Alliance
Leicester

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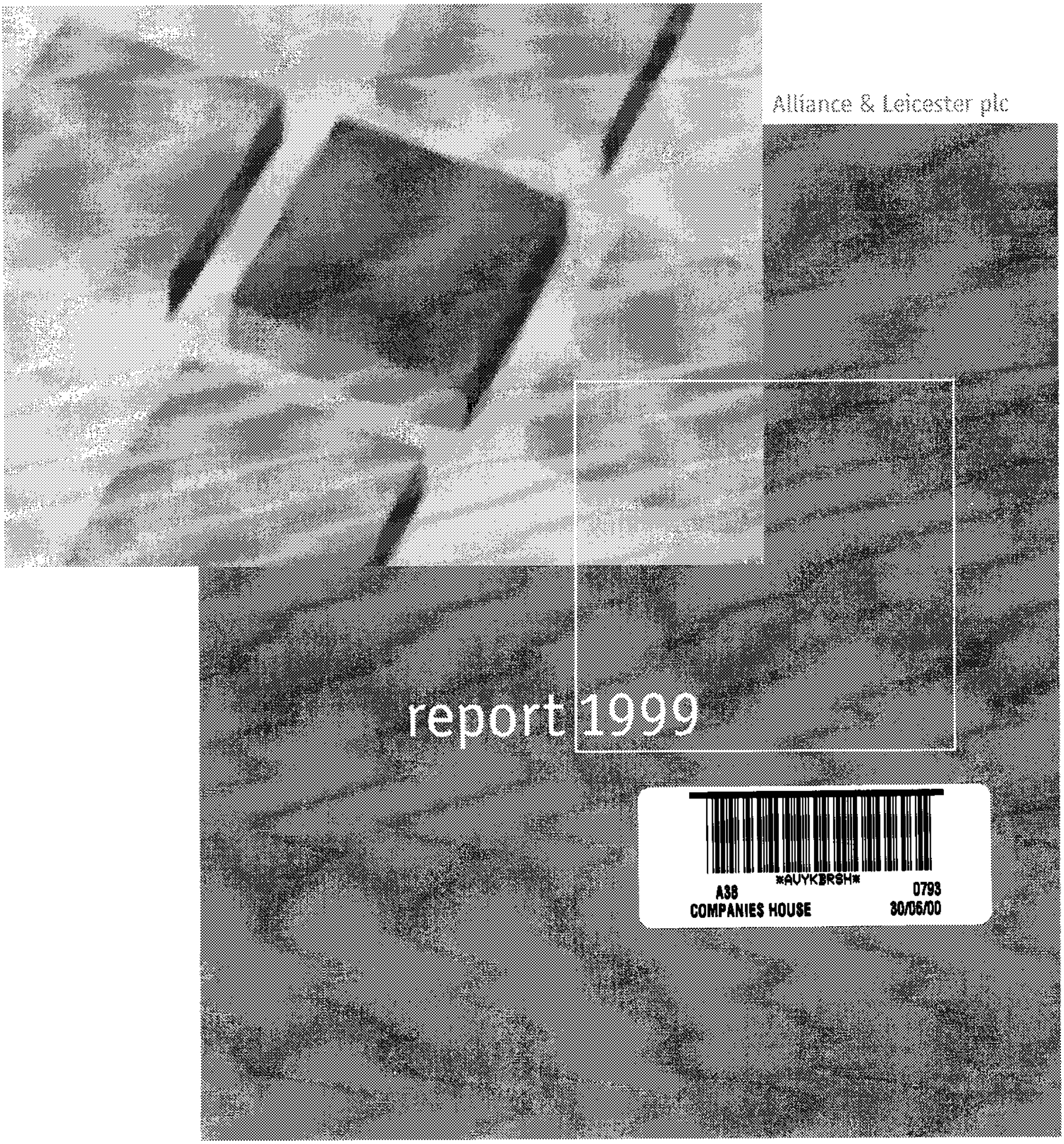
Annual Report & Accounts

Alliance & Leicester plc



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Alliance & Leicester at a glance

Alliance & Leicester is a substantial financial services group with over 5.5 million retail and over 50,000 corporate customers. We have been successfully diversifying our range of services for many years, and now operate significant businesses in a number of markets via an ever-widening variety of distribution channels. We have been at the forefront of the trend towards 'direct' banking in the UK.

