a change of control

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

Pensions
The current executive directors are all members of the Defined Benefit Section of the Alliance & Leicester Pension Scheme, which has a normal retirement age of 65

The main features of the pension promise for executive directors, based on the standard terms of the Scheme, are

a) Pension from age 60 of 1/60th of pensionable salary averaged over the last twelve months prior to retirement for each year of pensionable service Since July 2005 qualifying increases to pensionable salary have been limited to percentage increases in the Retail Prices Index, subject to the right of the executive to pay additional contributions to secure a higher pension up to the maximum based on his full basic salary

b) A cash benefit on death in service of 4 x annual rate of basic salary at date of death

c) Pension payable in the event of ill-health

d) Pension 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.

The following directors have special arrangements

a) Mr Pym and Mr Bennett are entitled to a pension of 2/3rds of their final pensionable salary on retirement at age 60, inclusive of retirement benefits from service at other organisations

b) Mr Pym is not required to contribute

c) Mr Banks' pension entitlement is subject to a pension sharing order (which has no impact on the cost to the Company)

Directors' Remuneration Report continued

There are currently in place individual non-registered pension arrangements known as Employer Financed Retirement Benefit Schemes to increase the pension and lump sum life assurance benefit to the level promised, where, because of HM Revenue & Customs limitations, these cannot be paid in total from the registered Alliance & Leicester Pension Scheme Such arrangements apply to Mr Pym and Mr Bennett Following Pension Simplification which came into effect on 6 April 2006, the total commitment to the executive directors has been retained with no additional cost to the Company The allocation between the registered Alliance & Leicester Pension Scheme and non-registered pensions arrangements changed during the year in order that pensions could be provided in the most tax efficient manner

An executive director may, with the consent of the Company, draw an accrued pension from the Alliance & Leicester Pension Scheme at any time after his 50th birthday (55th birthday from April 2010) The pension will be reduced in accordance with the Rules of the Scheme to reflect payment before his 60th birthday

Pensions in payment 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 rise of 5%

There are no discretionary practices that 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 a company car, payment of car operating expenses including fuel, life assurance and membership of a private medical insurance scheme

Other Directorships

The Group supports executive directors who wish to take one non-executive directorship with a publicly quoted company in order to broaden their experience Directors are entitled to retain any fees they may receive Mr R A Pym became Chairman of Halfords plc on 1 April 2006 He received director's fees of £78,750 and voluntarily assigned £30,000 of his fees to Alliance & Leicester plc for the year ended 31 December 2006 Mr D J Bennett is a non-executive director of easyJet plc and his fees for the year ended 31 December 2006 were £50,000

Remuneration for the Chairman and 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 Group Chief Executive, based on comparator information and within the overall limit specified in the Articles of Association of the Company These fees are reviewed annually

No non-executive director has an employment contract with the Company On joining the Board, non-executive directors are issued with an appointment letter New non-executive directors are appointed for an initial period of two years, which may be renewed for one or more terms of two years There are no provisions for compensation being payable upon early termination of an appointment. An example of a non-executive director's letter of appointment can be found on the Group's website www alliance-leicester csr co uk

Non-executive directors are encouraged to build up their shareholding to 5,000 shares No options have been, or will be, granted to non-executive directors in their capacity as directors of the Company

Non-executive directors who are in full-time employment with a third party employer may elect to pay the whole or part of their fees to it. Mrs Barker's remuneration is paid to her employer

Details of appointment periods appear below

	Date of current appointment or reappointment*	Expiry Date	Notice Period
Sir Derek Higgs	28 October 2005	27 October 2007	None
M R Aish	20 May 2005	19 May 2007	None
M P S Barton	13 May 2005	12 May 2007	None
R J Duke	1 January 2006	31 December 2007	None
R M McTighe	1 June 2005	31 May 2007	None
E J Watts	8 May 2005	7 May 2007	None
Mrs J V Barker	1 January 2006	31 December 2007	None
Mrs M Salmon	1 July 2006	30 June 2008	None

* which may follow earlier renewals

Audited Information

Directors' Remuneration
Year ended 31 December 2006

	Salaries / Fees £000	Bonus £000	Other Benefits £000	Total 2006[1] £000	Total 2005 £000
Executive Directors					
R A Pym	638	787	16	**1,441**	1,217
R L Banks	319	394	17	**730**	584
D J Bennett	374	424	1	**799**	684
C S Rhodes	344	390	1	**735**	637
Subtotal	1,675	1,995	35	**3,705**	3,122
Chairman					
Sir Derek Higgs	350	-	-	**350**	61
J R Windeler (to 27 10 05)	-	-	-	**-**	333
Non-Executive Directors					
M R Aish	65	-	-	**65**	33
M J Allen (to 31 12 06)	55	-	-	**55**	56
J V Barker	65	-	-	**65**	60
M P S Barton	135	-	-	**135**	136
The Hon D Brougham (to 7 5 05)	-	-	-	**-**	28
R Duke (from 01 01 06)	55	-	-	**55**	-
R M McTighe	55	-	-	**55**	56
M Salmon	65	-	-	**65**	57
E J Watts	55	-	-	**55**	55
Subtotal	900	-	-	**900**	875
Total	2,575	1,995	35	**4,605**	3,997

Note

1 Total remuneration does not include deductions made from basic salary for SMART pensions In addition, the executive directors received aggregate gains before tax of £2 2m on the exercise of options awarded under the Company Share Option and Deferred Bonus plans

Pension Entitlements

Executive Director	R L Banks	D J Bennett	R A Pym	C S Rhodes
Age attained at 31 12 06	55	44	57	43
Normal retirement age	65	65	65	65
	£	£	£	£
Amount of accrued pension £p a at 31 12 06	56,515	76,042	301,632	103,686
at 31 12 05	50,984	64,362	269,199	96,319
Change in amount of accrued pension £p a to 31 12 06	5,531	11,680	32,433	7,367
to 31 12 05	(33 209)	12,861	43,860	11,002
Change in amount of accrued pension £ p a net of revaluation during year to 31 12 06	4,155	9,942	25,165	4,766
to 31 12 05	(35,819)	11,264	36,874	8,357
Directors contributions payable during year to 31 12 06 (i) (C)	15,621	18,057	–	16,923
	£000's	£000's	£000's	£000's
Cash equivalent transfer value at 31 12 05 (A)	794	645	4,449	925
Cash equivalent transfer value at 31 12 06 (B)	976	823	5,538	1,073
Change in transfer value over year to 31 12 06 net of member contributions (B-A-C)	166	159	1,089	131

(i) The contributions shown for Mr Banks, Mr Bennett and Mr Rhodes are notional contributions as these three directors participate in the "SMART" arrangements, whereby Alliance & Leicester plc pays their contributions in return for an equal reduction in their salary

Details of terms and conditions associated with these pensions are shown on pages 41 and 42

Directors' Interests in Ordinary Shares

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

Directors	Fully Paid Shares of 50p each ± As at 1 1 06 (or date of appointment if later)	As at 31 12 06
M R Aish	5,000	5,000
M J Allen (to 31 12 06)	5,000	5,000
R L Banks	52,781	52,822
J V Barker	5,000	5,000
M P S Barton	10,000	10,000
D J Bennett	20,918	39,776
R Duke (from 01 01 06)	250	5,250
Sir Derek Higgs	10,000	10,000
R M McTighe	5,500	5,500
R A Pym	59,148	144,589
C S Rhodes	25,162	30,567
M Salmon	1,000	5,000
E J Watts	5,000	5,000

± Directors share interests include the interests of their spouses and infant children as required by Section 328 of the Companies Act 1985 In addition to the beneficial interests in shares shown as at 31 December 2006 Mr R L Banks Mr D J Bennett and Mr C S Rhodes were each allocated 10 ordinary shares in the capital of the Company on 5 January 2007 and 12 shares on 5 February 2007 by the trustee of the Share Incentive Plan There were no other changes in the beneficial interests of the directors in Company shares between 31 December 2006 and 12 February 2007

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 Plans

Directors	Number of Options As at 01 01 06 or at date of appointment if later	During the year Granted	During the year Exercised	Lapsed	As at 31 12 06	Exercise Price £	Market price on date of Exercise £	Exercise Period
R L Banks	14,587				14,587	8 055*		23/7/04-22/7/11
	2,094				2,094	6 32≠		1/11/07-1/5/08
	14,038				14,038	8 37*		12/3/05-11/3/12
	17,924				17,924	7 95*		6/8/05-5/8/12
	25,844				25,844	7 545*		26/2/06-25/2/13
	25,582				25,582	8 795*		1/9/06-31/8/13
	3,488				3,488	8 60#		3/3/07-2/3/14
	20,930				20,930	8 60*		3/3/07-2/3/14
	28,776				28,776	8 34*		29/7/07-28/7/14
	25,817				25,817	8 715*		7/4/08-6/4/15
	28,093				28,093	8 81*		8/8/08-7/8/15
		22,372			22,372	10 56*		9/3/09-8/3/16
		24,889			24,889	9 95*		4/8/09-3/8/16
D J Bennett	3,420				3,420	8 77#		17/6/02-16/6/09
	15,518				15,518	8 055*		23/7/04-22/7/11
	16,427		16,427		–	8 37*	10 426	
	20,441				20,441	7 95*		6/8/05-5/8/12
	29,821				29,821	7 545*		26/2/06-25/2/13
	29,846		29,846		–	8 795*	10 426	
	2,447				2,447	6 68≠		1/11/09-1/5/10
	28,343				28,343	8 60*		3/3/07-2/3/14
	34,622				34,622	8 34*		29/7/07-28/7/14
	30,550				30,550	8 715*		7/4/08-6/4/15
	32,776				32,776	8 81*		8/8/08-7/8/15
		26,278			26,278	10 56*		9/3/09-8/3/16
		29,231			29,231	9 95*		4/8/09-3/8/16

Directors' Remuneration Report continued

Directors	As at 01 01 06	Granted	Exercised	Lapsed	As at 31 12 06	Exercise Price £	Market price on date of Exercise £	Exercise Period
	Number of Options	During the year						
R A Pym	47,761				47,761	6 70*		23/2/04-22/2/08
	21,104				21,104	8 055*		23/7/04-22/7/11
	22,700				22,700	8 37*		12/3/05-11/3/12
	32,704				32,704	7 95*		6/8/05-5/8/12
	44,731				44,731	7 545*		26/2/06-25/2/13
	51,165				51,165	8 795*		1/9/06-31/8/13
	45,784				45,784	8 60*		3/3/07-2/3/14
	60,701				60,701	8 34*		29/7/07-28/7/14
	51,635				51,635	8 715*		7/4/08-6/4/15
	56,186				56,186	8 81*		8/8/08-7/8/15
		2,840			2,840	10 56#		9/3/09-8/3/16
		41,904			41,904	10 56*		9/3/09-8/3/16
		49,764			49,764	9 95*		4/8/09-3/8/16
C S Rhodes	28,544				28,544	6 70*		23/2/04-22/2/08
	22,243				22,243	8 055*		23/7/04-22/7/11
	2,618				2,618	6 32≠		1/11/07-1/5/08
	3,584				3,584	8 37#		12/3/05-11/3/12
	5,885				5,885	8 37*		12/3/05-11/3/12
	20,219				20,219	7 95*		6/8/05-5/8/12
	23,856				23,856	7 545*		26/2/06-25/2/13
	23,877				23,877	8 795*		1/9/06-31/8/13
	26,162				26,162	8 60*		3/3/07-2/3/14
	31,474				31,474	8 34*		29/7/07-28/7/14
	27,969				27,969	8 715*		7/4/08-6/4/15
	30,221				30,221	8 81*		8/8/08-7/8/15
		24,147			24,147	10 56*		9/3/09-8/3/16
		26,865			26,865	9 95*		4/8/09-3/8/16

≠ Options granted under the Alliance & Leicester ShareSave Plan

The following plans are subject to performance conditions

Approved options granted under the Alliance & Leicester Company Share Option Plans

* Unapproved options granted under the Alliance & Leicester Company Share Option Plans

Gains on exercised options are disclosed in Note 43 to the accounts

On 31 December 2006 the closing middle market value of ordinary shares in Alliance & Leicester plc was 1138p and the range during 2006 was 960 5p to 1248p

Bonus Awards

The following table shows directors' interests in deferred share options awarded under the Deferred Bonus Plan

Director	Bonus Year		Value of award £	Market Value at date of grant £	No of shares under Option	Exercise Price £	Exercise Period
R L Banks	2003	Deferred Shares	78,750	8 60	9,156#	Nil	3/3/07-2/3/11
	2004	Deferred Shares	48,750	8 71	5,593#	Nil	7/4/08-6/4/12
D J Bennett	2003	Deferred Shares	65,000	8 60	7,558#	Nil	3/3/07-2/3/11
	2004	Deferred Shares	48,000	8 71	5,507#	Nil	7/4/08-6/4/12
R A Pym	2003	Deferred Shares	233,000	8 60	27,093#	Nil	3/3/07-2/3/11
	2004	Deferred Shares	228,400	8 71	26,207#	Nil	7/4/08-6/4/12
C S Rhodes	2003	Deferred Shares	62,500	8 60	7,267#	Nil	3/3/07-2/3/11
	2004	Deferred Shares	43,500	8 71	4,991#	Nil	7/4/08-6/4/12

Long Term Incentive Plans

The following tables show the directors' interests in matched share options awarded under the Deferred Bonus Plan and shares awarded under the Performance Share Plan The figures for the matched shares represent the maximum potential awards

Deferred Bonus Plan

	Award date	Awards held at 1/1/06	Awards granted during the year	Vested during the year	Awards exercised during the year	Lapsed during the year	Awards held at 31/12/06	Market price on date of grant £	Market price on exercise £	End of period when qualifying conditions must be met
R L Banks	26/2/03	35,067#				35,067#	–	7 545		31/12/05
	3/3/04	27,468#					27,468#	8 60		31/12/06
	7/4/05	16,779#					16,779#	8 715		31/12/07
D J Bennett	12/3/02	10,752#			10,752#		–	8 37	11 24	31/12/04
	26/2/03	28,926#				28,926#	–	7 545		31/12/05
	3/3/04	22,674#					22,674#	8 60		31/12/06
	7/4/05	16,521#					16,521#	8 715		31/12/07
R A Pym	17/2/00	19,606#			19,606#		–	5 10	11 24	31/12/02
	23/2/01	41,193#			41,193#		–	6 70	11 24	31/12/03
	12/3/02	28,671#			28,671#		–	8 37	11 24	31/12/04
	26/2/03	44,730#				44,730#	–	7 545		31/12/05
	3/3/04	81,279#					81,279#	8 60		31/12/06
	7/4/05	78,621#					78,621#	8 715		31/12/07
C S Rhodes	26/2/03	23,856#				23,856#	–	7 545		31/12/05
	3/3/04	21,801#					21,801#	8 60		31/12/06
	7/4/05	14,973#					14,973#	8 715		31/12/07

\# For the 2000 to 2004 bonus years (when a maximum of up to 3 matching shares for each share may be awarded) TSR performance is measured against the TSR performance of a single comparator group of Retail Banks (see page 40)

The exercise price for the matched share options is nil

No awards were made to executive directors under the Deferred Bonus Plan in 2006

Performance Share Plan

	Award date	Awards held at 1/1/06	Awards granted during the year	Vested during the year	Lapsed during the year	Awards held at 31/12/06	End of period when qualifying conditions must be met
R L Banks	8/8/05	44,693				44,693	31/12/07
	9/3/06		31,738			31,738	31/12/08
D J Bennett	8/8/05	52,497				52,497	31/12/07
	9/3/06		37,280			37,280	31/12/08
R A Pym	8/8/05	89,387				89,387	31/12/07
	9/3/06		63,477			63,477	31/12/08
C S Rhodes	8/8/05	48,240				48,240	31/12/07
	9/3/06		34,257			34,257	31/12/08

All grants were made under the Performance Share Plan The conditions attached to these awards are set out on page 41

On behalf of the Board

M P S Barton

Chairman of the Remuneration Committee

20 February 2007

Independent Auditors' Report to the Members of Alliance & Leicester plc

We have audited the Group and parent company financial statements (the "financial statements") of Alliance & Leicester plc for the year ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated and parent company Balance Sheets, the Consolidated and parent company Statements of Recognised Income and Expense, the Consolidated and parent company Cash Flow Statements and the related Notes 1 to 43 These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Directors' Remuneration Report that is described as having been audited

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements The information given in the Directors' Report includes that specific information presented in the Business and Financial Review that is cross referred from the Directors' Report

In addition we report to you if, in our opinion, 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 regarding directors' remuneration and other transactions is not disclosed

We review whether the Statement of Corporate Governance reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures

We read the other information contained in the Annual Report as described in the contents section 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 Our responsibilities do not extend to any further information outside the Annual Report

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, 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 and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended,
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 December 2006,
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the financial statements

Separate opinion in relation to IFRSs

As explained in Note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

20 February 2007

Statutory Accounts

Consolidated Income Statement

For the year ended 31 December	Notes	2006 £m	2005 £m
Interest receivable and similar income		**3,115 2**	2,576 1
Interest expense and similar charges		**(2,334 6)**	(1,825 1)
Net interest income	6	**780 6**	751 0
Fee and commission income		**523 6**	508 8
Fee and commission expense		**(26.8)**	(32 4)
Gains/(losses) from fair value accounting volatility	7	**7 6**	(1 0)
Other operating income	8	**190 2**	160 5
Total non-interest income		**694 6**	635 9
Operating income		**1,475 2**	1,386 9
Administrative expenses			
Core administrative expenses		**(656 8)**	(660 7)
Redundancy costs		**(24 2)**	-
Total administrative expenses	9	**(681.0)**	(660 7)
Depreciation and amortisation			
On fixed assets excluding operating lease assets		**(42 0)**	(31 2)
On operating lease assets		**(78.5)**	(74 0)
		(120 5)	(105 2)
Total costs		**(801.5)**	(765 9)
Impairment losses on loans and advances	11	**(104 8)**	(73 9)
Profit before tax		**568.9**	547 1
Tax	12	**(118 8)**	(140 2)
Profit after tax		**450 1**	406 9
Profit attributable to			
Innovative tier 1 holders	35	**17 5**	17 5
Minority interests	37	**0.4**	-
Ordinary shareholders of Alliance & Leicester plc		**432.2**	389 4
Earnings per share:			
Basic earnings per ordinary share	13	**96 4p**	86 9p
Diluted earnings per ordinary share	13	**95 9p**	86 5p