The Group's ambition is to be our customers' first-choice provider of financial services within our chosen markets. We aim to build long-term mutually beneficial relationships with these customers, through focused management attention to their needs.

Contents

Business sectors

Mortgage Lending & Investments
This business sector is responsible for the Group's mortgage lending and retail savings operations together with related businesses such as general insurance, life assurance and unit trusts.

Personal Banking
Responsible for the Group's personal current accounts, credit and debit card operations and unsecured lending activities. These include loans for home improvements, the purchase of cars, the consolidation of debt and other purposes.

Retail Banking
This represents the combined Mortgage Lending & Investments sector and Personal Banking sector.

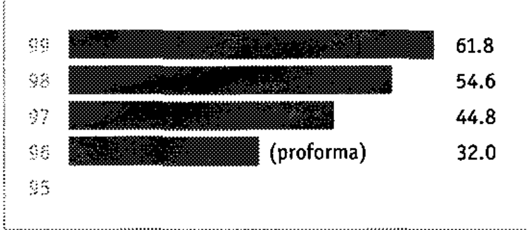
Commercial Banking
Provides a range of services principally to retailers, public sector authorities and utilities, including cash and cheque handling, bill payments, asset finance, merchant acquisition and commercial lending.

Treasury & Group
This sector comprises the Group's treasury subsidiary, the investment income generated by non-allocated capital and the costs associated with corporate overheads which are not directly attributable to the other business units.

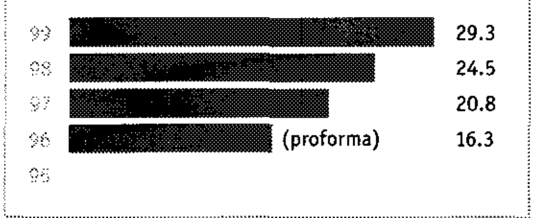
Highlights of the year

Pre-tax profit of £500m	up 10%
Earnings per share of 61.8p	up 13%
Total dividend of 29.3p per share	up 20%
Total assets of £30.5bn	up 11%
Underlying Group cost:income ratio	down to 53.5%

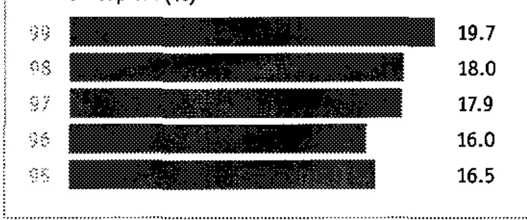
Profit before tax (£m)



Earnings per share (p)



Dividends (p)



Underlying post-tax return on capital (%)

Tier 1 capital ratio (%)

Total Assets (£bn)

Meeting the challenges

In my Chairman's statement last year I expressed confidence in our ability to succeed in the rapidly evolving financial services marketplace.

1999 is likely to be remembered as a testing year for the Group, but one which saw strong progress in our core business. While 2000 is likely to be challenging, I am equally confident that our Group will continue to compete successfully.

Despite market conditions which have been as competitive as any we have experienced, Alliance & Leicester's pre-tax profits for 1999 increased by 10% to £500m, our seventh successive year of record profits, while earnings per share increased by 13% to 61.8p per share – another record.

As a result of this strong performance, the Board is proposing a final dividend of 19.8p per share, making a total for the year of 29.3p per share, an increase of 20% on the figure for 1998.

All of the Group's key business areas contributed to this successful outcome, with new business volumes increasing in all areas but particularly mortgages, credit cards, personal loans, cash handling and asset finance.

Retail Banking profits increased by 10% from £361m in 1998 to £397m last year, thanks to a particularly strong performance in Personal Banking. Numbers of credit cards in issue and volumes of unsecured personal loans increased during the year.

We also continued to refine our product sales processes, making use of new technology and introducing sales incentives into the branch network to improve our selling capability.

Profits from our Commercial Banking operations also grew during 1999, to £72m, an increase of 3% over 1998. Girobank is a market leader in money transmission and, with the demand for cash showing no sign of decreasing, is well placed to prosper in the future. Profits at Girobank's asset finance subsidiary, Sovereign Finance, increased by 12%.

Our Treasury operations grew in 1999, consistent with our objective of increasing the contribution Alliance & Leicester Group Treasury makes to overall Group profits. This will continue in a controlled and prudent fashion.

A feature of the second half of the year was the emergence of some very keenly priced mortgages, particularly in the fixed rate market. The Group took a conscious decision not to compete for this business, and interest margins for Mortgage Lending & Investments (MLI) improved in the second half.

Retail savings remained similarly competitive, but there were clear signs of improvement later in the second half of the year.

The Group delivered on its cost commitments during 1999. Total costs for the year were below the comparable figure for 1998. This led to a further fall in the Group cost : income ratio on a comparable basis from 55.8% for 1998 to 53.5% for last year, and in MLI from 43.4% to 41.6%. Tight cost control will remain a priority for the business in 2000.

We made progress in our efforts to enhance shareholder returns by managing the Group's capital more effectively, completing the first phase of our share buyback programme with the repurchase and cancellation of £293m of shares. We anticipate that a similar value of shares will be purchased and cancelled in 2000.

In May, the Group's discussions with the Bank of Ireland on a possible 'merger of equals' became public. These talks were consistent with our strategy of pursuing growth in shareholder value through a possible merger or acquisition. Ultimately it was not possible to agree terms with the Bank of Ireland and our talks were terminated in June.

Peter White, who had been Group Chief Executive of Alliance & Leicester since 1991, left the Group on 29 October 1999. I was asked by the Board to assume the combined role of Executive Chairman. Peter led the Group's successful conversion to plc status in 1997, and contributed in a number of ways to the Group during his 18 year career.

I have appreciated and valued the support and counsel of my fellow directors, in particular during the last few months. In December we announced that David Bennett, Alliance & Leicester Group Treasurer, would be appointed an executive director of the Group and that Michael Allen would rejoin the Board as a non-executive director. Both appointments became effective on 1 January 2000.

The Board is united in its determination to see Alliance & Leicester grow and prosper, and in its commitment to deliver real and sustained growth in shareholder value.

I said at the beginning of this review that I believed 1999 would be remembered as a challenging year for Alliance & Leicester. No single group has been more affected by these challenges than our staff. I have nothing but praise for their professionalism, their dedication to customer service, and their desire to contribute to the Group's success.

With the economy performing markedly better in 1999 than most forecasts had suggested, volumes in many of our core markets increased, and it seems likely that these conditions will remain in place during 2000. Competition will continue to play an important part in defining the shape of our market, but we will respond to the changing needs of our customers, offering them the services they want, delivered in the way that they want them.

With the economy performing markedly better in 1999 than most forecasts had suggested, volumes in many of our core markets increased, and it seems likely that these conditions will remain in place during 2000

There is clear evidence from independent market research that awareness of the Alliance & Leicester brand is higher than for a number of our larger competitors. This has been achieved through advertising and promoting specific products, rather than through expensive, general 'brand' advertising. Research also shows that we are increasingly recognised as a provider of a wide range of financial services. The power of the Alliance & Leicester brand is an important strength on which to build our future business.

We are well-placed to exploit the potential of new delivery channels such as the internet and digital television. Customers can already apply for a wider range of products through Alliance & Leicester's internet site than at most other banks, including those established as pure e-commerce operations; the product list includes current accounts, savings, unsecured loans, mortgages and credit cards.

In January 2000 we launched our internet current account service, enabling the Group's 1.8m current account customers to manage their finances on-line. We will develop and expand our internet services this year to ensure that customers who want a technology-based relationship with Alliance & Leicester can have one.

Looking ahead, our strategy builds on our successful past, and anticipates a challenging future. We have a strong and well-established franchise in the retail financial services market. Our commercial bank is a market leader in the cash handling market and is growing its presence in other key product areas. The contribution from our Group Treasury function is set to grow further.