Consolidated Balance Sheet

As at 31 December	Notes	2006 £m	2005 £m
Assets			
Cash and balances with central banks	15	2,224.0	1,704 6
Treasury bills and other eligible bills		-	17 1
Due from other banks	16	2,948.7	2,524 5
Trading securities	17	1,152 9	306 3
Derivative financial instruments	18	691 8	570 8
Loans and advances to customers	19	46,350.7	40,093 8
Net investment in finance leases and hire purchase contracts	21	1,926 9	2,146 3
Investment securities			
– available-for-sale	22	10,482.8	9,817 8
– held-to-maturity	22	364 7	342 5
– loans and receivables	22	150.3	150 3
– at fair value through profit or loss	22,23	1,373.3	331 0
Intangible fixed assets	25	54 7	18 6
Property, plant and equipment	26	255 0	262 4
Operating lease assets	27	300 5	364 4
Fair value macro hedge		-	59 8
Other assets	28	220 5	218 6
Prepayments and accrued income		60.2	53 2
Total assets		68,557.0	58,982 0
Liabilities			
Due to other banks	29	8,629.6	6,566 6
Derivative financial instruments	18	675.4	410 4
Due to customers		29,559.4	26,437 8
Debt securities in issue		25,415.4	21,405 3
Other liabilities	30	417.1	329 7
Current tax liabilities		21.3	52 9
Fair value macro hedge		181.7	–
Accruals and deferred income		197.9	261 8
Deferred tax liabilities	31	141.9	259 8
Other borrowed funds	32	696.7	939 1
Retirement benefit obligations	33	47.8	106 9
Total liabilities		65,984 2	56,770 3
Equity			
Innovative tier 1	35	310.6	310 6
Preference shares	36	294.0	-
Minority interests	37	0.4	-
		605.0	310 6
Called up share capital	38	219.0	224 4
Share premium account	40	105.6	85 1
Capital redemption reserve	40	79.9	73 0
Reserve for share-based payments	40	21.0	13 8
Available-for-sale reserve	40	4 2	5 8
Cash flow hedging reserve	40	(19.3)	22 5
Retained earnings	40	1,557 4	1,476 5
Total ordinary shareholders' equity		1,967.8	1,901 1
Total equity and liabilities		68,557.0	58,982 0

Approved by the Board of Directors on 20 February 2007 and signed on its behalf by

R A Pym Group Chief Executive
D J Bennett Group Finance Director

Company Balance Sheet

As at 31 December	Notes	2006 £m	2005 £m
Assets			
Cash and balances with central banks	15	**1,811 2**	1,221 9
Treasury bills and other eligible bills		**-**	17 1
Due from other banks	16	**5,315 3**	4,344 2
Trading securities	17	**1,152 9**	306 5
Derivative financial instruments	18	**720 0**	656 5
Loans and advances to customers	19	**45,706.8**	40,447 1
Investment securities			
– available-for-sale	22	**10,389.9**	9,794 2
– held-to-maturity	22	**364.7**	342 5
– loans and receivables	22	**-**	–
– at fair value through profit or loss	22,23	**518 4**	314 8
Shares in Group undertakings	24	**955 9**	724 3
Intangible fixed assets	25	**34.0**	8 3
Property, plant and equipment	26	**146.0**	151 7
Deferred tax assets	31	**3.8**	15 2
Current tax assets		**74.4**	43 9
Fair value macro hedge		**-**	24 7
Other assets	28	**175 3**	143 8
Prepayments and accrued income		**33 0**	27 7
Total assets		**67,401.6**	58,584 4
Liabilities			
Due to other banks	29	**14,142 9**	10,996 2
Derivative financial instruments	18	**729.5**	421 6
Due to customers		**24,489 9**	22,582 4
Debt securities in issue		**22,485 6**	21,325 9
Other liabilities	30	**2,748 1**	442 9
Fair value macro hedge		**123 2**	–
Accruals and deferred income		**220.9**	260 3
Other borrowed funds	32	**696.7**	939 1
Retirement benefit obligations	33	**47 8**	106 9
Total liabilities		**65,684 6**	57,075 3
Equity			
Innovative tier 1	35	**310.6**	310 6
Preference shares	36	**294.0**	–
		604 6	310 6
Called up share capital	38	**219.0**	224 4
Share premium account	40	**105.6**	85 1
Capital redemption reserve	40	**79.9**	73 0
Reserve for share-based payments	40	**21.0**	13 8
Available-for-sale reserve	40	**4 2**	5 8
Cash flow hedging reserve	40	**(11.2)**	27 0
Retained earnings	40	**693 9**	769 4
Total ordinary shareholders' equity		**1,112.4**	1,198 5
Total equity and liabilities		**67,401 6**	58,584 4

Approved by the Board of Directors on 20 February 2007 and signed on its behalf by

R A Pym Group Chief Executive
D J Bennett Group Finance Director

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December	Notes	2006 £m	2005 £m
Available-for-sale investments			
Valuation (losses)/gains taken to equity	40	**(1 7)**	0 1
Net losses transferred to profit on disposal	40	**(0 5)**	-
Cash flow hedges			
(Losses)/gains taken to equity	40	**(57.6)**	12 5
Transferred to net profit	40	**(2.1)**	(0 3)
Actuarial gains/(losses) on retirement benefit obligations	40	**49 7**	(22 3)
Tax on items taken directly in equity		**3 6**	2 8
Net expense recognised directly in equity		**(8.6)**	(7 2)
Profit after tax		**450 1**	406 9
Innovative tier 1 holders		**(17 5)**	(17 5)
Minority interests		**(0.4)**	-
Total recognised income for the year attributable to ordinary shareholders of Alliance & Leicester plc		**423.6**	382 2

The cumulative actuarial gain recognised since 1 January 2004 on retirement benefit obligations for the Group is £22 3m (2005 £27 4m loss)

Company Statement of Recognised Income and Expense

For the year ended 31 December	Notes	2006 £m	2005 £m
Available-for-sale investments			
Valuation (losses)/gains taken to equity	40	**(1 7)**	0 1
Net losses transferred to profit on disposal	40	**(0 5)**	-
Cash flow hedges			
(Losses)/gains taken to equity	40	**(52.0)**	15 2
Transferred to net profit	40	**(2.6)**	-
Actuarial gains/(losses) on retirement benefit obligations	40	**49 7**	(22 3)
Tax on items taken directly in equity		**2.1**	1 9
Net expense recognised directly in equity		**(5 0)**	(5 1)
Profit after tax		**293 3**	249 0
Innovative tier 1 holders		**(17 5)**	(17 5)
Total recognised income for the year attributable to ordinary shareholders of Alliance & Leicester plc		**270.8**	226 4

The cumulative actuarial gain recognised since 1 January 2004 on retirement benefit obligations for the Company is £22 3m (2005 £27 4m loss)

Consolidated Cash Flow Statement

For the year ended 31 December	Notes	2006 £m	2005 £m
Cash flows from operating activities			
Profit before tax		**568.9**	547 1
(Increase)/decrease in accrued income and prepayments		**(9.9)**	111 6
Decrease in accruals and deferred income		**(145 1)**	(42 3)
Provisions for impairment		**104.8**	73 9
Loans and advances written off net of recoveries		**(102 6)**	(57 2)
Depreciation and amortisation		**120.1**	108 2
Interest on subordinated loans added back		**52.3**	49 6
Provisions for liabilities and charges		**(9 4)**	(3 1)
Unamortised costs on subordinated debt		**0 4**	0 2
Profit on sale of commercial customer leases		**(32 4)**	(5 6)
Cash generated from operations		**547.1**	782 4
Interest paid on loan capital		**(52 3)**	(49 6)
Tax paid		**(80.6)**	(74 8)
Cash flows from operating profits before changes in operating assets and liabilities		**414.2**	658 0
Changes in operating assets and liabilities			
Net decrease/(increase) in treasury and other eligible bills		**17.1**	(17 1)
Net increase in amounts due from other banks and loans and advances to customers		**(6,798.4)**	(7,327 5)
Net increase in non-investment debt and equity securities		**(967.6)**	(244 4)
Net decrease/(increase) in fair value macro hedge		**241 5**	(59 8)
Net increase in other assets		**(1.9)**	(111 9)
Net increase in amounts due to other banks and customers		**5,184.6**	3,199 5
Net decrease/(increase) in derivative financial instruments		**205.3**	(352 2)
Net increase in debt securities in issue		**4,010 1**	5,776 0
Net increase/(decrease) in other liabilities		**87.8**	(38 8)
Net (decrease)/increase in other borrowed funds		**(42.8)**	39 0
Other non-cash movements		**2.6**	5 6
Net cash from operating activities		**2,352 5**	1,526 4
Cash flows from investing activities			
Purchase of non-dealing securities		**(5,850 7)**	(5,499 5)
Proceeds from sale and redemption of non-dealing securities		**4,120.6**	5,205 1
Disposal of subsidiaries, net of cash disposed		**327.7**	60 2
Purchase of intangible assets and property, plant and equipment		**(155 3)**	(146 6)
Proceeds from sale of property, plant and equipment		**71.7**	41 6
Net cash used in investing activities		**(1,486 0)**	(339 2)
Cash flows from financing activities			
Proceeds from borrowed funds		**-**	261 8
Repayments of borrowed funds		**(200.0)**	(188 4)
Issue of ordinary shares		**22.0**	19 9
Issue of preference shares		**294.0**	-
Repurchase of ordinary shares		**(151.0)**	(5 0)
Dividends paid		**(235.1)**	(220 7)
Interest paid on loan capital		**(17.5)**	(17 5)
Net cash used in financing activities		**(287.6)**	(149 9)
Net increase in cash and cash equivalents		**578 9**	1,037 3
Cash and cash equivalents at beginning of year		**2,043.7**	1,006 4
Cash and cash equivalents at end of year	42	**2,622.6**	2,043 7

Company Cash Flow Statement

For the year ended 31 December	Notes	2006 £m	2005 £m
Cash flows from operating activities			
Profit before tax		**350 9**	340 8
Increase in accrued income and prepayments		**(8 2)**	(0 8)
Decrease in accruals and deferred income		**(40 6)**	(10 0)
Provisions for impairment		**6.9**	(0 8)
Loans and advances written off net of recoveries		**(8.7)**	(4 2)
Depreciation and amortisation		**34 3**	37 3
Interest on subordinated loans added back		**52 3**	49 6
Provisions for liabilities and charges		**(9 4)**	(3 1)
Unamortised costs on subordinated debt		**0.4**	0 2
Other non-cash movements		**-**	14 8
Cash generated from operations		**377 9**	423 8
Interest paid on loan capital		**(52 3)**	(49 6)
Tax paid		**(96 8)**	(99 0)
Cash flows from operating profits before changes in operating assets and liabilities		**228 8**	275 2
Changes in operating assets and liabilities			
Net decrease/(increase) in treasury and other eligible bills		**17 1**	(17 1)
Net increase in amounts due from other banks and loans and advances to customers		**(6,087 7)**	(8,068 1)
Net increase in non-investment debt and equity securities		**(909 9)**	(273 7)
Net decrease/(increase) in fair value macro hedge		**147.9**	(24 7)
Net increase in other assets		**(31 5)**	(38 7)
Net increase in amounts due to other banks and customers		**5,054 2**	4,440 8
Net decrease/(increase) in derivative financial instruments		**253.3**	(358 5)
Net increase in debt securities in issue		**1,159 7**	5,818 3
Net increase/(decrease) in other liabilities		**2,330 4**	(7 8)
Net (decrease)/increase in other borrowed funds		**(42 8)**	39 0
Other non-cash movements		**2.6**	5 6
Net cash from operating activities		**2,122.1**	1,790 3
Cash flows from investing activities			
Purchase of non-dealing securities		**(4,916 4)**	(5,328 0)
Proceeds from sale and redemption of non-dealing securities		**4,094 3**	4,510 8
Acquisition of subsidiaries, net of cash acquired		**(231 6)**	-
Disposal of subsidiaries, net of cash disposed		**2.9**	2 7
Purchase of intangible assets and property, plant and equipment		**(58 2)**	(26 3)
Proceeds from sale of property, plant and equipment		**5 1**	7 3
Net cash used in investing activities		**(1,103.9)**	(833 5)
Cash flows from financing activities			
Proceeds from borrowed funds		**-**	261 8
Repayments of borrowed funds		**(200 0)**	(188 4)
Issue of ordinary shares		**22 0**	19 9
Issue of preference shares		**294 0**	-
Repurchase of ordinary shares		**(151 0)**	(5 0)
Dividends paid		**(235 1)**	(220 7)
Interest paid on loan capital		**(17.5)**	(17 5)
Net cash used in financing activities		**(287.6)**	(149 9)
Net increase in cash and cash equivalents		**730 6**	806 9
Cash and cash equivalents at beginning of year		**1,343 5**	536 6
Cash and cash equivalents at end of year	42	**2,074 1**	1,343 5

Notes to the Accounts

1 Principal accounting policies

Basis of preparation
The accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) The financial statements have also been prepared in accordance with IFRS adopted for use by the European Union (EU), and therefore the Group financial statements comply with Article 4 of the EU IAS regulation

Results and disclosures for the comparative period are on the same basis as the 2006 results

Accounting convention
The Group prepares its accounts under the historical cost convention, except for the revaluation of available-for-sale financial assets, financial assets and liabilities held at fair value through profit or loss, financial assets and liabilities in fair value hedges and all derivative contracts

Basis of consolidation
The Group accounts consolidate the accounts of Alliance & Leicester plc and all its subsidiaries (including special purpose entities) over which the Group has control This includes entities where the Group has the power to govern the financial and operating policies even though it may not own more than half of the voting shares

Where subsidiaries are acquired during the period, their results are included in the Group accounts from the date of acquisition

Investments in subsidiaries
Investments in subsidiaries are recorded in the Company balance sheet at cost, less any provision for impairment

Goodwill
Goodwill arising on the acquisition of subsidiary companies, which is represented by the excess of fair value of the purchase consideration over the Groups investment in identifiable assets acquired, is capitalised and shown as an asset in the balance sheet It is reviewed for impairment annually Any impairment is recognised immediately in the income statement and is not subsequently reversed

Negative goodwill is recognised immediately in the income statement

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts, subject to being tested for impairment at 31 December 2003 Goodwill written off to reserves under UK GAAP prior to the introduction of FRS 10 'Goodwill and Intangible Assets' in 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal

Taxation
The tax expense represents the sum of tax currently payable and deferred tax

The tax currently payable is based on taxable profit for the year Taxable profit differs from the 'Profit before tax' as reported in the Income Statement because it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are never taxable or deductible Taxable profit also includes items that are taxable or deductible that are not included in 'Profit before tax' The Group's liability for current tax and deferred tax is calculated using tax rates that have been enacted at the balance sheet date

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

Property, plant and equipment and depreciation
The cost of additions and major alterations to office premises, plant, fixtures, equipment and motor vehicles is capitalised The cost of tangible 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 7 years

No depreciation is provided on freehold land or assets in the course of construction

Software costs
IAS 38 'Intangible Assets' requires the capitalisation of certain expenditure relating to software development costs Software development costs are capitalised if it is probable that the asset created will generate future economic benefits Capitalised costs are amortised on a straight line basis over their useful lives, normally between 1 and 5 years

Intangible assets under development are capitalised where the asset will generate future economic benefits, can be reliably measured, the software is technically feasible and the Group has both the intent and sufficient resources to complete the development Only costs that are directly attributable to bringing the asset into working condition for its intended use are capitalised No amortisation is provided on intangible assets under development Once the assets are ready for use the capitalised costs are amortised over the assets' expected lives

Operating lease assets
Assets acquired for the purpose of renting out under operating lease agreements are capitalised and depreciation is provided at rates calculated to write off the cost of the assets, less estimated residual value, on a straight line basis over the estimated useful life Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease

Finance leases and hire purchase contract assets
Amounts due from lessees under finance leases and hire purchase contracts are recorded as receivables at the amount of the Group's net investment in the leases Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases and hire purchase contracts

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

Finance lease agreements
Assets acquired under finance leases are capitalised at fair value at the start of the lease, with the corresponding obligations being included in other liabilities The finance lease costs charged to the income statement are based on a constant periodic rate as applied to the outstanding liabilities

Pensions and post-retirement medical benefits
Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations updated at each year end

The Group has adopted the revised IAS 19, published in December 2004 Actuarial gains and losses are recognised in full in the period in which they occur They are recognised outside the income statement and presented in the Statement of Recognised Income and Expense The retirement benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligations less the fair value of scheme assets

Notes to the Accounts continued

1 Principal accounting policies continued

Post-retirement medical benefit liabilities are determined using the Projected Unit Credit Method, with actuarial valuations updated at each year end The expected benefit costs are accrued over the period of employment using an accounting methodology similar to that for the defined benefit pension scheme

Financial assets

The Group classifies its financial assets into the following categories, as determined at initial recognition

a) *Financial assets at fair value through profit or loss*
A financial asset is designated in this category if it is acquired principally for the purpose of selling in the short term, or if so designated using the fair value option (see below) Derivatives are also categorised as 'at fair value through profit or loss' unless they are designated as cash flow hedges

b) *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market

c) *Held-to-maturity*
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention to hold to maturity

d) *Available-for-sale*
Available-for-sale assets are financial assets not classified in (a) - (c) above

'Cash and balances with central banks', 'Due from other banks', 'Loans and advances to customers' and 'Net investment in finance leases and hire purchase contracts' are classed as Loans and Receivables 'Trading securities' and 'Derivative financial instruments' are held at fair value though profit or loss 'Treasury bills and other eligible bills' are classified as available-for-sale 'Investment securities' are accounted for in accordance with their balance sheet heading

Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are recognised in the income statement Gains and losses arising from changes in the fair value of available-for-sale assets are recognised directly in equity, until the financial asset is de-recognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement Interest calculated using the effective interest rate method is recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices If there is no active market then fair value is determined using valuation techniques, for example calculating net present value by discounting future cash flows using an appropriate yield curve

Financial liabilities

Non-trading financial liabilities, including 'Due to other banks', 'Due to customers' and 'Other borrowed funds' are held at amortised cost 'Debt securities in issue' are held at amortised cost unless designated as at fair value though profit or loss using the fair value option (see below) 'Derivative financial instruments' are held at fair value through profit or loss, unless they are designated as cash flow hedges Finance costs are charged to the income statement using the effective interest rate method

Fair value option

The Group has elected to apply the fair value option in IAS 39 Financial assets and liabilities are designated at fair value through profit or loss when this results in more relevant information because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities on different bases or recognising the gains or losses on them on different bases The fair value option is used by the Group where Treasury assets (investment securities) or liabilities (debt securities in issue) would otherwise be measured at amortised cost, the associated derivatives used to economically hedge the risk are held at fair value, and it is not practical to apply hedge accounting The Group has also designated certain financial instruments containing embedded derivatives at fair value through profit or loss

Impairment of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events

a) significant financial difficulty of the issuer or obligor,

b) a breach of contract, such as a default or delinquency in interest or principal payments,

c) the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider,

d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation,

e) the disappearance of an active market for that financial asset because of financial difficulties, or

f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including

   i) adverse changes in the payment status of borrowers in the group, or

   ii) national or local economic conditions that correlate with defaults on the assets in the group

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant If there is no objective evidence of impairment for an individually assessed financial asset it is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment

Residential and commercial mortgages are initially assessed individually for impairment Mortgages not individually impaired are then assessed collectively Unsecured personal loans and current accounts are collectively assessed for impairment on a portfolio basis Commercial lending is reviewed for impairment on a case by case basis for individually significant loans Loans that are not individually significant are assessed for impairment on a portfolio basis

Impairment is calculated based on the probability of default, exposure at default and the loss given default, using recent data An adjustment is made for the effect of discounting cash flows