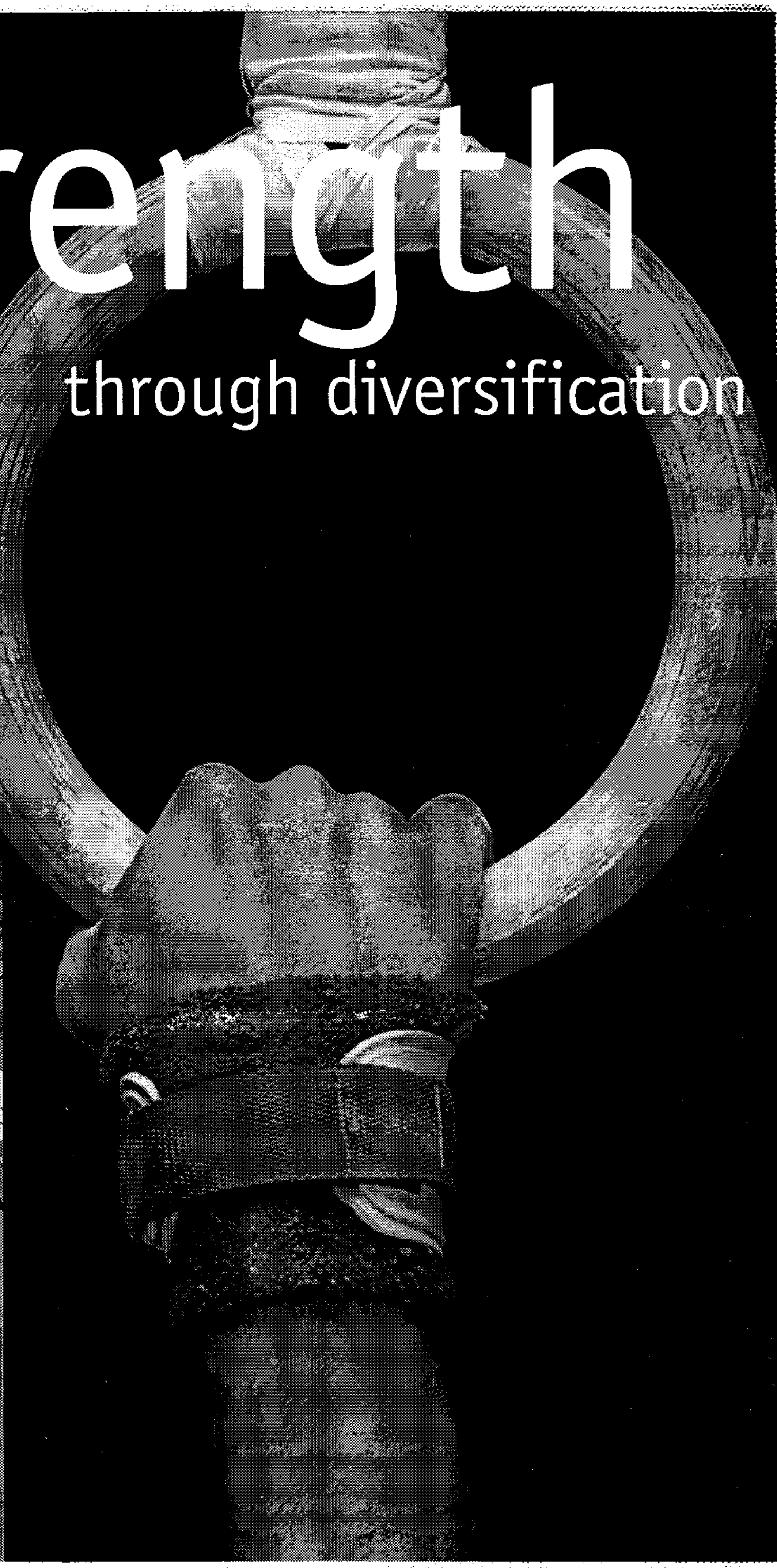
The development of our core businesses will continue, as will the process of diversification where opportunities exist to broaden the range of services that we offer. We will keep a firm grip on costs, and will consider opportunities for value-enhancing mergers or acquisitions, while the Group's resources will be actively managed to the benefit of our shareholders.

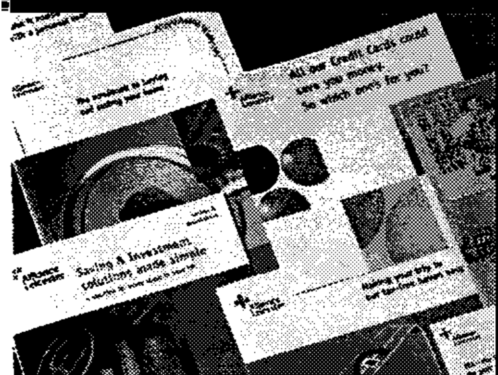
Alliance & Leicester has come a long way in a short time, and we have shown that we can meet the challenges of our highly competitive and changing industry. We have the strategy in place to build on our success, and we have the people to take the business forward.

John R Windeler
Executive Chairman

strength

through diversification





Our ambition is to be our customers' first-choice provider of financial services within our chosen markets.

Business Review

A More Diverse and Sophisticated Business

Alliance & Leicester has been diversifying successfully for many years, and has changed significantly from the relatively simple business it once was.

We are catering for a broader, increasingly sophisticated and evolving range of customer needs, via an ever-widening variety of distribution channels. We are servicing these needs much more efficiently, through focused management attention and the introduction of new technologies. We recognise that cost efficiency is vital to succeed against the competition provided by the best of the new low-cost market entrants. We are also successfully growing new revenue streams.

Our Ambition

Our ambition is to be our customers' first-choice provider of financial services within our chosen markets. These are the sectors where we possess proven skills and core competencies, and where we are convinced the Group can provide products to customers through the sales and service channels they want. Above all, we aim to grow long-term shareholder value by building long-term, profitable relationships with our customers and increasing our share of their financial services requirements. The focus of the Group's activity will remain in the UK.

We aim to be a leading retailer of financial services, with the 'manufacturing' and support for those services delivered in the most cost-effective manner. In some cases, this involves outsourcing activities, whilst in other instances we will retain such work within the Group.

Our Customers

The Group has over 5.5m retail customers, as well as more than 50,000 corporate customers. During 1999 successful sales activities meant that we grew our overall retail customer base and met our target for growing the average number of products held per personal customer.

Our deliberate marketing efforts have resulted in the Alliance & Leicester having a retail customer base with a distinctly more upmarket profile than the market as a whole.

Our Retail Banking Markets

Alliance & Leicester's Retail Banking activities are run as a single management unit. To aid analysis, the results are reported as two business sectors – Mortgage Lending & Investments, and Personal Banking.

Consumer Credit

The consumer credit market continues to assume an increasing importance for Alliance & Leicester. It is made up of three main sectors: credit provided at point-of-sale (for products such as cars and white goods), credit card debt, and unsecured personal loans. The Group has built significant and growing businesses in the credit card and unsecured loan markets.

Credit Cards

During 1999 credit card expenditure in the UK continued to grow strongly, by around 16%.

Alliance & Leicester was the first to launch a cash-back credit card in the UK, when we introduced our innovative MoneyBack card in 1997. There have been several high profile new entrants into the UK credit card market and a variety of new products have been launched by competitors over the course of the year. It is therefore encouraging to report that the Group succeeded in expanding its card base by 23% in the year to over 1.1m cards.

Above all, we aim to grow long-term shareholder value by building long-term, profitable relationships with our customers and increasing our share of their financial services requirements

The Alliance & Leicester brand is stronger than a number of our larger competitors. This has been achieved through promoting specific products, rather than through expensive general 'brand' advertising.

Our credit card strategy is underpinned not only by the rapid growth of our customer base but also by the development of a customer base with high card usage levels and interest-bearing balances in line with the industry average. 1999 saw the volume of transactions per account remain far higher than the industry average and interest-bearing balances grew by 45% between 1998 and 1999.

During 1999 we added both a Gold and Platinum MoneyBack card to our credit card portfolio. These products include features designed to attract further high value customers to the Group. We remain confident of our ability to continue to grow our credit card business.

Unsecured Personal Loans

Gross consumer lending in the UK (excluding credit cards) grew by around 7% in 1999.

Alliance & Leicester Personal Finance (ALPF) continued to perform better than the market as a whole, with gross lending up by 11% to £1,320m during 1999.

Business volumes and profits have grown each year since ALPF's launch over 10 years ago. This success story has been built on a number of key competencies. Our marketing, particularly direct marketing, has successfully built Alliance & Leicester as a significant brand, and our credit underwriting has been particularly strong. All loans are underwritten against well-proven scorecards, and effective delinquency monitoring and sound arrears management remain key ingredients in our success. Our arrears levels remain considerably better than industry averages.

Residential Mortgages

The UK mortgage market remained very competitive in 1999, as the activity of new entrants led to continuing pressure on margins in the industry. During the second half of the year, we also saw the additional ingredient of aggressive loss-leading prices being offered by several traditional providers.