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's effective interest rate

If there is objective evidence of impairment for financial assets classified as available-for-sale, the loss is removed from equity and recognised in the income statement

Financial assets are written off when it is reasonably certain that receivables are irrecoverable

Interest income and expense

Interest income and expense on financial assets and liabilities held at amortised cost is measured using the effective interest rate method, which allocates the interest income or interest expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument

Specifically, for mortgages the effect of this is to spread the impact of discounts, fixed rate interest, cashbacks, arrangement and valuation fees, and costs directly attributable and incremental to setting up the loan, over the expected life of the mortgage

Fee and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided

Fees integral to the loan yield are included within interest income and expense as part of the effective interest rate calculation

Foreign currencies

Foreign currency monetary transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions, and are re-translated at year end exchange rates Foreign exchange gains and losses are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges

Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured at their fair value All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative

Derivatives can be designated as either cash flow or fair value hedges

Cash flow hedges

A cash flow hedge is used to hedge exposures to variability in cash flows, such as variable rate financial assets and liabilities The effective portion of changes in the derivative fair value is recognised in equity, and recycled to the income statement in the periods when the hedged item will affect profit or loss The fair value gain or loss relating to the ineffective portion is recognised immediately in the income statement

Fair value hedges

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate loans Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement The carrying value of the hedged item (or in the case of a portfolio hedge, the separate caption 'fair value macro hedge') is adjusted for the change in the fair value of the hedged risk Such changes in the fair value of the hedged item are also taken to the income statement If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item is amortised to the income statement over the period to maturity

If derivatives are not designated as hedges then changes in fair values are recognised immediately in the income statement

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

Share-based payments

The Group has applied the requirements of IFRS 2 'Share-based payments' In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005

The Group issues share options and other equity-settled payments to certain employees These are measured at fair value at date of grant using binomial and Black Scholes option pricing models The fair value is expensed on a straight line basis over the vesting period, based on an estimate of the number of shares that will ultimately vest

Changes to IFRS not adopted in 2006 accounts

The International Accounting Standards Board has published the following IAS's, IFRS's and International Financial Reporting Interpretations Committee (IFRIC) interpretations

Standard/Interpretation		Issued	Effective for periods commencing on or after
IAS 1	IAS 1 Presentation of Financial Statements (Capital Disclosures)	Aug 2005	1 Jan 2007
IFRS 7	Financial instruments disclosures	Aug 2005	1 Jan 2007
IFRS 8	Operating segments[1]	Nov 2006	1 Jan 2009
IFRIC 7	Applying the restatement approach under IAS 29	Nov 2005	1 Mar 2006
IFRIC 8	Scope of IFRS 2	Jan 2006	1 May 2006
IFRIC 9	Reassessment of embedded derivatives	Mar 2006	1 Jun 2006
IFRIC 10	Interim financial reporting and impairment	Jul 2006	1 Nov 2006
IFRIC 11	IFRS 2 group and treasury share transactions	Nov 2006	1 Mar 2007
IFRIC 12	Service concession arrangements[2]	Nov 2006	1 Jan 2008

Notes
1 May not be adopted in the EU prior to endorsement, expected in June 2007
2 May not be adopted in the EU prior to endorsement for arrangements currently accounted for under IFRIC 4

The Group has not elected to adopt these early in these financial statements The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group, except for additional disclosures on capital and financial instruments, when the relevant standards come into effect for periods commencing on or after 1 January 2007

Notes to the Accounts continued

2 Risk management policy and control framework

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 The following table details the work of the main committees that have been established within the Group to manage these risks

Committee	Status	Main responsibilities	Membership
Group Risk Committee (GRC)	Group Board sub-committee	Approve the Group's overall risk management framework, risk appetite and risk policies Approve the annual report from the Group's Money Laundering Reporting Officer Regular review of all current and emerging risks and activities of all risk related committees Review the Group's overall capital adequacy	Non-executive Group Board directors, the Group Chief Executive and the Director of Group Risk
Group Assets and Liability Committee (ALCO)	Management committee	Monitor market and liquidity risks and recommend policy in these areas to GRC	Executive Group Board directors, the Director of Group Risk and other senior managers
Executive Credit Committee (ECC)	Management committee	Review the Group's credit risk appetite Assess the impact of external economic and market influences and consider their impact on credit quality Ensure that credit risk is appropriately defined and measured throughout the Group Review all asset quality plans and investment guidelines Review asset quality including compliance with key credit risk policies and targets / triggers Approve relevant major product initiatives	Executive Group Board directors, the Director of Group Risk and other senior managers
Group Operational Risk Committee (GORC)	Management committee	Approve the Group's key operational risk policies Review and recommend changes to the Group's operational risk management framework Review of key current and emerging operational risks Promote operational risk management culture and awareness throughout the Group	The Group Secretary the Director of Group Risk and other senior managers

Operational risk

Operational risk is defined as 'the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events' Within the Group operational risk is sub-categorised by type such as criminal, legal, regulatory, systems failure and personnel risk

The Group monitors its operational risks through a variety of techniques An operational risk self assessment process has been introduced whereby each of the Group's business areas completes a schedule which sets out the likelihood and financial impact of operational risk exposures Output from the self assessment process is used to calculate the unexpected loss and economic capital for operational risk The Group Board receives a monthly dashboard which assesses the extent of all key operational risks, and senior management certify the effectiveness of the risk and control environment every six months In addition, the Group compiles and reports on actual operational loss events and near misses

An independent operational risk team within the Group Risk function has the overall responsibility for ensuring effective operation of the framework within which operational risk is managed, and for its consistent application across the Group Day to day management of operational risk rests with line managers It is managed through a combination of internal controls, processes and procedures and various risk mitigation techniques, including insurance and business continuity planning

Oversight of regulatory risk is the responsibility of the Group Risk and Compliance functions Group Risk has primary responsibility for oversight of prudential risks and Group Compliance for other regulatory risks The Group has established a regular forum, the Regulatory Risk Group, to ensure the Group is properly prepared for regulatory developments

Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations as they fall due In addition to the amounts shown on the balance sheet, the Group is also exposed to credit risk on guarantees, credit derivatives, irrevocable letters of credit and irrevocable undrawn loan facilities, as set out in Note 34 The Group is firmly committed to the management of credit risk in both its Retail and Commercial lending activities

The Group employs sophisticated internal rating, behavioural scoring and underwriting techniques to support sound decision making and minimise losses in its lending activities These techniques are used to calculate expected loss and the Group's economic capital requirements for credit risk 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

Experienced credit and risk functions that operate within the Group are driven both by the recognised need to manage the potential and actual risks, and by the need to continually develop new processes to ensure sound decisions into the future In this way, any variations 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 commercial and treasury portfolios ensures that credit risk is effectively controlled and any adverse trends are identified before they 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 risk committees Policy statements, covering, amongst other things, criteria to be used in considering limits on counterparties and countries, are reviewed at least annually by the GRC

Counterparty risk is outlined in a table showing the Group's exposures to customer groups and industry sectors in Note 3(i) on page 60

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 such as equity 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 GRC This policy sets out the nature of risk which may be taken and aggregate risk limits Based on these aggregate limits, the 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 the ALCO At each meeting the ALCO reviews reports showing the Group's exposure to market and liquidity risks The Group has established a transfer pricing system with the intention of transferring materially all of the market risks that arise in the various Group businesses to Group Treasury Most of the Group's market risk is transferred to Group Treasury by way of appropriate hedging arrangements Group Treasury plays a pivotal role in managing the Group's market risk Group Treasury 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, basis point value analysis, stress testing, scenario analysis and value at risk These measures are used to determine the Group's economic capital requirements for market risk

Interest rate risk

Interest rate risk is the most significant market risk to which the Group is exposed This risk mainly arises from mismatches between the re-pricing dates of the interest bearing assets and liabilities on the Group's balance sheet, and from the investment of the Group's reserves and other net non-interest bearing liabilities in variable rate assets Outside of Group Treasury, interest rate risk primarily arises in the Group's mortgage, savings, personal and commercial loans and leasing businesses The exposure in these portfolios is hedged with Group Treasury using interest rate swaps and other appropriate instruments Net non-interest bearing liabilities comprise mainly interest-free personal and corporate current accounts and shareholders' funds, and totalled £4 7bn at 31 December 2006 (2005 £4 8bn) These funds are invested in variable rate assets which expose the Group to volatility in net interest income Cash flow hedging of these variable rate assets achieves the Group's objective of minimising volatility in net interest income over the medium term A full interest rate repricing table is shown in Note 3(ii) on pages 60 to 62 The Group's trading activities are conducted through the Group's Treasury division 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 A table in Note 3(iii) on page 62 sets out the change in the value of the trading book arising from a 1% change in market interest rates

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 Group Treasury and Alliance & Leicester Commercial Bank, and detailed limits and controls are established within those businesses to control the exposure Alliance & Leicester Commercial Bank clears its positions with Group Treasury in accordance with the policy of transferring market risk positions to Group Treasury wherever possible As part of its normal operations Group Treasury borrows and invests funds in currencies other than Sterling The foreign exchange risks of these activities are hedged within Group Treasury's limits

Equity risk

The Group markets equity related products to its customers, including guaranteed stock market bonds The Group's policy is to have no material exposure to equity markets The exposures arising from the Group's products are eliminated as far as is practicable by appropriate hedging contracts

Liquidity risk

Liquidity risk is the risk that the Group, though solvent, either does not have sufficient financial resources available to meet its obligations as they fall due, or can only secure them at excessive cost It is Group policy to ensure that sufficient liquid assets 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 the ALCO The day to day management of liquidity is the responsibility of Group Treasury, which provides funding to and takes surplus funds from each of the Group's businesses as required Liquidity policy is approved by the GRC 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 The tables in Note 3(iv)on pages 63 and 64 analyse the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date (to contractual maturity)

Derivatives

A derivative is an agreement which defines certain financial rights and obligations which are contractually linked to interest rates, exchange rates or other financial prices Derivatives are an efficient and cost effective means of managing risk and are an essential tool in treasury management Derivatives are used primarily 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 3(iii) on page 62

Types of derivatives and uses

The principal derivatives used in balance sheet risk management are interest rate swaps, forward rate agreements (FRAs), 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 and commercial loans, leasing arrangements, fixed rate savings products, funding and investment activities and foreign exchange services to customers The following table below 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 and FRAs
Fixed rate savings products and fixed rate funding	Sensitivity to falls in interest rates	Interest rate swaps and options and FRAs
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 swaps

Control of derivatives

With the exception of credit exposures, which are managed within policies approved by the GRC, the approval of all limits over the use of derivatives is the responsibility of the 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 18 on pages 71 and 72

Fair values of financial assets and liabilities

A table in Note 3(v) on page 65 summarises the carrying amounts and fair values at 31 December 2006 of those financial assets and liabilities not presented on the Group's balance sheet at their fair value

3 Risk management disclosures

(i) Counterparty risk

The table below shows the Group and Company exposures to customer groups and industry sectors

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Loans secured on residential mortgages	**38,019.6**	33,133 1	**37,964 9**	33,075 3
Unsecured loans and other retail lending	**3,645.8**	3,559 5	**90.7**	75 7
Central government and central banks	**1,886.3**	1,330 0	**1,879 9**	1,318 4
Other banks, building societies and investment firms and other financial institutions	**10,719 5**	9,387 0	**9,856 6**	8,862 6
Government and public sector	**89.1**	76 7	**16.2**	-
Corporate	**7,041.3**	5,608 3	**-**	-
Other Group companies	**-**	-	**10,951 8**	9,987 2
Other	**5,417.3**	4,160 9	**5,409.3**	4,130 9
Total	**66,818.9**	57,255 5	**66,169 4**	57,450 1

For Group, the above table excludes £454 3m cash (2005 £532 4m), £691 8m derivative financial instruments (2005 £570 8m) and £592 0m other non credit risk assets (2005 £623 3m)

For Company, the above table excludes £44 2m cash (2005 £51 8m), £720 0m derivative financial instruments (2005 £656 5m) and £468 0m other non credit risk assets (2005 £426 0m)

(ii) Interest rate repricing table

The following tables provide a summary of the interest rate repricing profile of the Group and Company assets and liabilities as at 31 December 2006 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 Financial assets and liabilities with a floating rate are exposed to cash flow interest rate risk, and this risk is reflected predominantly in the time bands below twelve months Financial assets and liabilities with a fixed rate are exposed to fair value interest rate risk, which is reflected predominantly in the time bands beyond twelve months Financial assets and liabilities not directly exposed to interest rate risk will appear in the non-interest bearing time band 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

Group 2006	0 month to 1 month £m	1 month to 3 months £m	3 months to 12 months £m	1 to 2 Years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	Over 5 years £m	Non interest bearing liabilities and trading book £m	Group Total £m
Assets										
Treasury bills and other eligible liabilities	-	-	-	-	-	-	-	-	-	-
Due from banks	4,171	247	175	-	-	-	-	-	580	5,173
Loans and advances to customers	21,462	1,304	7,542	8,731	3,212	3,141	1,924	1,107	(145)	48,278
Investment securities and trading securities	5,095	6,265	526	2	2	3	3	76	1,552	13,524
Other assets	76	18	41	58	41	24	14	24	1,286	1,582
Total assets	**30,804**	**7,834**	**8,284**	**8,791**	**3,255**	**3,168**	**1,941**	**1,207**	**3,273**	**68,557**
Liabilities										
Due to other banks	3,401	3,280	1,341	-	-	3	-	-	605	8,630
Due to customers	21,249	1,627	2,056	180	86	(2)	3	72	4,288	29,559
Debt securities in issue	6,972	11,322	5,659	633	12	164	550	101	2	25,415
Other liabilities	38	-	-	-	-	-	-	-	1,646	1,684
Innovative tier 1, preference shares and other borrowed funds	68	228	-	75	-	-	-	894	36	1,301
Shareholders' funds	-	-	-	-	-	-	-	-	1,968	1,968
Total liabilities	**31,728**	**16,457**	**9,056**	**888**	**98**	**165**	**553**	**1,067**	**8,545**	**68,557**
Off balance sheet items	1,233	7,149	1,641	(7,372)	(2,074)	(1,169)	255	337	-	-
Interest rate sensitivity gap	309	(1,474)	869	531	1,083	1,834	1,643	477	(5,272)	-
Cumulative gap at 31 December 2006	**309**	**(1,165)**	**(296)**	**235**	**1,318**	**3,152**	**4,795**	**5,272**	**-**	**-**

Group 2005	0 month to 1 month £m	1 month to 3 months £m	3 months to 12 months £m	1 to 2 Years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	Over 5 years £m	Non-interest bearing liabilities and trading book £m	Group Total £m
Assets										
Treasury bills and other eligible liabilities	–	17	–	–	–	–	–	–	–	17
Due from banks	3,147	327	10	–	–	–	–	–	745	4,229
Loans and advances to customers	22,389	1,243	3,329	7,376	2,649	1,602	2,795	1,032	(175)	42,240
Investment securities and trading securities	4,037	5,774	614	172	1	1	1	41	307	10,948
Other assets	187	18	62	60	48	28	16	25	1,104	1,548
Total assets	29,760	7,379	4,015	7,608	2,698	1,631	2,812	1,098	1,981	58,982
Liabilities										
Due to other banks	2,204	2,634	1,479	–	–	–	–	–	250	6,567
Due to customers	19,347	1,695	1,631	190	52	33	(2)	74	3,418	26,438
Debt securities in issue	5,610	11,078	3,451	501	489	10	162	104	–	21,405
Other liabilities	38	31	1	–	–	–	–	–	1,351	1,421
Innovative tier 1 and other borrowed funds	69	241	200	–	75	–	–	600	65	1,250
Shareholders' funds	–	–	–	–	–	–	–	–	1,901	1,901
Total liabilities	27,268	15,679	6,762	691	616	43	160	778	6,985	58,982
Off balance sheet items	548	4,892	2,641	(6,289)	(1,318)	(392)	(921)	839	–	–
Interest rate sensitivity gap	3,040	(3,408)	(106)	628	764	1,196	1,731	1,159	(5,004)	–
Cumulative gap at 31 December 2005	3,040	(368)	(474)	154	918	2,114	3,845	5,004	–	–

Company 2006	0 month to 1 month £m	1 month to 3 months £m	3 months to 12 months £m	1 to 2 Years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	Over 5 years £m	Non-interest bearing liabilities and trading book £m	Company Total £m
Assets										
Treasury bills and other eligible liabilities	–	–	–	–	–	–	–	–	–	–
Due from banks	5,850	898	379	–	–	–	–	–	–	7,127
Loans and advances to customers	23,946	958	6,852	7,469	2,293	2,571	1,608	10	–	45,707
Investment securities and trading securities	4,474	6,260	524	–	–	–	–	20	1,148	12,426
Other assets	–	–	–	–	–	–	–	–	2,142	2,142
Total assets	**34,270**	**8,116**	**7,755**	**7,469**	**2,293**	**2,571**	**1,608**	**30**	**3,290**	**67,402**
Liabilities										
Due to other banks	9,228	3,315	1,556	–	–	3	–	–	41	14,143
Due to customers	18,193	1,584	1,805	180	86	(3)	(3)	72	2,576	24,490
Debt securities in issue	6,574	11,322	3,130	633	12	164	550	101	–	22,486
Other liabilities	2,500	–	–	–	–	–	–	–	1,370	3,870
Innovative tier 1, preference shares and other borrowed funds	68	228	–	75	–	–	–	894	36	1,301
Shareholders' funds	–	–	–	–	–	–	–	–	1,112	1,112
Total liabilities	**36,563**	**16,449**	**6,491**	**888**	**98**	**164**	**547**	**1,067**	**5,135**	**67,402**
Off balance sheet items	(3,440)	7,039	2,664	(6,023)	(1,396)	(816)	472	1,500	–	–
Interest rate sensitivity gap	**(5,733)**	**(1,294)**	**3,928**	**558**	**799**	**1,591**	**1,533**	**463**	**(1,845)**	**–**
Cumulative gap at 31 December 2006	**(5,733)**	**(7,027)**	**(3,099)**	**(2,541)**	**(1,742)**	**(151)**	**1,382**	**1,845**	**–**	**–**

Notes to the Accounts continued

3 Risk management disclosures continued

Company 2005	0 month to 1 month £m	1 month to 3 months £m	3 months to 12 months £m	1 to 2 Years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	Over 5 years £m	Non interest bearing liabilities and trading book £m	Company Total £m
Assets										
Treasury bills and other eligible liabilities	–	17	–	–	–	–	–	–	–	17
Due from banks	4,478	814	273	–	–	–	–	–	1	5,566
Loans and advances to customers	25,655	987	2,297	6,168	1,728	1,022	2,523	87	(20)	40,447
Investment securities and trading securities	3,881	5,773	606	172	–	–	–	20	306	10,758
Other assets	–	–	–	–	–	–	–	–	1,796	1,796
Total assets	34,014	7,591	3,176	6,340	1,728	1,022	2,523	107	2,083	58,584
Liabilities										
Due to other banks	6,839	2,679	1,478	–	–	–	–	–	–	10,996
Due to customers	17,139	1,675	1,444	189	52	32	(3)	68	1,986	22,582
Debt securities in issue	5,609	11,000	3,451	501	489	10	162	104	–	21,326
Other liabilities	–	–	–	–	–	–	–	–	1,231	1,231
Innovative tier 1 and other borrowed funds	69	241	200	–	75	–	–	600	65	1,250
Shareholders' funds	–	–	–	–	–	–	–	–	1,199	1,199
Total liabilities	29,656	15,595	6,573	690	616	42	159	772	4,481	58,584
Off balance sheet items	(3,754)	4,611	3,798	(5,001)	(661)	(74)	(734)	1,815	–	–
Interest rate sensitivity gap	604	(3,393)	401	649	451	906	1,630	1,150	(2,398)	–
Cumulative gap at 31 December 2005	604	(2,789)	(2,388)	(1,739)	(1,288)	(382)	1,248	2,398	–	–

(iii) Trading book

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 2006, with all other variables remaining constant

	Group and Company 2006 £m	2005 £m
Highest exposure	**1.0**	0 9
Lowest exposure	**0.3**	0 3
Average exposure	**0.6**	0 4
Exposure as at 31 December	**0.8**	0 4

(iv) Liquidity maturity tables

The tables below analyse the Group and Company assets and liabilities into relevant maturity groupings based on the remaining period to contractual maturity at the balance sheet date

Group 2006	Repayable on demand £m	Less than 3 months £m	3 months to 12 months £m	1 to 5 years £m	Over 5 years £m	Group Total £m
Assets						
Cash and balances with central banks	2,224 0	–	–	–	–	2,224 0
Treasury bills and other eligible liabilities	–	–	–	–	–	–
Due from other banks	398 6	2,549 8	0 3	–	–	2,948 7
Trading securities	–	13 7	49 4	194 8	895 0	1,152 9
Derivative financial instruments	–	153 1	145 4	286 6	106 7	691 8
Loans and advances to customers	252 1	871 0	1,205 4	4,790 7	39,231 5	46,350 7
Net investment in finance leases and hire purchase contracts	–	86 8	195 1	517 4	1,127 6	1,926 9
Investment securities						
– available-for-sale	–	486 9	1,012 3	6,738 6	2,245 0	10,482 8
– held-to-maturity	–	0 1	–	143 5	221 1	364 7
– loans and receivables	–	150 3	–	–	–	150 3
– at fair value through profit or loss	–	1,012 2	272 3	–	88 8	1,373 3
Other assets	215 4	82 6	124 3	261 1	207 5	890 9
Total assets	**3,090.1**	**5,406 5**	**3,004.5**	**12,932 7**	**44,123.2**	**68,557.0**
Liabilities						
Due to other banks	688 7	6,362 1	1,573 9	4 9	–	8,629 6
Derivative financial instruments	–	88 4	141 2	345 0	100 8	675 4
Due to customers	23,273 4	3 909 7	1,963 9	265 8	146 6	29,559 4
Debt securities in issue	0 8	8,283 7	4,643 4	8,237 9	4,249 6	25,415 4
Other borrowed funds	–	11 3	19 0	73 8	592 6	696 7
Other liabilities	220 5	200 3	47 0	384 9	155 0	1,007 7
Total liabilities	**24,183.4**	**18,855 5**	**8,388 4**	**9,312.3**	**5,244 6**	**65,984.2**
Net liquidity gap at 31 December 2006	**(21,093 3)**	**(13,449.0)**	**(5,383.9)**	**3,620.4**	**38,878 6**	**2,572.8**

Group 2005	Repayable on demand £m	Less than 3 months £m	3 months to 12 months £m	1 to 5 years £m	Over 5 years £m	Group Total £m
Assets						
Cash and balances with central banks	1,704 6	–	–	–	–	1,704 6
Treasury bills and other eligible liabilities	–	17 1	–	–	–	17 1
Due from other banks	339 1	2,179 6	5 8	–	–	2,524 5
Trading securities	–	–	11 6	240 6	54 1	306 3
Derivative financial instruments	–	119 2	90 1	234 0	127 5	570 8
Loans and advances to customers	238 4	837 3	1,055 4	4,095 7	33,867 0	40,093 8
Net investment in finance leases and hire purchase contracts	0 1	93 0	185 5	551 3	1,316 4	2,146 3
Investment securities						
– available-for-sale	0 2	874 5	1,374 7	5,291 3	2,277 1	9,817 8
– held-to-maturity	–	0 1	–	87 8	254 6	342 5
– loans and receivables	–	150 3	–	–	–	150 3
– at fair value through profit or loss	–	–	53 3	180 4	97 3	331 0
Other assets	227 9	125 4	80 3	305 2	238 2	977 0
Total assets	2,510 3	4,396 5	2,856 7	10,986 3	38,232 2	58,982 0
Liabilities						
Due to other banks	370 7	4,710 9	1,483 4	–	1 6	6,566 6
Derivative financial instruments	–	50 8	98 3	190 2	71 1	410 4
Due to customers	21,764 7	2,583 7	1,707 6	210 6	171 2	26,437 8
Debt securities in issue	0 7	7,633 9	4,687 2	8,191 4	892 1	21,405 3
Other borrowed funds	0 1	–	207 5	86 4	645 1	939 1
Other liabilities	345 8	98 0	103 7	62 9	400 7	1,011 1
Total liabilities	22,482 0	15,077 3	8,287 7	8,741 5	2,181 8	56,770 3
Net liquidity gap at 31 December 2005	(19,971 7)	(10,680 8)	(5,431 0)	2,244 8	36,050 4	2,211 7

3 Risk management disclosures continued

Company 2006	Repayable on demand £m	Less than 3 months £m	3 months to 12 months £m	1 to 5 years £m	Over 5 years £m	Company Total £m
Assets						
Cash and balances with central banks	1,811 2	–	–	–	–	1,811 2
Treasury bills and other eligible liabilities	–	–	–	–	–	–
Due from other banks	262 9	4,471 1	366 9	10 7	203 7	5,315 3
Trading securities	–	13 7	49 4	194 8	895 0	1,152 9
Derivative financial instruments	–	153 2	146 1	272 4	148 3	720 0
Loans and advances to customers	3,666 1	3,186 7	876 6	1,048 2	36,929 2	45,706 8
Investment securities						
– available-for-sale	–	486 9	1,012 3	6,734 8	2,155 9	10,389 9
– held-to-maturity	–	0 1	–	143 5	221 1	364 7
– loans and receivables	–	–	–	–	–	–
– at fair value through profit or loss	–	157 3	272 3	–	88 8	518 4
Other assets	176 7	13 9	26 7	1,134 2	70 9	1,422 4
Total assets	**5,916 9**	**8,482.9**	**2,750.3**	**9,538 6**	**40,712.9**	**67,401 6**
Liabilities						
Due to other banks	1,909 8	10,652 0	1,576 2	4 9	–	14,142 9
Derivative financial instruments	–	87 4	145 9	369 3	126 9	729 5
Due to customers	19,576 7	2,778 2	1,726 3	258 3	150 4	24,489 9
Debt securities in issue	–	8,283 4	4,643 1	8,235 1	1,324 0	22,485 6
Other borrowed funds	–	–	–	82 9	613 8	696 7
Other liabilities	172 8	134 6	4 1	137 3	2,691 2	3,140 0
Total liabilities	**21,659.3**	**21,935.6**	**8,095 6**	**9,087 8**	**4,906 3**	**65,684.6**
Net liquidity gap at 31 December 2006	**(15,742.4)**	**(13,452.7)**	**(5,345 3)**	**450 8**	**35,806 6**	**1,717.0**

Company 2005	Repayable on demand £m	Less than 3 months £m	3 months to 12 months £m	1 to 5 years £m	Over 5 years £m	Company Total £m
Assets						
Cash and balances with central banks	1,221 9	–	–	–	–	1,221 9
Treasury bills and other eligible liabilities	–	17 1	–	–	–	17 1
Due from other banks	194 8	3,664 0	266 3	13 8	205 3	4,344 2
Trading securities	–	–	11 8	240 6	54 1	306 5
Derivative financial instruments	–	119 7	90 6	252 4	193 8	656 5
Loans and advances to customers	3,978 1	2,839 1	608 6	965 8	32,055 5	40,447 1
Investment securities						
– available-for-sale	0 1	874 5	1,365 7	5,290 8	2,263 1	9,794 2
– held-to-maturity	–	0 1	–	87 8	254 6	342 5
– loans and receivables	–	–	–	–	–	–
– at fair value through profit or loss	–	–	53 4	180 4	81 0	314 8
Other assets	171 4	5 8	(3 5)	870 7	95 2	1,139 6
Total assets	5,566 3	7,520 3	2,392 9	7,902 3	35,202 6	58,584 4
Liabilities						
Due to other banks	1,282 6	8,227 6	1,484 4	–	1 6	10,996 2
Derivative financial instruments	–	52 0	99 4	194 0	76 2	421 6
Due to customers	18,033 6	2,668 7	1,526 4	188 5	165 2	22,582 4
Debt securities in issue	–	7,617 9	4,687 1	8,187 7	833 2	21,325 9
Other borrowed funds	0 1	–	207 5	86 4	645 1	939 1
Other liabilities	503 7	11 4	17 9	25 9	251 2	810 1
Total liabilities	19,820 0	18,577 6	8,022 7	8,682 5	1,972 5	57,075 3
Net liquidity gap at 31 December 2005	(14,253 7)	(11,057 3)	(5,629 8)	(780 2)	33,230 1	1,509 1

(v) Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values as at 31 December 2006 of those financial assets and liabilities not presented on the Group and Company balance sheets at their fair value

	Group 2006		Group 2005		Company 2006		Company 2005	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m	**Carrying value £m**	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets								
Due from other banks	**2,948.7**	**2,948 5**	2,524 5	2,524 5	**5,315 3**	**5,315 1**	4,344 2	4,344 2
Loans and advances to customers	**46,350.7**	**46,104.9**	40,093 8	40,212 0	**45,706 8**	**45,504 1**	40,447 1	40 509 9
Net investment in finance leases and hire purchase contracts	**1,926 9**	**1,922 4**	2,146 4	2,149 1	**-**	**-**	-	-
Investment securities held-to-maturity	**364.7**	**365 2**	342 5	342 5	**364 7**	**365.2**	342 5	342 5
Investment securities loans and receivables	**150 3**	**150 3**	150 3	150 3	**-**	**-**	-	-
Financial liabilities								
Due to other banks[1]	**6,623.6**	**6,625.9**	5,533 2	5,532 1	**12,136.9**	**12,139.2**	9,962 8	9,961 7
Due to customers[2]	**28,395.7**	**28,394.3**	25,616 9	25,618 6	**23,326 2**	**23,324 4**	21,761 5	21,763 1
Debt securities in issue[3]	**19,684.8**	**19,683.4**	14,865 2	14,871 9	**16,755.0**	**16,753 6**	14,785 8	14,792 5
Other borrowed funds	**696 7**	**696 7**	939 1	939 1	**696 7**	**696 7**	939 1	939 1

Notes
1 Excludes £2,006 0m (2005 £1 033 4m) designated as at fair value through profit or loss
1 Excludes £1,163 7m (2005 £820 9m) designated as at fair value through profit or loss
2 Excludes £5 730 6m (2005 £6 540 1m) designated as at fair value through profit or loss

Due from and to other banks

The fair value of floating rate and overnight deposits is approximately equal to their carrying amount The estimated fair value of fixed rate loans and deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity

Loans and advances to customers and due to customers

Floating rate loans and advances and deposits are recorded in the balance sheet using the Effective Interest Rate (EIR) method, less provisions for impairment This value is considered to be a good approximation for fair value For fixed rate loans and advances and deposits the fair value is calculated by discounting expected future cash flows on the instruments at current market interest rates

Net investment in finance leases and hire purchase contracts

The fair value of floating rate assets is approximately equal to their carrying amount The estimated fair value of fixed rate assets is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity

Investment securities, debt securities in issue, and other borrowed funds

Fair values are based on quoted market prices For instruments where quoted market prices are not available, the market price is based on discounted cash flows using interest rates for securities with similar credit, maturity and yield characteristics

4 Critical accounting estimates and areas of significant management judgement

Some asset and liability amounts reported in the accounts are based on management judgements, estimates and assumptions There is therefore a risk of significant changes to the carrying amounts for these assets and liabilities within the next financial year

Impairment provisions

The level of potential credit losses is uncertain and depends on a number of factors such as unemployment levels, interest rates, house price levels and other general economic conditions The Group bases impairment provisions on estimates based on historical loss experience Actual cash flows on financial assets may differ from management judgements and estimates, resulting in an increase or decrease in impairment charges and provisions These models used in calculating the impairment provisions do not contain judgemental inputs, but judgement and knowledge is needed in selecting the statistical methods to use when the models are developed or revised

To the extent that actual losses incurred differ from that estimated by +/-10%, the impairment provisions on loans and advances would change by an estimated £13 5m higher or £13 4m lower respectively

Effective interest rate calculations

IAS 39 requires certain financial assets and liabilities to be held at amortised cost, with income recognised using the EIR methodology In order to calculate EIR, it is necessary to estimate the level of repayments that will be made before the contractual due date For residential mortgages the estimated level and timing of redemptions is critical to the EIR calculation If customers leave earlier than anticipated, this will generally lead to a reduction in the balance sheet carrying value, and a corresponding charge to the income statement.

If our view of expected average product lives was to fall by one month, consistently across all product categories, this would lead to a fall in the carrying value of mortgage balances of £15 6m Conversely an increase in expected average product lives of one month would lead to an increase in the carrying value of mortgage balances of £15 5m

Retirement benefit obligations

The income statement cost and balance sheet liability of the defined benefit pension scheme and post-retirement medical benefits are assessed in accordance with the advice of a qualified actuary Assumptions are made for inflation, the rate of increase in salaries and pensions, the rate used to discount scheme liabilities, the expected return on scheme assets and mortality rates Changes to any of these assumptions could have a significant impact on the balance sheet liabilities, and to a lesser extent the income statement costs Further information is available in Note 33

Notes to the Accounts continued

4 Critical accounting estimates and areas of significant management judgement continued

Valuation of financial instruments

The values of financial instruments that are classified at fair value through profit or loss (including those held for trading purposes), available-for-sale, and all derivatives are stated at fair value Fair values are calculated using valuation techniques, including discounted cash flow models, where market values are not available Changes in assumptions used in the models could affect the reported fair value of financial instruments

5 Segmental reporting

The business is comprised of three sectors

- Retail Banking
  This comprises the 'Core 4' products of mortgages, personal loans, current accounts and savings and the 'Partner 4' products of credit cards, life assurance, general insurance and long term investments
- Commercial Banking
  This comprises the four core business lines of money transmission, lending, business banking and treasury
- Group Items
  This includes corporate overheads, and capital not allocated to business units

Transactions between the sectors are on normal commercial terms and conditions Internal charges and transfer pricing adjustments, based on the usage of central functions, have been reflected in the performance of each sector

Capital was allocated to the business sectors on the basis of 5 75% equity tier 1, 0 75% preference shares, 0 75% innovative tier 1 and 2 25% subordinated debt In 2005 capital was allocated on the basis of 6 5% equity tier 1, 0 75% innovative tier 1 and 2 25% subordinated debt.

No geographical analysis is presented because substantially all of the Group's activities are in the UK A more detailed breakdown of sector results is given within the unaudited Financial Review on pages 16-24

Year ended 31 December 2006	Retail Banking £m	Commercial Banking £m	Group Items £m	Group £m
Net interest income	1,389.1	(562 8)	(45.7)	780.6
Non-interest income	290 9	392.6	3.5	687.0
External revenues	1,680.0	(170.2)	(42.2)	1,467.6
Revenues from other segments	(768 5)	722.7	45.8	-
Total revenues	911 5	552.5	3 6	1,467 6
Segment result	445 0	162.2	(21.7)	585 5
Fair value accounting volatility				7 6
Redundancy costs				(24.2)
Profit before tax				568 9
Tax				(118.8)
Profit after tax				450 1
Profit attributable to				
Innovative tier 1 holders				17 5
Minority interests				0.4
Ordinary shareholders of Alliance & Leicester plc				432.2
Segment assets	42,031 4	26,509.1	16.5	68,557.0
Unallocated assets				-
Total assets				68,557.0
Segment liabilities	23,016 1	41,748.7	736.3	65,501.1
Unallocated liabilities				483.1
Total liabilities				65,984.2
Other segment items				
Capital expenditure	45 0	111.6	-	156 6
Depreciation & amortisation	3 3	94 0	23.2	120.5
Impairment charge	96 5	8.3	-	104 8

Year ended 31 December 2005	Retail Banking £m	Commercial Banking £m	Group Items £m	Group £m
Net interest income	1,162 7	(358 2)	(53 5)	751 0
Non-interest income	272 1	364 4	0 4	636 9
External revenues	1,434 8	6 2	(53 1)	1,387 9
Revenues from other segments	(547 8)	494 1	53 7	-
Total revenues	887 0	500 3	0 6	1,387 9
Segment result	438 5	132 0	(22 4)	548 1
Fair value accounting volatility				(1 0)
Profit before tax				547 1
Tax				(140 2)
Profit after tax				406 9
Profit attributable to				
Innovative tier 1 holders				17 5
Ordinary shareholders of Alliance & Leicester plc				389 4
Segment assets	36,994 8	21,910 0	18 0	58,922 8
Unallocated assets				59 2
Total assets				58,982 0
Segment liabilities	20,946 3	34,413 2	956 2	56,315 7
Unallocated liabilities				454 6
Total liabilities				56,770 3
Other segment items				
Capital expenditure	25 9	121 2	-	147 1
Depreciation & amortisation	1 4	82 9	20 9	105 2
Impairment charge	69 8	4 1	-	73 9

6 Net interest income

	2006 £m	2005 £m
Interest receivable on debt securities		
Income from listed investments	**366 6**	272 6
Income from unlisted investments	**109 1**	91 7
Other interest receivable	**2,639.5**	2,211 8
Total interest receivable	**3,115.2**	2,576 1
Interest payable		
Forward exchange losses on foreign exchange derivatives	**(8 1)**	(16 7)
Other interest payable	**(2,326.5)**	(1,808 4)
Total interest payable	**(2,334 6)**	(1,825 1)
Total	**780 6**	751 0

7 Fair value accounting volatility

The fair value accounting volatility gain of £7 6m (2005 £1 0m loss) represents the net fair value gain on derivative instruments that are matching risk exposure on an economic basis Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items The gain is primarily due to timing differences in income recognition between the derivative instruments and the economically hedged assets and liabilities

Notes to the Accounts continued

8 Other operating income

	2006 £m	2005 £m
Income from operating leases	100.0	98 9
Excess on sale of credit cards to MBNA[1]	27.0	33 6
Dealing profits	2.1	3 6
Sale of commercial customer leases	32 4	5 6
Pension income		
Expected return on Scheme assets less interest costs on Scheme liabilities	7 8	3 4
Other	20.9	15 4
Total	**190.2**	160 5

Note
1 On August 2002 the Group sold its credit card accounts to MBNA for an excess of £230m over the outstanding asset balances This is being recognised over the initial seven years of the partnership entered into with MBNA in accordance with the terms of the agreements and licences The amount of the excess recognised, in line with these agreements is expected to be £20m in 2007 and £16m in 2008 The unrecognised amount is included within 'Accruals and deferred income' on the Consolidated Balance Sheet.

9 Administrative expenses

	2006 £m	2005 £m
Staff costs		
Wages and salaries	213.7	210 8
Social security costs	20 3	20 5
Other pension costs	27 1	23 4
Total staff costs	**261.1**	254 7
Core administrative expenses	395 7	406 0
Redundancy costs	24 2	–
	419.9	406 0
Total	**681 0**	660 7

During the year the Company incurred £154 3m (2005 £154 4m) in wages and salaries costs, £14 4m (2005 £14 9m) in social security costs and £18 8m (2005 £16 5m) in other pension costs

The remuneration of the auditors, Deloitte & Touche LLP, is set out below

	Group & Company 2006 £m	2005 £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts	0 4	0 5
Fees payable to the Company's auditors and their associates for other services to the Group		
Audit of the Company's subsidiaries pursuant to legislation	0.3	0 3
	0 7	0 8
Tax services	2 3	0 2
Recruitment and remuneration	0.1	0 1
Other services	0 4	0 3
Total	3 5	1 4

The above figures exclude VAT The audit fee for subsidiary companies is included in 'Audit of the Company's subsidiaries pursuant to legislation'

Tax services include a fee in 2006 for taxation advice regarding the sale of the credit card business

Fees payable to Deloitte & Touche LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis

10 Staff numbers

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

	Full time		Part time		Full time equivalent	
	2006	2005	2006	2005	2006	2005
Total	**5,946**	5,925	**2,369**	2,572	**7,279**	7,296

The Company had an average of 3,980 (2005 3,718) full time employees and 1,787 (2005 1,906) part time employees during 2006

The number of persons (full time equivalent) employed by the Group as at 31 December was as follows

	Full time equivalent 2006	2005
Total	**7,149**	7,450

11 Impairment losses on loans and advances

	Mortgages £m	Personal loans and current accounts £m	Commercial Banking £m	Total £m
Group				
At 1 January 2006				
Individual	2 6	-	8 6	11 2
Collective	13 8	134 0	7 1	154 9
Total	16 4	134 0	15 7	166 1
Charge for the year				
(Decrease)/increase in provisions	(2 9)	114 3	9 1	120 5
Recoveries of amounts previously written off	(0 8)	(14 1)	(0 8)	(15 7)
Total	(3 7)	100 2	8 3	104 8
Amounts written back/(off) in year	0 7	(97 7)	(5 6)	(102 6)
At 31 December 2006				
Individual	**2 0**	**-**	**8 6**	**10 6**
Collective	**11.4**	**136.5**	**9 8**	**157.7**
Total	**13.4**	**136.5**	**18.4**	**168.3**
Company				
At 1 January 2006				
Individual	2 6	-	-	2 6
Collective	13 8	8 9	-	22 7
Total	16 4	8 9	-	25 3
Charge for the year				
(Decrease)/increase in provisions	(2 9)	11 0	-	8 1
Recoveries of amounts previously written off	(0 8)	(0 4)	-	(1 2)
Total	(3 7)	10 6	-	6 9
Amounts written back/(off) in year	0 7	(9 4)	-	(8 7)
At 31 December 2006				
Individual	**2.0**	**-**	**-**	**2 0**
Collective	**11.4**	**10.1**	**-**	**21 5**
Total	**13.4**	**10 1**	**-**	**23.5**

The provisions are set against the following balances

	Group 2006 £m	Company 2006 £m
Loans and advances to customers	**163 3**	**23 5**
Net investment in finance leases and hire purchase contracts	**5 0**	**-**
Total	**168 3**	**23 5**

12 Corporation tax expense

	2006 £m	2005 £m
Current tax		
Current year corporation tax expense	**77.4**	75 0
Adjustment to corporation tax in relation to prior years – disposal of credit card accounts to MBNA	**(29.7)**	-
Adjustment to corporation tax in relation to prior years – other	**0.7**	(18 7)
Overseas tax	**1 2**	2 1
	49 6	58 4
Deferred tax		
Current year deferred tax expense	**65 6**	77 5
Adjustment to deferred tax in relation to prior years	**3 6**	4 3
	69 2	81 8
Total	**118.8**	140 2

Notes to the Accounts continued

12 Corporation tax expense continued

The corporation tax expense for the year of £118 8m (2005 £140 2m) represents 20 9% of profit before tax (2005 25 6%)

During this period the Group reached agreement with HM Revenue & Customs regarding the tax treatment of the excess of £230m over the outstanding asset balances received on the disposal of the credit card accounts to MBNA on 1 August 2002 This agreement has resulted in the release of a tax provision of £29 7m

The underlying effective tax rate for 2006 was 27 0% (2005 26 5%) The calculation of the 2006 underlying effective tax rate excludes the release of the tax provision of £29 7m It further excludes the tax charge of £2 3m in respect of the £7 6m fair value accounting volatility gain, the tax credit of £7 3m in respect of the £24 2m of redundancy costs primarily relating to the re-organisation of the Group's current accounts back office operations, and takes into consideration, in calculating underlying profits, the appropriation of profit of £17 5m in respect of our innovative tier 1 capital securities The 2005 underlying effective tax rate excludes a tax credit of £0 3m in respect of the £1 0m fair value accounting volatility loss and takes into consideration, in calculating underlying profits, the appropriation of profit of £17 5m in respect of our innovative tier 1 capital securities

Further information about deferred tax is presented in Note 31 on page 81

The Group expects to maintain an underlying effective tax rate around that achieved in 2006

The effective rate of tax for the year of 20 9% is lower than the standard rate of corporation tax in the UK of 30%, where the Group generates substantially all its profits The differences are explained below

	2006 £m	2005 £m
Profit before tax	**568 9**	547 1
Tax calculated at a tax rate of 30% (2005 30%)	**170 7**	164 1
Effect of different tax rates in other countries	**(3.0)**	(4 0)
Non-taxable income and disallowable expenses	**(14.7)**	(0 3)
Tax relief in respect of innovative tier 1	**(5.2)**	(5 2)
Adjustment to tax expense in relation to prior years – disposal of credit card accounts to MBNA	**(29.7)**	–
Adjustment to tax expense in relation to prior years	**0.7**	(14 4)
Corporation tax expense	**118.8**	140 2

13 Earnings per share

Basic earnings per ordinary share are calculated by dividing the Group profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year Basic statutory earnings per ordinary share of 96 4p (2005 86 9p) are calculated by dividing the Group profit attributable to ordinary shareholders of £432 2m (2005 £389 4m) by the weighted average number of ordinary shares in issue and ranking for dividend of 448 4m (2005 448 0m)

Underlying basic earnings per ordinary share were 92 4p (2005 87 1p) These are provided to disclose the trend in earnings excluding the distorting effect of non-operating items They are based on the same number of ordinary shares and the core profit after tax for the year after excluding the redundancy costs in 2006, impacts arising from fair value accounting volatility, less the associated tax charges and the release of the tax provision relating to the sale of the credit card accounts as shown below If the release of the tax provision is included within core profit after tax then earnings per ordinary share are 99 0p

	2006 £m	2005 £m
Profit attributable to ordinary shareholders for the year as reported	**432.2**	389 4
Adjusted for		
Redundancy costs	**24.2**	–
Less associated tax credit	**(7 3)**	–
Release of tax provision	**(29 7)**	–
(Gains)/losses from fair value accounting volatility	**(7 6)**	1 0
Less associated tax charge/(credit)	**2.3**	(0 3)
Core profit after tax for the year	**414 1**	390 1

The diluted earnings per ordinary share of 95 9p (2005 86 5p) are based on the total dilutive potential shares, as detailed below, and the Group profit attributable to ordinary shareholders The total dilutive potential shares are the weighted average number of ordinary shares, together with all weighted average dilutive financial instruments or rights that may entitle the holder to ordinary shares

The total number of shares in issue at 31 December 2006 was 438m (2005 449m)

	2006 number m	2005 number m
Weighted average number of ordinary shares in issue	**448.4**	448 0
Weighted average diluted options outstanding	**2 3**	2 2
Total	**450 7**	450 2

Underlying diluted earnings per ordinary share of 91 9p (2005 86 7p) are based on core profit after tax and total dilutive potential shares, as set out above

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

£275 8m (2005 £231 5m) 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 Income Statement for Alliance & Leicester plc has not been presented separately

Statutory Accounts

15 Cash and balances with central banks

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Cash in hand	**454 3**	532 4	**44.2**	51 8
Balances with central banks other than mandatory reserve deposits	**245 7**	0 4	**245.7**	–
Mandatory reserve deposits with central banks	**1,524 0**	1,171 8	**1,521.3**	1,170 1
Included in cash and cash equivalents	**2,224 0**	1,704 6	**1,811 2**	1,221 9

Included within Mandatory reserve deposits with central banks is a deposit of £59 0m (2005 £51 8m) with the Bank of England that is not available for use by the Group The Bank of England has agreed that the Group may collateralise exposures arising from the Notes Circulation Scheme with cash collateral by maintaining a cash deposit with the Bank of England This amounted to £1,465m at 31 December 2006 (2005 £1,120m)

16 Due from other banks

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Amounts due from subsidiary undertakings	**–**	–	**2,545 1**	2,041 8
Items in course of collection from other banks	**165 6**	211 5	**–**	–
Placements with other banks	**2,783.1**	2,313 0	**2,770 2**	2,302 4
Total	**2,948.7**	2,524 5	**5,315 3**	4,344 2

17 Trading securities

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Floating rate notes	**241.5**	235 0	**241 5**	235 0
Asset-backed securities	**911 4**	71 3	**911 4**	71 5
Total	**1,152.9**	306 3	**1,152.9**	306 5

18 Derivative financial instruments

The Group utilises the following derivative instruments for both hedging and non-hedging purposes

	Group 2006 Contract or underlying principal amount £m	Group 2006 Fair values Assets £m	Group 2006 Fair values Liabilities £m	Company 2006 Contract or underlying principal amount £m	Company 2006 Fair values Assets £m	Company 2006 Fair values Liabilities £m
Derivatives not hedge accounted						
Foreign exchange derivatives						
Currency forwards	2,746 4	–	(38 4)	2,794 4	–	(38 4)
Cross currency swaps	5,369 5	25 9	(369 7)	5,369 5	25 9	(342 0)
Total	8,115 9	25 9	(408 1)	8,163 9	25 9	(380 4)
Interest rate derivatives						
Interest rate swaps	41,215 5	76 7	(73 8)	56,973 2	159 0	(204 4)
Forward rate agreements	200 0	0 1	-	200 0	0 1	-
Caps, collars and floors	150 0	–	(1 1)	152 4	–	(1 1)
Futures	345 5	–	-	345 5	-	-
Total	41,911 0	76 8	(74 9)	57,671 1	159 1	(205 5)
Total derivative assets/(liabilities) not hedge accounted	**50,026.9**	**102.7**	**(483.0)**	**65,835 0**	**185.0**	**(585 9)**
Derivatives held for hedging						
Derivatives designated as fair value hedges						
Cross currency swaps	168 5	–	(6 5)	168 5	–	(6 5)
Interest rate swaps	24,782 2	227 3	(54 6)	16,246 8	152 9	(0 4)
Total	24,950 7	227 3	(61 1)	16,415 3	152 9	(6 9)
Derivatives designated as cash flow hedges						
Cross currency swaps	–	–	–	–	–	–
Interest rate swaps	6,292 3	11 1	(26 1)	5,874 4	15 1	(25 9)
Total	6,292 3	11 1	(26 1)	5,874 4	15 1	(25 9)
Total derivative assets/(liabilities) held for hedging	**31,243 0**	**238 4**	**(87 2)**	**22,289 7**	**168 0**	**(32 8)**
Total derivative assets/(liabilities)	**81,269 9**	**341.1**	**(570 2)**	**88,124 7**	**353.0**	**(618 7)**
Accrued interest	**-**	**350.7**	**(105.2)**	**-**	**367 0**	**(110 8)**
Total	**81,269 9**	**691.8**	**(675 4)**	**88,124 7**	**720 0**	**(729 5)**

Notes to the Accounts continued

18 Derivative financial instruments continued

	Group 2005			Company 2005		
	Contract or underlying principal amount £m	Fair values Assets £m	Fair values Liabilities £m	Contract or underlying principal amount £m	Fair values Assets £m	Fair values Liabilities £m
Derivatives not hedge accounted:						
Foreign exchange derivatives						
Currency forwards	2,899 4	53 1	(0 4)	2,922 3	53 4	(1 1)
Cross currency swaps	4,302 0	132 5	(136 4)	4,302 0	132 5	(136 4)
Total	7,201 4	185 6	(136 8)	7,224 3	185 9	(137 5)
Interest rate derivatives						
Interest rate swaps	35,750 9	22 7	(42 1)	48,508 8	108 0	(120 7)
Forward rate agreements	1,571 2	0 2	(0 2)	1,571 2	0 2	(0 2)
Caps, collars and floors	6 4	–	–	12 8	–	–
Futures	254 5	–	–	254 5	–	–
Total	37,583 0	22 9	(42 3)	50,347 3	108 2	(120 9)
Total derivative assets/(liabilities) not hedge accounted	44,784 4	208 5	(179 1)	57,571 6	294 1	(258 4)
Derivatives held for hedging						
Derivatives designated as fair value hedges						
Cross currency swaps	35 3	–	(0 7)	35 3	–	(0 7)
Interest rate swaps	18,202 4	88 7	(106 9)	10,679 6	68 0	(35 5)
Total	18,237 7	88 7	(107 6)	10,714 9	68 0	(36 2)
Derivatives designated as cash flow hedges						
Cross currency swaps	–	–	–	–	–	–
Interest rate swaps	8,369 1	49 7	(7 4)	9,480 1	53 0	(8 2)
Total	8,369 1	49 7	(7 4)	9,480 1	53 0	(8 2)
Total derivative assets/(liabilities) held for hedging	26,606 8	138 4	(115 0)	20,195 0	121 0	(44 4)
Total derivative assets/(liabilities)	71,391 2	346 9	(294 1)	77,766 6	415 1	(302 8)
Accrued interest	–	223 9	(116 3)	–	241 4	(118 8)
Total	71,391 2	570 8	(410 4)	77,766 6	656 5	(421 6)

19 Loans and advances to customers

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Advances secured on residential properties				
Mortgages	**38,013.6**	33,147 9	**37,977 1**	33,090 1
Secured loans	**18.2**	–	**–**	–
Other secured advances	**3,415.2**	2,579 8	**15 2**	89 8
Unsecured loans	**5,067 0**	4,525 2	**287 2**	71 3
Amounts due from subsidiary undertakings	**–**	–	**7,450.8**	7,221 2
Less allowance for losses on loans and advances to customers	**(163.3)**	(159 1)	**(23.5)**	(25 3)
Total	**46,350 7**	40,093 8	**45,706.8**	40,447 1

These balances include £3 0m (2005 £3 2m) in respect of bankruptcy remote Special Purpose Vehicles (SPVs) The SPVs, owned by charitable trusts, are funded by Asset Backed Commercial Paper and invest in 'AAA' rated assets In addition to these loans the Group provides liquidity facilities to the SPVs, amounting to £892m at 31 December 2006 (2005 £1,132m) The SPVs are not consolidated into the Group accounts on the basis that the SPVs are not controlled by the Group and the benefits the Group receives from the SPVs are restricted to interest and fees relating directly to the loans and liquidity facilities provided

Advances of £3,391 5m (2005 £58 2m) have been subject to securitisation (Note 20)

15 Cash and balances with central banks

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Cash in hand	454 3	532 4	44 2	51 8
Balances with central banks other than mandatory reserve deposits	245.7	0 4	245.7	-
Mandatory reserve deposits with central banks	1,524 0	1 171 8	1,521 3	1,170 1
Included in cash and cash equivalents	2,224 0	1 704 6	1,811 2	1,221 9

Included within Mandatory reserve deposits with central banks is a deposit of £59 0m (2005 £51 8m) with the Bank of England that is not available for use by the Group The Bank of England has agreed that the Group may collateralise exposures arising from the Notes Circulation Scheme with cash collateral by maintaining a cash deposit with the Bank of England This amounted to £1,465m at 31 December 2006 (2005 £1,120m)

16 Due from other banks

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Amounts due from subsidiary undertakings	-	-	2,545.1	2,041 8
Items in course of collection from other banks	165 6	211 5	-	-
Placements with other banks	2,783 1	2,313 0	2,770 2	2 302 4
Total	2,948 7	2,524 5	5,315 3	4,344 2

17 Trading securities

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Floating rate notes	241.5	235 0	241 5	235 0
Asset-backed securities	911.4	71 3	911.4	71 5
Total	1,152.9	306 3	1,152 9	306 5

18 Derivative financial instruments

The Group utilises the following derivative instruments for both hedging and non-hedging purposes

	Group 2006 Contract or underlying principal amount £m	Group 2006 Fair values Assets £m	Group 2006 Fair values Liabilities £m	Company 2006 Contract or underlying principal amount £m	Company 2006 Fair values Assets £m	Company 2006 Fair values Liabilities £m
Derivatives not hedge accounted						
Foreign exchange derivatives						
Currency forwards	2,746 4	-	(38 4)	2,794 4	-	(38 4)
Cross currency swaps	5,369 5	25 9	(369 7)	5,369 5	25 9	(342 0)
Total	8,115 9	25 9	(408 1)	8,163 9	25 9	(380 4)
Interest rate derivatives						
Interest rate swaps	41,215 5	76 7	(73 8)	56 973 2	159 0	(204 4)
Forward rate agreements	200 0	0 1	-	200 0	0 1	-
Caps, collars and floors	150 0	-	(1 1)	152 4	-	(1 1)
Futures	345 5	-	-	345 5	-	-
Total	41,911 0	76 8	(74 9)	57,671 1	159 1	(205 5)
Total derivative assets/(liabilities) not hedge accounted	**50,026.9**	**102.7**	**(483 0)**	**65,835 0**	**185.0**	**(585 9)**
Derivatives held for hedging						
Derivatives designated as fair value hedges						
Cross currency swaps	168 5	-	(6 5)	168 5	-	(6 5)
Interest rate swaps	24,782 2	227 3	(54 6)	16,246 8	152 9	(0 4)
Total	24,950 7	227 3	(61 1)	16,415 3	152 9	(6 9)
Derivatives designated as cash flow hedges						
Cross currency swaps	-	-	-	-	-	-
Interest rate swaps	6,292 3	11 1	(26 1)	5,874 4	15 1	(25 9)
Total	6,292 3	11 1	(26 1)	5,874 4	15 1	(25 9)
Total derivative assets/(liabilities) held for hedging	**31,243.0**	**238.4**	**(87 2)**	**22,289 7**	**168.0**	**(32 8)**
Total derivative assets/(liabilities)	**81,269 9**	**341.1**	**(570 2)**	**88,124 7**	**353 0**	**(618 7)**
Accrued interest	**-**	**350 7**	**(105 2)**	**-**	**367.0**	**(110 8)**
Total	**81,269.9**	**691.8**	**(675.4)**	**88,124 7**	**720.0**	**(729.5)**

22 Investment securities

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Available-for-sale				
Investment securities – at fair value				
– Listed	**8,908 9**	7,924 6	**8,816.0**	7,901 0
– Unlisted	**1,573 9**	1 893 2	**1,573.9**	1,893 2
Total	**10,482 8**	9,817 8	**10,389.9**	9,794 2
Held-to-maturity				
Investment securities – at amortised cost				
– Listed	**290 7**	277 8	**290 7**	277 8
– Unlisted	**74.0**	64 7	**74 0**	64 7
Total	**364.7**	342 5	**364.7**	342 5
Loans and receivables				
Investment securities – at amortised cost				
– Listed	**-**	–	**-**	–
– Unlisted	**150 3**	150 3	**-**	–
Total	**150 3**	150 3	**-**	–
At fair value through profit or loss				
– Listed	**1,310 1**	251 0	**455 2**	251 0
– Unlisted	**63.2**	80 0	**63.2**	63 8
Total	**1,373.3**	331 0	**518.4**	314 8
Total investment securities	**12,371.1**	10,641 6	**11,273.0**	10,451 5

The movement in investment securities may be summarised as follows

Group	Available-for sale £m	Held to-maturity £m	Loans and receivables £m	At fair value through profit or loss £m	Total £m
At 1 January 2006	9,817 8	342 5	150 3	331 0	10,641 6
Exchange differences on monetary assets	(422 8)	(44 6)	–	(26 1)	(493 5)
Additions	5,125 5	65 6	–	1,133 8	6,324 9
Disposals (sale and redemption)	(4,049 0)	–	–	(71 6)	(4,120 6)
(Losses)/gains from changes in fair value	(2 6)	–	–	1 2	(1 4)
Movement in accruals	13 7	1 1	–	4 8	19 6
Amortisation of discounts and premiums	0 2	0 1	–	0 2	0 5
At 31 December 2006	**10,482.8**	**364.7**	**150 3**	**1,373.3**	**12,371.1**

Company	Available-for-sale £m	Held-to-maturity £m	Loans and receivables £m	At fair value through profit or loss £m	Total £m
At 1 January 2006	9,794 2	342 5	–	314 8	10,451 5
Exchange differences on monetary assets	(422 6)	(44 6)	–	(26 1)	(493 3)
Additions	5,046 3	65 6	–	282 9	5,394 8
Disposals (sale and redemption)	(4,039 0)	–	–	(55 3)	(4,094 3)
(Losses)/gains from changes in fair value	(2 6)	–	–	1 2	(1 4)
Movement in accruals	13 2	1 1	–	0 7	15 0
Amortisation of discounts and premiums	0 4	0 1	–	0 2	0 7
At 31 December 2006	**10,389 9**	**364 7**	**-**	**518.4**	**11,273.0**

23 Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities are designated at fair value through profit or loss when this results in more relevant information because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities on different bases or recognising the gains and losses on them on different bases The 'Fair value option' is used by the Group where Treasury assets or liabilities would otherwise be measured at amortised cost, the associated derivatives used to economically hedge the risk are held at fair value, and it is not practical to apply hedge accounting The Group has also designated certain financial instruments containing embedded derivatives at fair value through profit or loss

The table below shows the carrying value of financial assets and liabilities that upon initial recognition or at 1 January 2005 on the adoption of IAS 39, were designated at fair value through profit or loss, and the net gains or losses on these instruments

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Financial assets designated as at fair value through profit or loss				
Carrying value at 31 December	**1,373.3**	331 0	**518.4**	314 8
Net gains/(losses) in the year	**0.5**	(3 2)	**0 4**	(4 6)
Financial liabilities designated as at fair value through profit or loss				
Carrying value at 31 December	**(8,900.3)**	(8,394 4)	**(8,900 3)**	(8,394 4)
Net gains in the year	**4 8**	1 7	**4 8**	1 7
Change in fair value in the year not attributable to changes in market risk[1]	**(0 2)**	0 2	**(0.2)**	0 2
Difference between carrying value and contractual liability at maturity date	**(5 7)**	(1 7)	**(5.7)**	(1 7)

Note
1 This is calculated by comparing (i) the net present value of the cash flows at the start of the year using the benchmark interest rate at the end of the year, adjusted for cash flows during the year and for the increase in fair value because cash flows are one year closer, and (ii) the observed market price at the end of the year

24 Shares in Group undertakings

Cost and net book value	Company £m
At 1 January 2006	**724 3**
Additions	**231.6**
At 31 December 2006	**955 9**
Credit institutions	**75 6**
Other	**880 3**
Total	**955 9**

The principal operating subsidiary undertakings of Alliance & Leicester plc at 31 December 2006 are listed below These subsidiary undertakings, which all have 31 December year-ends, are incorporated and all operate in Great Britain, except Alliance & Leicester International Limited which is incorporated and operates in the Isle of Man

Directly held subsidiaries	Nature of business
Alliance & Leicester Commercial Bank plc	Banking
Alliance & Leicester Personal Finance Limited	Unsecured lending
Indirectly held subsidiaries	
Alliance & Leicester Commercial Finance plc	Asset leasing
Alliance & Leicester International Limited	Offshore deposit taking

All subsidiary undertakings are limited by ordinary shares and are unlisted The Company holds a 100% interest in the ordinary share capital and the voting rights of all its subsidiary undertakings, except for Crossbill Investments Limited (Note 37) The results of subsidiary undertakings have been included in the consolidated accounts The ability of Alliance & Leicester Commercial Bank plc and Alliance & Leicester International Limited to pay dividends to the Company is restricted by regulatory capital requirements

A complete list of subsidiary undertakings has not been given as this would result in a statement of excessive length A full list is available from the Company's Registered Office

25 Intangible fixed assets

Intangible assets under development for Group and Company relate to Alnova, a replacement for our commercial and personal current accounts, savings and personal loans legacy systems

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred There was no impairment in 2006 (2005 £nil)

Group	Goodwill £m	Software development cost £m	Intangible assets under development £m	Total £m
Cost				
At 1 January 2006	4 8	17 7	–	22 5
Additions	–	21 5	19 6	41 1
Disposals	–	(0 7)	–	(0 7)
At 31 December 2006	**4 8**	**38.5**	**19 6**	**62 9**
Amortisation				
At 1 January 2006	1 8	2 1	–	3 9
Charge for the year	–	5 0	–	5 0
Disposals	–	(0 7)	–	(0 7)
At 31 December 2006	**1 8**	**6 4**	**–**	**8.2**
Net book value				
At 31 December 2006	**3 0**	**32 1**	**19.6**	**54.7**
At 31 December 2005	3 0	15 6	–	18 6

Group	Goodwill £m	Software development cost £m	Intangible assets under development £m	Total £m
Cost				
At 1 January 2005	4 8	5 5	–	10 3
Additions	–	12 2	–	12 2
At 31 December 2005	4 8	17 7	–	22 5
Amortisation				
At 1 January 2005	1 8	–	–	1 8
Charge for the year	–	2 1	–	2 1
At 31 December 2005	1 8	2 1	–	3 9
Net book value				
At 31 December 2005	3 0	15 6	–	18 6
At 31 December 2004	3 0	5 5	–	8 5

Company	Software development cost £m	Intangible assets under development £m	Total £m
Cost			
At 1 January 2006	9 5	–	9 5
Additions	9 5	19 6	29 1
Disposals	(0 5)	–	(0 5)
At 31 December 2006	**18.5**	**19 6**	**38.1**
Amortisation			
At 1 January 2006	1 2	–	1 2
Charge for the year	3 4	–	3 4
Disposals	(0 5)	–	(0 5)
At 31 December 2006	**4 1**	**–**	**4.1**
Net book value			
At 31 December 2006	**14 4**	**19.6**	**34.0**
At 31 December 2005	8 3	–	8 3

Company	Software development cost £m	Intangible assets under development £m	Total £m
Cost			
At 1 January 2005	2 6	–	2 6
Additions	6 9	–	6 9
At 31 December 2005	9 5	–	9 5
Amortisation			
At 1 January 2005	–	–	–
Charge for the year	1 2	–	1 2
At 31 December 2005	1 2	–	1 2
Net book value			
At 31 December 2005	8 3	–	8 3
At 31 December 2004	2 6	–	2 6

26 Property, plant and equipment

Assets in the course of construction for Group and Company relate to Alnova, a replacement for our commercial and personal current accounts, savings and personal loans legacy systems

		Leasehold buildings				
Group	Freehold land and buildings £m	50 or more years unexpired £m	Under 50 years unexpired £m	Equipment, fixtures and vehicles £m	Assets in the course of construction £m	Total £m
Cost						
At 1 January 2006	286 7	11 6	50 0	427 1	-	775 4
Additions	9 3	0 2	4 2	16 1	6 0	35 8
Disposals	(6 6)	(0 6)	(0 9)	(23 4)	–	(31 5)
At 31 December 2006	**289 4**	**11 2**	**53.3**	**419 8**	**6 0**	**779 7**
Depreciation and amortisation						
At 1 January 2006	123 3	5 6	38 0	346 1	–	513 0
Charge for the year	5 7	0 1	2 7	28 2	–	36 7
Disposals	(4 5)	(0 5)	(0 7)	(19 3)	–	(25 0)
At 31 December 2006	**124.5**	**5 2**	**40 0**	**355.0**	**-**	**524 7**
Net book value						
At 31 December 2006	**164.9**	**6.0**	**13.3**	**64.8**	**6 0**	**255 0**
At 31 December 2005	163 4	6 0	12 0	81 0	-	262 4

The cost of freehold land and buildings held under finance leases was £91 8m (2005 £91 9m) The related cumulative depreciation of £32 2m (2005 £30 7m) includes £1 6m charged during the year (2005 £1 6m)

The cost of leaseholds over 50 years unexpired held under finance leases was £1 7m (2005 £1 7m) The related cumulative depreciation of £0 9m (2005 £0 9m) includes £nil charged during the year (2005 £0 1m)

		Leasehold buildings				
Group	Freehold land and buildings £m	50 or more years unexpired £m	Under 50 years unexpired £m	Equipment, fixtures and vehicles £m	Assets in the course of construction £m	Total £m
Cost						
At 1 January 2005	284 6	12 9	50 8	414 8	–	763 1
Additions	6 4	0 2	2 4	17 2	-	26 2
Disposals	(4 3)	(1 5)	(3 2)	(4 9)	–	(13 9)
At 31 December 2005	286 7	11 6	50 0	427 1	–	775 4
Depreciation and amortisation						
At 1 January 2005	120 0	5 5	39 0	326 1	–	490 6
Charge for the year	6 0	0 2	2 2	24 8	–	33 2
Disposals	(2 7)	(0 1)	(3 2)	(4 8)	-	(10 8)
At 31 December 2005	123 3	5 6	38 0	346 1	-	513 0
Net book value						
At 31 December 2005	163 4	6 0	12 0	81 0	–	262 4
At 31 December 2004	164 6	7 4	11 8	88 7	–	272 5

Notes to the Accounts continued

26 Property, plant and equipment continued

Company	Freehold land and buildings £m	Leasehold buildings 50 or more years unexpired £m	Leasehold buildings Under 50 years unexpired £m	Equipment, fixtures and vehicles £m	Assets in the course of construction £m	Total £m
Cost						
At 1 January 2006	111 9	10 5	48 7	322 4	-	493 5
Additions	3 8	2 1	4 0	14 4	6 0	30 3
Disposals	(3 4)	(0 7)	(0 9)	(21 1)	-	(26 1)
At 31 December 2006	**112 3**	**11 9**	**51 8**	**315.7**	**6 0**	**497 7**
Depreciation and amortisation						
At 1 January 2006	51 6	4 6	37 3	248 3	-	341 8
Charge for the year	1 2	0 4	2 4	26 1	-	30 1
Disposals	(1 8)	(0 6)	(0 7)	(17 1)	-	(20 2)
At 31 December 2006	**51 0**	**4 4**	**39 0**	**257 3**	**-**	**351 7**
Net book value						
At 31 December 2006	**61.3**	**7.5**	**12.8**	**58 4**	**6.0**	**146 0**
At 31 December 2005	60 3	5 9	11 4	74 1	-	151 7

The cost of equipment, fixtures and vehicles held under finance leases was £25 7m (2005 £25 7m) The related cumulative depreciation of £22 1m (2005 £16 0m) includes £6 1m charged during the year (2005 £2 8m)

Company	Freehold land and buildings £m	Leasehold buildings 50 or more years unexpired £m	Leasehold buildings Under 50 years unexpired £m	Equipment, fixtures and vehicles £m	Assets in the course of construction £m	Total £m
Cost						
At 1 January 2005	114 7	10 6	50 2	312 4	-	487 9
Additions	1 5	1 4	1 7	14 8	-	19 4
Disposals	(4 3)	(1 5)	(3 2)	(4 8)	-	(13 8)
At 31 December 2005	111 9	10 5	48 7	322 4	-	493 5
Depreciation and amortisation						
At 1 January 2005	52 4	4 2	38 5	230 5	-	325 6
Charge for the year	1 9	0 5	2 0	22 6	-	27 0
Disposals	(2 7)	(0 1)	(3 2)	(4 8)	-	(10 8)
At 31 December 2005	51 6	4 6	37 3	248 3	-	341 8
Net book value						
At 31 December 2005	60 3	5 9	11 4	74 1	-	151 7
At 31 December 2004	62 3	6 4	11 7	81 9	-	162 3

At the balance sheet date, the Group and the Company had contracted with lessees for the following future minimum lease payments in leases relating to freehold properties

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Within 1 year	**0 3**	0 3	**0 2**	0 2
Between 1-5 years	**5.2**	5 7	**0 9**	1 8
In more than 5 years	**5.8**	8 9	**5 1**	8 9
Total	**11.3**	14 9	**6 2**	10 9

27 Operating lease assets

The Group's leasing subsidiary, Alliance & Leicester Commercial Finance plc, enters into operating lease arrangements with customers in a wide range of sectors, including transport, retail and utilities

Group	Total £m
Cost	
At 1 January 2006	558 9
Additions	79 7
Disposals	(146 4)
At 31 December 2006	**492 2**
Depreciation	
At 1 January 2006	194 5
Charge for the year	78 5
Disposals	(81 3)
At 31 December 2006	**191 7**
Net book value	
At 31 December 2006	**300 5**
At 31 December 2005	364 4

Group	Total £m
Cost	
At 1 January 2005	557 4
Additions	108 7
Disposals	(107 2)
At 31 December 2005	558 9
Depreciation	
At 1 January 2005	190 3
Charge for the year	74 0
Disposals	(69 8)
At 31 December 2005	194 5
Net book value	
At 31 December 2005	364 4
At 31 December 2004	367 1

At the balance sheet date, the Group had contracted with lessees for the following future minimum lease payments

	Group	
	2006 £m	2005 £m
Within 1 year	**66 7**	80 7
Between 1-5 years	**121.6**	155 0
In more than 5 years	**23 2**	50 7
Total	**211 5**	286 4

28 Other assets

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Amounts due from subsidiary undertakings	**-**	-	**162 0**	141 9
Trade debtors	**97.1**	155 7	**12.1**	-
Other	**123.4**	62 9	**1 2**	1 9
Total	**220.5**	218 6	**175 3**	143 8

29 Due to other banks

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Amounts due to subsidiary undertakings	-	-	**6,095.7**	4,677 4
Items in course of collection	**240 1**	246 2	-	-
Deposits from other banks	**8,389.5**	6,320 4	**8,047.2**	6,318 8
Total	**8,629 6**	6,566 6	**14,142.9**	10,996 2

30 Other liabilities

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Trade creditors	**13.0**	16 2	**8.4**	8 2
Other taxation	**84.9**	33 6	**85.0**	33 5
Finance leases	**39 4**	71 0	**5 9**	10 1
Unclaimed share entitlements	**79 6**	101 0	**79.6**	101 0
Other	**200 2**	107 9	**2,569 2**[1]	290 1
Total	**417 1**	329 7	**2,748.1**	442 9
Amounts include				
Due to subsidiary undertakings	-	-	**2,553.0**[1]	280 8

Note
1 This includes £2 500 1m (2005 £nil) owed to a Group undertaking, Fosse Funding (No 1) Limited

Unclaimed share entitlements comprise the share sale proceeds arising from the sale on 27 September 2000 of shares issued to members of the former Alliance & Leicester Building Society, and accrued dividends to the point of sale During 2006, the Group Board initiated a programme to find members with outstanding entitlements, which resulted in over 16,000 individuals making a successful claim The remaining share sale proceeds can be claimed until 21 April 2009, being 12 years from the flotation date, after which they will be forfeited The associated dividends accrued to the point of sale may be claimed for a period of 12 years from the applicable payment date

The Group's finance lease obligations mainly relate to a lease and leaseback of Group property

The maturity of net obligations under finance leases are as follows

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Within 1 year	**3.2**	34 4	**3 1**	4 7
Between 1-5 years	**13.9**	10 9	**2 8**	5 4
In more than 5 years	**22.3**	25 7	-	-
Total	**39.4**	71 0	**5 9**	10 1

Future minimum lease payments are

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Within 1 year	**5 1**	36 8	**3 3**	5 1
Between 1-5 years	**19.9**	18 3	**2 9**	5 6
In more than 5 years	**26 4**	31 1	-	-
Total	**51 4**	86 2	**6 2**	10 7

At the balance sheet date, the Group and the Company had contracted with lessees for the following future minimum lease payments on sub-leases

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Leases which expire				
Within 1 year	**1 0**	32 6	-	-
Between 1-5 years	**3 4**	1 2	**0 1**	0 2
In more than 5 years	**0 8**	0 7	-	0 7
Total	**5 2**	34 5	**0 1**	0 9

During 2006 £3 0m was incurred as a finance lease interest charge (2005 £3 7m)

The difference between the future minimum lease payments and the net obligations under finance leases are due to finance charges not yet incurred

31 Deferred taxation

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% (2005 30%)

The movement on the deferred tax account is as follows

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
At 1 January	**259 8**	163 7	**(15 2)**	(64 8)
Adoption of IAS 32 and IAS 39	**-**	33 4	**-**	41 6
Income statement charge	**69.2**	81 8	**15.9**	11 9
Charge to equity	**(6.0)**	(4 8)	**(4.5)**	(3 9)
Deferred tax on acquisitions and disposals	**(181.1)**	(14 3)	**-**	-
At 31 December	**141 9**	259 8	**(3 8)**	(15 2)
Deferred tax liabilities/(assets)				
Accelerated tax depreciation	**175.6**	318 0	**7.6**	8 2
Pensions and other post retirement benefits	**(28.5)**	(59 5)	**(23.6)**	(48 3)
Provisions for loan impairment and other provisions	**(19 2)**	(32 1)	**(7 7)**	(18 2)
Other temporary differences	**14.0**	33 4	**19 9**	43 1
Deferred tax liabilities/(assets)	**141.9**	259 8	**(3 8)**	(15 2)

The deferred tax charge in the income statement comprises the following temporary differences

Accelerated tax depreciation	**48 1**	67 5	**(1.0)**	(0 5)
Pensions and other post retirement benefits	**16 1**	16 1	**9 8**	9 8
Provisions for loan impairment and other provisions	**(0.1)**	(7 0)	**(2.7)**	0 1
Other temporary differences	**1 5**	0 9	**(3.8)**	0 5
	65 6	77 5	**2 3**	9 9
Adjustment to deferred tax in relation to prior years	**3.6**	4 3	**13 6**	2 0
Deferred tax charge	**69.2**	81 8	**15 9**	11 9

Deferred tax liabilities have not been established for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries, as such amounts are permanently reinvested Such unremitted earnings total £127 2m at 31 December 2006 (2005 £115 9m)

32 Other borrowed funds

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Dated loan capital	**670 6**	885 0	**670 6**	885 0
Total subordinated liabilities	**670.6**	885 0	**670 6**	885 0
Accrued interest	**16.8**	17 6	**16.8**	17 6
Fair value hedging adjustments	**12.7**	40 2	**12 7**	40 2
Less unamortised issue costs	**(3 4)**	(3 7)	**(3 4)**	(3 7)
Total	**696.7**	939 1	**696.7**	939 1
Maturing by 2006	**-**	200 0	**-**	200 0
Maturing by 2008	**75.0**	75 0	**75 0**	75 0
Maturing by 2013	**50.5**	51 4	**50 5**	51 4
Maturing by 2015	**76.6**	87 2	**76 6**	87 2
Maturing by 2017	**101 1**	102 8	**101 1**	102 8
Maturing by 2017	**67.4**	68 6	**67 4**	68 6
Maturing by 2023	**150.0**	150 0	**150 0**	150 0
Maturing by 2031	**150.0**	150 0	**150 0**	150 0
Total loan capital	**670.6**	885 0	**670 6**	885 0

The interest rate liabilities of 9 75% on the £75m Notes due 2008, 5 25% on the £150m Notes due 2023 and 5 875% on the £150m Notes due 2031 have each been swapped into floating rate, with rates of up to 1 36% above sterling LIBOR

The Subordinated Notes due 2008, 2023 and 2031 are denominated in UK Sterling The Subordinated Notes due 2015 are denominated in US Dollars The Subordinated Notes due 2013 and 2017 are denominated in Euros The Subordinated Notes due 2006 were redeemed on 7 December 2006

32 Other borrowed funds continued

The following subordinated loans each exceed 10% of total subordinated liabilities The subordinated debt was raised in order to increase the capital base of the Company

	Terms	Group and Company £m
Subordinated Notes due 2008	Fixed interest rate of 9 75%	75 0
Subordinated Notes due 2015	Floating rate	76 6
Subordinated Notes due 2017	Floating rate	67 4
Subordinated Notes due 2017	Floating rate	101 1
Subordinated Notes due 2023	Fixed interest rate of 5 25%	150 0
Subordinated Notes due 2031	Fixed interest rate of 5 875%	150 0

The Notes are subordinated to the claims of depositors and all other creditors

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 2013 Notes can be redeemed, at the option of the Group, at the outstanding principal amount plus accrued interest, not before November 2008 The 2015 Notes can be redeemed, at the option of the Group, at the outstanding principal amount plus accrued interest, not before September 2010 The £101 1m 2017 Notes can be redeemed, at the option of the Group, at the outstanding principal amount plus accrued interest, not before August 2012 The £67 4m 2017 Notes can be redeemed, at the option of the Group, at the outstanding principal amount plus accrued interest, not before October 2012 The 2023 Notes can be redeemed, at the option of the Group, at the outstanding principal amount plus accrued interest, not before March 2018 For all the Notes, no such purchase or redemption may be made without the consent of the Financial Services Authority

The Group has not had any defaults of principal, interest or other breaches with respect to liabilities during the period

33 Retirement benefit obligations

Amounts recognised in the balance sheet

	Group and Company	
	2006 £m	2005 £m
Funded defined benefit pension scheme	**(16.8)**	(74 3)
Unfunded defined benefit pension scheme	**(9.5)**	(9 6)
Post-retirement medical benefits	**(21.5)**	(23 0)
Total	**(47.8)**	(106 9)

Pension schemes

The Alliance & Leicester Pension Scheme (the "Scheme") comprises funded defined benefit final salary sections which became closed to new entrants on 31 March 1998 New employees joining the Group 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 Group has adopted the revised IAS 19, published in December 2004 Actuarial gains and losses are recognised immediately in full, through the Statement of Recognised Income and Expense

Scheme assets are stated at their market value at 31 December 2006 Scheme liabilities are based on the most recent actuarial valuation at 31 March 2006 and updated by an independent qualified actuary to assess the liabilities as at 31 December 2006

Alliance & Leicester plc is the sponsoring employer for the Scheme There is no contractual agreement or stated policy for recharging the defined benefit cost to other companies in the Group Therefore, in accordance with IAS 19, the Company recognises the whole defined benefit liability of the Scheme

The amounts recognised in the balance sheet are determined as follows

	Group	
	2006 £m	2005 £m
Present value of funded obligations	**(1,327.3)**	(1,304 7)
Fair value of Scheme assets	**1,310.5**	1,230 4
	(16.8)	(74 3)
Present value of unfunded obligations	**(9.5)**	(9 6)
Liability in the balance sheet	**(26.3)**	(83 9)

The amounts recognised in the income statement are as follows

	Group	
	2006 £m	2005 £m
Current service cost[1]	22 2	18 1
Interest cost[2]	64 4	60 8
Expected return on Scheme assets[2]	(72.2)	(64 2)
Past service cost[1]	1 0	(1 9)
Total cost – defined benefit Scheme	15 4	12 8
Defined contribution Scheme-contributions by employer (including SMART)[1]	8.5	5 5
Total cost	23.9	18 3

Notes
1 Included within 'Administrative expenses' in the income statement.
2 Included within 'Other operating income' in the income statement.

Changes in the present value of the defined benefit obligations are as follows

	Group	
	2006 £m	2005 £m
At 1 January	1,314 3	1,127 2
Current service cost	22.2	18 1
Interest cost	64.4	60 8
Employee contributions	2 9	6 9
Past service cost	1 0	(1 9)
Actuarial (gain)/loss	(33 6)	129 7
Benefits paid	(34.4)	(26 5)
At 31 December	1,336 8	1,314 3

The expected return on assets is determined by the scheme actuaries, based on historic average returns and current market trends

Changes in the fair value of Scheme assets are as follows

	Group	
	2006 £m	2005 £m
At 1 January	1,230 4	1,060 3
Expected return	72 2	64 2
Actuarial gain	13 2	107 9
Contributions by employer (including SMART)	26 0	17 4
Employee contributions	2 9	6 9
Benefits paid	(34 2)	(26 3)
At 31 December	1,310 5	1,230 4
Actual return on Scheme assets	85 4	172 1

The Group expects to contribute 19 4% of pensionable salary to its defined benefit Scheme in 2007 (excluding SMART)

The principal actuarial assumptions used were as follows

Valuation method	2006 Projected unit	2005 Projected unit
Inflation assumption	3.0%	2 75%
Salaries rate of increase (p a)	3 5%	4 5%
Pensions rate of increase (p a)	3 0%	2 75%
Discount rate used to determine net pension cost	4 9%	5 4%
Discount rate used to determine benefit obligations at 31 December	5 2%	4 9%
Expected return on Scheme equities	7.5%	7 5%
Expected return on Scheme bonds	4.5%	5 0%

The discount rate used to calculate the present value of Scheme liabilities is determined after considering the yield on 'AA' rated Sterling corporate bond yields of a similar maturity to the Scheme liabilities A 0 1% increase in the rate used would decrease the present value of Scheme liabilities by £27 1m and a 0 1% decrease in the rate used would increase the present value of Scheme liabilities by £27 8m

A 0 1% decrease in the rate of inflation would reduce the Scheme liabilities by £24 9m and a 0 1% increase in the rate of inflation would increase the Scheme liabilities by £23 5m

The expected return on Scheme equities for 2007 is set at a level of 3 3% above gilt yields The Scheme actuary has advised that this return has a 50% likelihood of being achieved The expected return for Scheme bonds for 2007 has been set based on yields available on market indices at 31 December 2006 for bonds with similar maturities

Notes to the Accounts continued

33 Retirement benefit obligations continued

Members' life expectancies in the 2006 actuarial valuation assume that (a) 50% of the PA92 base tables (as published by the Institute and Faculty of Actuaries) apply, with a one year age rating for retired and three years for non-retired and (b) 50% of the Medium Cohort tables based on PA92 Year of Birth, apply

The life expectancy for a non-retired member aged 60, on the valuation date is

	Group	
	2006 Years	2005 Years
Male	**85.5**	84
Female	**89**	87

The major categories of Scheme assets are as follows

	Group	
	2006 £m	2005 £m
Equities	**676.6**	644 2
Bonds	**629 2**	580 0
Hedging derivatives	**(1 9)**	–
Net current assets	**6 6**	6 2
Total	**1,310 5**	1,230 4

During 2006 the Scheme entered into a swap overlay strategy to hedge against the effects of inflation and interest rate movements on the value of the Scheme's liabilities At 31 December 2006, 20% of Scheme liabilities were hedged

Amounts for the current and prior years for the defined benefit Scheme are as follows

	Group		
	2006 £m	2005 £m	2004 £m
Defined benefit obligations	**(1,336 8)**	(1,314 3)	(1,127 2)
Scheme assets	**1,310.5**	1,230 4	1,060 3
Deficit	**(26 3)**	(83 9)	(66 9)
Experience gains/(losses) on Scheme liabilities	**33.6**	(129 7)	(36 0)
Experience gains on Scheme assets	**13.2**	107 9	29 6

Post-retirement medical benefits

The Group provides post-retirement medical benefits to certain pensioners and active employees The liability has been assessed by an independent qualified actuary as at 31 December 2006, using the projected unit method The principal actuarial assumptions used in the valuation were a discount rate of 5 2% and medical benefit cost inflation of 7 0% for 1 year, reducing to 4 5% over 5 years and remaining at 4 5% thereafter

Changes in the post-retirement medical benefits provision are as follows

	Group	
	2006 £m	2005 £m
At 1 January	**23 0**	20 8
Charge to profit or loss in the year	**1 4**	1 7
Actuarial (gain)/loss	**(2.9)**	0 5
At 31 December	**21 5**	23 0

A one percentage point movement in medical cost trend rates would have the following effects

	2006 £m	2005 £m
Effect on liability of 1% increase in cost trend	**3.5**	4 4
Effect on liability of 1% decrease in cost trend	**(2.8)**	(3 5)
Effect on service and interest cost of 1% increase in cost trend	**0.1**	0 3
Effect on service and interest cost of 1% decrease in cost trend	**(0.3)**	(0 2)

34 Contingent liabilities and commitments

Litigation

Certain Group undertakings 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

Capital commitments

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Future capital expenditure				
Contracted for but not provided in the accounts	**14 5**	-	**14 5**	-

The following table indicates the contractual amounts of the Group's and the Company's off-balance sheet financial instruments that commit them to extend credit to customers

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Contingent liabilities				
Guarantees, liquidity facilities and irrevocable letters of credit	**418.1**	400 9	**217 5**	184 1
Commitments				
Irrevocable undrawn loan facilities	**1,066.2**	1,091 3	**108 6**	142 5

Contingent liabilities and commitments are shown on a basis consistent with the regulatory reporting of these items

The Group also provides standby liquidity facilities to Special Purpose Vehicles as set out in Note 19

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

The Company guarantees and gives commitments in respect of some of its subsidiary undertakings

Operating lease commitments

Where the Group is a lessee, the future minimum lease payments under non cancellable building operating leases, are as follows

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Leases which expire				
Within 1 year	**0 3**	0 2	**6.9**	6 8
Between 1-5 years	**8 1**	8 5	**34.2**	33 3
In more than 5 years	**78 3**	87 9	**117.9**	132 6
Total	**86 7**	96 6	**159 0**	172 7

At the balance sheet date, the Group had contracted with lessees for the following future minimum lease payments on sub-leases of rental properties

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Within 1 year	**0.2**	0 4	**0 3**	0 3
Between 1-5 years	**2.1**	2 9	**3.0**	2 1
In more than 5 years	**4.4**	3 1	**4 3**	0 9
Total	**6.7**	6 4	**7 6**	3 3

During the year, the Group incurred £11 9m operating lease rental charges (2005 £11 1m)

Assets pledged as collateral security

Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures, options and stock exchange memberships Mandatory reserve deposits are also held with local central banks in accordance with statutory requirements These deposits are not available to finance the Group's day to day operations

	Group and Company	
	2006 £m	2005 £m
Investment securities	**1,633 9**	1,572 0

Notes to the Accounts continued

35 Innovative tier 1

On 22 March 2004, Alliance & Leicester plc issued £300m of Innovative tier 1 capital securities The tier 1 securities are perpetual securities and pay a coupon on 22 March each year, with the first coupon paid on 22 March 2005 At each payment date, Alliance & Leicester plc can decide whether to declare or defer the coupon indefinitely If a coupon is deferred then Alliance & Leicester plc may not pay a dividend on any share until it next makes a coupon payment Alliance & Leicester plc can be obliged to make payment only in the event of winding up

The coupon is 5 827% per annum until 22 March 2016 Thereafter the coupon steps up to a rate, reset every five years, of 2 13% per annum above the gross redemption yield on a UK Government Treasury Security The tier 1 securities are redeemable at the option of Alliance & Leicester plc on 22 March 2016 or on each coupon payment date thereafter No such redemption may be made without the consent of the Financial Services Authority

	Group and Company 2006 £m
At 1 January 2006	**310 6**
Appropriations	**17 5**
Coupon paid	**(17 5)**
At 31 December 2006	**310.6**

36 Preference shares

On 24 May 2006, Alliance & Leicester plc issued £300m fixed/floating rate non-cumulative callable preference shares, resulting in net proceeds of £294 0m The preference shares entitle the holders to a discretionary fixed non-cumulative dividend of 6 222% per annum payable annually from 24 May 2007 until 24 May 2019 and quarterly thereafter at a rate of 1 13% per annum above three month sterling LIBOR The preference shares are redeemable at the option of Alliance & Leicester plc on 24 May 2019 or on each quarterly dividend payment date thereafter No such redemption may be made without the consent of the Financial Services Authority

37 Minority interests

The non-equity minority interest comprises 2 (2005 nil) ordinary shares of £100 each in Crossbill Investments Limited, a Group undertaking These entitle the holder to the distributable profits of that company, subject to the payment of preferential dividends on preferred shares from October 2006 The shares do not entitle the holders to any rights against other Group companies

38 Share capital

Group and Company	2006 Number m	2006 Amount £m	2005 Number m	2005 Amount £m
Authorised share capital				
Ordinary shares of 50p each	**776 0**	**388.0**	776 0	388 0
Issued, allotted and fully paid	**437 9**	**219.0**	448 9	224 4

The number of ordinary shares in issue at 31 December 2006 reflects the adjustment for the cancellation of shares following the share buyback During the year, the Group repurchased 13,790,794 (2005 575,000) shares with a nominal value of £6 9m (2005 £0 3m), at a cost of £151 0m (2005 £5 0m) This has been charged against retained earnings

Share capital

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
At 1 January	**224.4**	223 2	**224.4**	223 2
New shares issued				
Share incentive plan (SIP) partnership shares	**0 1**	0 1	**0.1**	0 1
Alliance & Leicester Executive Share Option Plan	**0 7**	0 6	**0 7**	0 6
Alliance & Leicester ShareSave scheme	**0 4**	0 7	**0 4**	0 7
Deferred Bonus scheme	**0 3**	0 1	**0 3**	0 1
Share buybacks	**(6.9)**	(0 3)	**(6 9)**	(0 3)
At 31 December	**219 0**	224 4	**219 0**	224 4

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 12 February 2007

	%
Alliance & Leicester ShareSafe Limited	11 61
Prudential plc and subsidiaries	6 03
Legal & General Investment Management Limited	3 59
Aviva plc and subsidiaries	3 91

39 Share-based payments

Dunng the year ended 31 December 2006, the Group had seven share-based payment arrangements These are descnbed below, with further details given in the Directors' Remuneration Report on pages 40 to 41

(i) ShareSave Plan

This plan is open to all employees Participants may elect to save up to £250 per month under a three year or five year savings contract. An option is granted by the Company to buy shares at a price based on 80% of the market value of the shares at the time of grant At the end of the savings contract, a tax free bonus is applied to the savings and the option to buy shares becomes exercisable, for a period of six months Options are exercisable earlier if an employee leaves the Group in special circumstances

(ii) Share Incentive Plan ('SIP') – free shares

Eligible employees were, until 2005, awarded free shares each year, based on a percentage of their salary There were no performance criteria attached to the release of SIP free shares

(iii) Share Incentive Plan – partnership shares

SIP partnership shares are available to all employees Participants may elect to save up to £125 per month from pre-tax salary to purchase shares at the prevailing market price There are no performance criteria attached to the release of SIP partnership shares

(iv) Executive Share Options

Executive Options are normally granted to executive, associate and divisional directors twice a year, after the final and interim results announcements The number of shares over which options are granted is based on a multiple of the participant's salary The exercise of options is subject to a three year performance condition based on Earnings Per Share (EPS) growth detailed in the Directors' Remuneration Report on page 40 Options lapse ten years from the grant date Group Senior Managers also received awards of options under the Company Share Option Plans until 2005

(v) Deferred Bonus Plan

Group Senior Managers, excluding executive, associate and divisional directors, can defer up to 25% of their annual cash bonus into shares, which are then matched by the Company The right to purchase those shares cannot normally be exercised for three years and lapses if not exercised within seven years Executive directors participated in the Deferred Bonus Plan until 2005 Performance conditions were attached to the receipt of matching shares

(vi) Executive Performance Share Plan

The Performance Share Plan for executive directors was introduced in 2005 and participation was extended to associate and divisional directors in 2006 The annual award of shares is normally over shares and accrued dividends to the value of 100% to 150% of annual salary The performance period is three years with no re-testing For awards made in 2005 and 2006, the vesting of 50% of the award depends on the performance of the Company's Total shareholder return (TSR) relative to a peer group of retail banks, the vesting of the other 50% of the award depends on the percentage growth in EPS, with vesting starting when adjusted EPS growth exceeds inflation by 3% per annum, and full vesting when adjusted EPS exceeds inflation by 8% per annum For awards made in 2007, an additional performance test will be introduced One third of shares will vest according to the Company's return on equity (RoE) performance, 30% of the award will vest for RoE of 20%, rising to full vesting for RoE of 24% The other two thirds of the award will vest as before, according to the Company's TSR and EPS performances See the Directors' Remuneration Report on page 41 for details

(vii) Restricted Share Plan (RSP)

Group Senior Managers, excluding executive, associate and divisional directors, participate in the RSP Annual awards of shares are made based on a percentage of individuals' salary In 2006, the percentage range was 0–15% Awards vest automatically after three years and lapse after five years from the grant date

	ShareSave	Share Options	Executive Deferred[1]	Restricted share plan	Executive Performance	Senior Manager Deferred[2]
2006						
Outstanding at 1 January	3,761,897	6,260,765	182,622	-	234,817	212,657
Granted	843,008	556,350	-	129,008	415,128	113,340
Lapsed	(333,803)	(196,547)	-	(2,037)	-	(15,288)
Exercised	(757,194)	(1,448,399)	(89,250)	(29)	-	(77,528)
Outstanding at 31 December	**3,513,908**	**5,172,169**	**93,372**	**126,942**	**649,945**	**233,181**
Exercisable at 31 December	112,304	929,732	–	–	-	5,984
Weighted average exercise price in 2006	1119 3p	1109 4p	1125 5p	1062 0p	n/a	1119 7p
Range of exercise prices for options outstanding at 31 December	364 4p-813p	510p-900 5p	n/a	n/a	n/a	n/a
Weighted average remaining contractual life	2 2 years	0 9 years	0 7 years	2 6 years	1 8 years	0 4 years
Weighted average fair value of options awarded in 2006	215p	140p	n/a	846p	742p	2468p[3]
2005						
Outstanding at 1 January	4,546,048	5,965,675	161,116	-	-	180,944
Granted	1,144,123	2,138,970	42,298	-	234,817	64,526
Lapsed	(446,517)	(511,613)	-	-	-	(6,399)
Exercised	(1,481,757)	(1,332,267)	(20,792)	-	-	(26,414)
Outstanding at 31 December	3,761,897	6,260,765	182,622	-	234,817	212,657
Exercisable at 31 December	104,472	702,469	36,675	-	-	7,702
Weighted average exercise price in 2005	851 8p	913 4p	924 0p	-	n/a	882 4p
Range of exercise prices for options outstanding at 31 December	364 4p-705p	510p-900 5p	n/a	-	n/a	n/a
Weighted average remaining contractual life	2 4 years	1 3 years	0 9 years	-	2 6 years	1 1 years
Weighted average fair value of options awarded in 2005	106p	49p	654p[3]	-	505p	2001p[3]

Notes
1 The figures in the table relate to the number of deferred options only
2 The figures in the table relate to the level of bonus deferred i e excluding the matching element
3 The option value includes the deferred share and the fair value of the matched element, less the cash bonus foregone

Notes to the Accounts continued

39 Share-based payments continued

No SIP free shares were allocated dunng the year (2005 202,596 at a pnce of 876 5p)

152,654 SIP partnership shares were issued dunng the year, at the prevailing market rate, at a weighted average pnce of 1043 3p per share 51,271 partnership shares were issued in January 2005 at a pnce of 845 5p per share and 61,538 shares in July 2005 at a pnce of 884 5p per share The fair value of these awards was between 26p and 52p per share

The estimated fair values are calculated by applying the following models
Share Incentive Plan – Black-Scholes option pricing model,
Executive Share Options and ShareSave Plan – restricted exercise binomial model for American style options,
Deferred Bonus Plan and Executive Performance Share Plan – the value of the share pnce option plus the present value of any deferred dividends

The assumptions used in the model are as follows

Input	Assumption
Share pnce	Pnce at date of grant
Exercise pnce	Per scheme rules
Expected volatility	15%-21 5% (2005 11%-12%) (Expected volatility is estimated by calculating the annualised, exponential weighted monthly volatility of Alliance & Leicester plc share pnce over the preceding two years)
Option life	Per scheme rules
Expected dividends	Based on historic dividend yield
Risk-free interest rate	4 6%-5 3% (2005 4 5%-4 9%)

Levels of early exercises and lapses are estimated using historical averages

The charge to profit and loss ansing from equity settled share based payments in the year was £6 9m (2005 £6 9m)

40 Other reserves and retained earnings

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Share premium	**105.6**	85 1	**105.6**	85 1
Capital redemption reserve	**79.9**	73 0	**79.9**	73 0
Reserve for share-based payments	**21.0**	13 8	**21.0**	13 8
Available-for-sale reserve	**4.2**	5 8	**4.2**	5 8
Cash flow hedging reserve	**(19 3)**	22 5	**(11 2)**	27 0

Share premium

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
At 1 January	**85 1**	66 7	**85 1**	66 7
Issue of shares under option	**20.5**	18 4	**20 5**	18 4
At 31 December	**105.6**	85 1	**105 6**	85 1

Capital redemption reserve

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
At 1 January	**73.0**	72 7	**73 0**	72 7
Repurchase of share capital	**6.9**	0 3	**6.9**	0 3
At 31 December	**79.9**	73 0	**79.9**	73 0

Reserve for share-based payments

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
At 1 January	**13 8**	6 7	**13.8**	6 7
Share option costs charged to profit in year	**6 9**	5 1	**6.9**	5 1
Transferred to equity	**(2 7)**	-	**(2.7)**	-
Deferred tax	**3 0**	2 0	**3.0**	2 0
At 31 December	**21.0**	13 8	**21.0**	13 8

Available-for-sale reserve

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
At 1 January	**5.8**	5 7	**5 8**	5 7
Net (losses)/gains from changes in fair value	**(1 7)**	0 1	**(1 7)**	0 1
Net losses transferred to profit on disposal	**(0 5)**	-	**(0.5)**	-
Deferred tax	-	-	-	-
Current tax	**0 6**	-	**0.6**	-
At 31 December	**4 2**	5 8	**4.2**	5 8

Cash flow hedging reserve

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
At 1 January	**22.5**	14 0	**27.0**	16 4
(Losses)/gains from changes in fair value	**(57 6)**	12 5	**(52 0)**	15 2
Transferred to net profit	**(2 1)**	(0 3)	**(2 6)**	-
Deferred tax	**17 9**	(3 7)	**16.4**	(4 6)
At 31 December	**(19.3)**	22 5	**(11 2)**	27 0

The cash flow hedging reserve arises on cash flow hedges of interest rate risk on a portfolio of variable rate assets The hedged interest rate cash flows on the underlying portfolio are expected to occur on a reducing basis over a period of approximately six years from the balance sheet date

Retained earnings

Movements in retained earnings were as follows

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
At 31 December 2004	**n/a**	1,272 4	**n/a**	703 6
Impact of adoption of IAS 32 and IAS 39	**n/a**	56 3	**n/a**	75 9
At 1 January	**1,476.5**	1,328 7	**769 4**	779 5
Net profit for year	**432.2**	389 4	**275.8**	231 5
Final dividend for 2004	-	(145 6)	-	(145 6)
Interim dividend for 2005	-	(75 1)	-	(75 1)
Final dividend for 2005	**(156.3)**	-	**(156 3)**	-
Interim dividend for 2006	**(78.8)**	-	**(78 8)**	-
Actuarial gain/(loss) on retirement benefit obligations	**49.7**	(22 3)	**49 7**	(22 3)
Deferred tax on actuarial gain/(loss) on retirement benefit obligations	**(14.9)**	6 5	**(14.9)**	6 5
Repurchase of share capital	**(151 0)**	(5 0)	**(151.0)**	(5 0)
Other	-	(0 1)	-	(0 1)
At 31 December	**1,557.4**	1,476 5	**693 9**	769 4

41 Dividends per share

During the year an interim dividend in respect of 2006 of 17 6p per ordinary share (2005 16 8p per ordinary share) was paid amounting to £78 8m (2005 £75 1m)

Final dividends are not accounted for until they have been ratified at the Annual General Meeting

At the meeting on 1 May 2007 a final dividend in respect of 2006 of 36 5p per ordinary share (2005 34 7p per ordinary share), amounting to an estimated total of £159 0m (2005 £156 3m), is to be proposed

The financial statements for the year ended 31 December 2006 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2007

42 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Cash and balances with central banks (Note 15)	**2,224.0**	1,704 6	**1,811 2**	1,221 9
Due from other banks	**398.6**	339 1	**262 9**	121 6
Total	**2,622.6**	2 043 7	**2,074.1**	1,343 5

Notes to the Accounts continued

43 Related party transactions

Group

The Group enters into transactions in the ordinary course of business, with directors of the Company and persons connected with the directors of the Company, on normal commercial terms

	Group 2006 £'000	Group 2005 £'000
Loans		
As at 1 January	**1,018**	801
Net movements	**(264)**	217
As at 31 December[1]	**754**	1,018
Interest payable	**39**	40
Deposits		
As at 1 January	**1,691**	1,641
Net movements	**515**	50
As at 31 December	**2,206**	1,691
Interest receivable	**52**	57

Note

1 Secured on residential properties

Company

Details of the Company's shares in Group undertakings are given in Note 24

The Company entered into transactions with other Group undertakings as shown in the table below

	Company 2006 £m	Company 2005 £m
Amount owed to other Group undertakings		
As at 1 January	**5,935 6**	3,749 3
Net movements	**3,548.7**	2,186 3
As at 31 December	**9,484 3**	5,935 6
Interest paid to subsidiaries	**290 8**	208 4
Amounts owed from other Group undertakings		
As at 1 January	**9,404.9**	7,071 8
Net movements	**753 1**	2,333 1
As at 31 December	**10,158 0**	9,404 9
Interest received from subsidiaries	**450.9**	355 7

During the current and preceding year the Company recharged other Group undertakings for various administrative expenses incurred on their behalf The Company also received administrative cost recharges from other Group undertakings

The Company had derivative assets of £28 2m (2005 £85 7m) and derivative liabilities of £85 7m (2005 £11 3m) with Group undertakings at 31 December 2006 It is not meaningful to analyse the high volume of funding transactions between the Company and other Group undertakings

Directors' emoluments

	2006 £m	2005 £m
Short-term benefits	**4.6**	4 0
Post-employment benefits	**0.8**	0 6
Share-based payments	**0 9**	1 1
Total	**6.3**	5 7

Directors' emoluments include those emoluments received by directors from the Company and its associated bodies Gains on share options exercised under the long-term incentive scheme in the year were £2 1m (2005 £0 7m), whilst gains on other share options exercised in the year were £0 1m (2005 £0 5m) A detailed analysis of directors' emoluments and share options is given on pages 39 to 45 in the Directors' Remuneration Report

Four directors are members of the defined benefit section of the Alliance & Leicester Pension Scheme (2005 4) The Group's transactions with the Scheme are described in Note 33

Consolidated Income Statement 5 Year Summary

For the year ended 31 December	2006 IFRS £m	2005 IFRS £m	2004 IFRS proforma £m	2003 UK GAAP £m	2002 UK GAAP £m
Interest receivable and similar income	**3,115 2**	2,576 1	2,274 1	1,869 3	1,840 5
Interest expense and similar charges	**(2,334 6)**	(1,825 1)	(1,537 7)	(1,131 4)	(1,083 1)
Net interest income	**780 6**	751 0	736 4	737 9	757 4
Fee and commission income	**523 6**	508 8	512 0	563 0	530 0
Fee and commission expense	**(26 8)**	(32 4)	(43 8)	(112 4)	(109 3)
Gains/(losses) from fair value accounting volatility	**7 6**	(1 0)	n/a	n/a	n/a
Other operating income	**190.2**	160 5	169 0	184 6	163 1
Total non-interest income	**694.6**	635 9	637 2	635 2	583 8
Operating income	**1,475.2**	1,386 9	1,373 6	1,373 1	1,341 2
Administrative expenses					
Core administrative expenses	**(656 8)**	(660 7)	(674 7)	(696 1)	(707 7)
Redundancy costs	**(24 2)**	-	-	-	-
Exceptional costs arising from the rationalisation of the branch network	**-**	-	(9 0)	-	-
Total administrative expenses	**(681 0)**	(660 7)	(683 7)	(696 1)	(707 7)
Depreciation and amortisation					
On fixed assets excluding operating lease assets	**(42.0)**	(31 2)	(30 1)	(35 4)	(33 7)
On operating lease assets	**(78.5)**	(74 0)	(72 8)	(56 2)	(61 6)
	(120.5)	(105 2)	(102 9)	(91 6)	(95 3)
Total costs	**(801.5)**	(765 9)	(786 6)	(787 7)	(803 0)
Impairment losses on loans and advances	**(104.8)**	(73 9)	(46 5)	(60 7)	(69 9)
Operating profit	**568.9**	547 1	540 5	524 7	468 3
Profit on disposal of Group operations	**-**	-	52 0	-	-
Profit before tax	**568.9**	547 1	592 5	524 7	468 3
Tax	**(118.8)**	(140 2)	(158 9)	(145 5)	(128 0)
Profit after tax	**450.1**	406 9	433 6	379 2	340 3
Profit attributable to					
Innovative tier 1 holders	**17.5**	17 5	13 7	n/a	n/a
Minority interests	**0 4**	–	–	1 2	0 7
Ordinary shareholders of Alliance & Leicester plc	**432.2**	389 4	419 9	378 0	339 6
Earnings per share:					
Basic earnings per ordinary share	**96.4p**	86 9p	91 8p	79 0p	68 0p
Diluted earnings per ordinary share	**95.9p**	86 5p	91 4p	78 5p	67 4p

The 2004 results are presented on an IFRS proforma basis as described in Annual Report & Accounts 2005 The results for 2002-2003 are on a UK GAAP basis and not directly comparable with the 2004 to 2006 results An explanation of the differences between IFRS and UK GAAP is set out in Annual Report & Accounts 2005

Consolidated Balance Sheet 5 Year Summary

	2006 IFRS £m	2005 IFRS £m	1 January 2005 IFRS £m	2003 UK GAAP £m	2002 UK GAAP £m
Assets					
Cash and balances with central banks	**2,224.0**	1,704 6	585 3	494 0	298 1
Treasury bills and other eligible bills	**-**	17 1	-	117 0	239 4
Due from other banks	**2,948.7**	2,524 5	1,798 3	3 186 7	813 1
Items in the course of collection from other banks	**-**	-	-	125 0	147 1
Trading securities	**1,152.9**	306 3	254 0	-	-
Derivative financial instruments	**691.8**	570 8	378 7	-	-
Loans and advances to customers	**46,350 7**	40,093 8	33,740 6	29,798 9	27,296 9
Securitised advances[1]	**n/a**	n/a	n/a	130 0	163 2
Less non-recourse finance	**n/a**	n/a	n/a	(127 3)	(159 3)
	46,350 7	40,093 8	33,740 6	29,801 6	27,300 8
Net investment in finance leases and hire purchase contracts	**1,926 9**	2,146 3	2,046 4	1,975 8	1,591 0
Debt securities	**n/a**	n/a	n/a	11,491 5	9,501 5
Investment securities					
– available-for-sale	**10,482.8**	9,817 8	9,211 6	n/a	n/a
– held-to-maturity	**364.7**	342 5	246 7	n/a	n/a
– loans and receivables	**150.3**	150 3	425 9	n/a	n/a
– at fair value through profit or loss	**1,373.3**	331 0	473 4	n/a	n/a
Intangible fixed assets	**54 7**	18 6	8 5	3 0	3 5
Property, plant and equipment	**255 0**	262 4	272 5	280 9	304 5
Operating lease assets	**300 5**	364 4	367 1	374 7	369 0
Fair value macro hedge	**-**	59 8	12 8	n/a	n/a
Other assets	**220 5**	218 6	93 9	171 5	355 0
Prepayments and accrued income	**60.2**	53 2	168 1	402 7	325 6
Total assets	**68,577 0**	58,982 0	50,083 8	48,424 4	41,248 6
Liabilities					
Due to other banks	**8,629 6**	6,566 6	4,685 7	5,040 2	2,701 6
Items in the course of transmission to other banks	**-**	-	-	214 9	289 7
Derivative financial instruments	**675.4**	410 4	774 8	-	-
Due to customers	**29,559.4**	26,437 8	25,102 5	24,239 2	22,360 1
Debt securities in issue	**25,415 4**	21,405 3	15,629 3	14,853 7	12,103 8
Other liabilities	**417.1**	329 7	365 7	466 7	564 1
Current tax liabilities	**21 3**	52 9	82 2	-	-
Fair value macro hedge	**181.7**	-	-	n/a	n/a
Accruals and deferred income	**197 9**	261 8	304 0	859 8	715 4
Deferred tax liabilities	**141 9**	259 8	197 1	-	-
Provisions for liabilities and charges	**-**	-	-	240 9	182 7
Other borrowed funds	**696.7**	939 1	826 5	812 1	609 9
Retirement benefit obligations	**47 8**	106 9	87 7	n/a	n/a
Total liabilities	**65,984.2**	56,770 3	48,055 5	46,727 5	39,527 3
Equity					
Innovative tier 1	**310.6**	310 6	310 6	n/a	n/a
Preference shares	**294 0**	-	-	-	-
Minority interests	**0.4**	-	-	2 7	1 5
	605.0	310 6	310 6	2 7	1 5
Called up share capital	**219 0**	224 4	223 2	231 1	242 0
Share premium account	**105 6**	85 1	66 7	54 7	38 5
Capital redemption reserve	**79 9**	73 0	72 7	63 8	51 5
Reserve for share-based payments	**21.0**	13 8	6 7	n/a	n/a
Available-for-sale reserve	**4 2**	5 8	5 7	n/a	n/a
Cash flow hedging reserve	**(19 3)**	22 5	14 0	n/a	n/a
Profit and loss account	**1,557 4**	1,476 5	1,328 7	1,344 6	1,387 8
Total ordinary shareholders' equity	**1,967.8**	1,901 1	1,717 7	1,694 2	1,719 8
Total equity and liabilities	**68,557 0**	58,982 0	50,083 8	48 424 4	41,248 6

Note
1 Under UK GAAP securitised balances were disclosed under linked presentation Under IFRS securitised balances are included within loans and advances to customers

Shareholder Information

Shareholder Analysis as at 31 December 2006

			No of holders*	Percentage of total holders	No of shares	Percentage of ordinary share capital
Shareholding range						
1	-	250	520,574	89 76%	125,463,651	28 65%
251	-	500	44,592	7 69%	20,868,542	4 77%
501	-	10,000	14 072	2 43%	17,623,470	4 02%
10,001	-	50 000	296	0 05%	7 309,105	1 67%
50,001	-	100 000	124	0 02%	9,169,678	2 09%
100 001 and over			285	0 05%	257,515 151	58 80%
			579,943	100 00%	437,949,597	100 00%

*Including those holders whose shares are held in the 'Alliance & Leicester ShareSafe nominee account.

Classification of Shareholders

Personal holders[1]	167 4m	38 2%
Institutional holders	270 5m	61 8%

1 Includes private shareholdings, ShareSafe and shares held in Private Client Accounts by institutional investors

Financial Calendar

Ex-dividend date for final dividend	Wednesday 4 April 2007
Record date for final dividend	Tuesday 10 April 2007
Annual General Meeting	Tuesday 1 May 2007
Payment date for final dividend	Tuesday 8 May 2007
Provisional date for interim results to be announced	Friday 27 July 2007
Provisional ex-dividend date for interim dividend	Wednesday 5 September 2007
Provisional record date for interim dividend	Friday 7 September 2007
Provisional payment date for interim dividend	Monday 8 October 2007
Provisional date for preliminary results 2007 to be announced	Wednesday 20 February 2008

Dividends

Interim dividend 2005	16 8p
Final dividend 2005	34 7p
Interim dividend 2006	17 6p
Proposed final dividend 2006	36 5p

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Alliance & Leicester plc Annual Report & Accounts 2006

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Leicester

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