Alliance & Leicester has responded to these competitive pressures in a measured and balanced way. We have improved efficiency and service, whilst offering competitive, but profitable, products. We have widened our product range, including flexible mortgages and a wider variety of incentive choices for our customers.

Alliance & Leicester's gross lending was at record levels in 1999, at £4.0bn, with net lending at £1.2bn. These are equivalent to market shares of 3.5% and 3.1%.

We retain a strong residential mortgage franchise, and remain determined to manage this business to generate shareholder value, by ensuring that our pricing, while competitive, is at profitable levels.

Retail Savings

The activities of new players who have entered the retail savings market over recent years, and the response of traditional providers, have resulted in strong competition within the retail savings sector, with resultant pressure on margins. In this situation, it is encouraging to report that our total personal customer account balances fell by only 1.7% in 1999, and that overall customer balances (including commercial customers) grew. Over the final few months of the year, there was evidence that the pressure on our savings deposits eased slightly and, whilst the margin in our Mortgage Lending & Investments sector fell during 1999 as a whole, it increased in the second half of the year.

During the year, we launched a number of new products to maintain and build our retail savings franchise. These included our PhoneSave telephone-based accounts, which allow customers to move money easily between their Alliance & Leicester savings account and any nominated current account. We were also very successful in the new market for cash ISAs where, according to independent research, Alliance & Leicester achieved a far higher market share than our share of retail savings overall. We have also been successful in retaining the majority of balances from maturing fixed rate bonds.

Current Accounts

While the UK current account market is essentially a mature one, we still view this product as important in building customer relationships. We also believe there is undoubted potential to sell further products to our substantial base of 1.2m active accounts, and a total of around 1.8m customers. We have concentrated new account growth on customer segments with overall high profit potential for the Group. This is helped by our current account products regularly being listed as 'best buys' in industry surveys.

We opened 136,000 new current accounts during 1999. We also introduced Electron functionality to our range, allowing VISA payments and an authorised overdraft.

Long-term Investment Products

Economic and demographic trends in the UK, as well as the direction of government policy, mean that there is likely to be an increasing demand for longer term investment products, including unit trusts and bonds.

Alliance & Leicester entered this market later than some of its competitors, and we are now working actively to improve our position.

Our strategy is to sell simple, value-for-money products manufactured at a low unit cost. These are sold through a sales force that is integrated with our branch network. There is encouraging progress to report. During 1998 and early 1999, we restructured the appraisal, remuneration and management of our regulated sales force – focusing on a package that attracts and retains staff with genuine sales ability whilst, at the same time, ensuring compliance activity of the highest quality. We have also increased the use of customer data and technology to provide sales leads.

The effects of these initiatives are starting to come through. The productivity of our regulated sales staff increased by 42% in 1999, and it is our intention to build on this success by increasing the number of such staff during 2000. There has also been a significant, 91%, growth in the funds under management in our unit trusts business during 1999, from £267m to £509m.

Our investment products are provided with the help of a number of partnerships, with our funds management and administration being outsourced.

Protection Products

Protection insurance products – particularly those linked to the mortgage and unsecured loan markets – provide an important source of non-interest income for the Group.

We sell a variety of protection products, including buildings and contents insurance, payment protection insurance for mortgages and for unsecured loans, life and critical illness insurance, as well as travel and motor insurance.

As with long-term investment products, we aim to sell protection products effectively, whilst sourcing the products from competitive low-cost manufacturers.

Our Commercial Banking Markets

Our commercial banking activities are conducted by Girobank, which occupies a unique position in UK banking. Through its relationship with the Post Office, it is a market leader in money transmission, and provides the bulk of the cash required by Post Office Counters Ltd (POCL) – the largest cash user in the UK.

Girobank has continued to build on its core competencies in cash transmission, on its unique sales force, and by developing the range of its services for corporate customers.

Commercial Money Transmission

Cash remains an important commodity; this is borne out by the fact that the amount of notes and coins in circulation in the UK continues to increase.

Girobank retains its status as a market leader in the cash transmission market. During 1999, it handled £55.2bn of cash, a 2% increase over 1998, accounting for around 28% of all cash passing through UK retail tills.

The Government has announced that from 2003 it will encourage a greater proportion of benefit payments to be made directly into bank accounts. The detail of this initiative is not yet clear, although the Government have emphasised that recipients will still be able to receive benefits by cash at post offices if they wish.

Should the demand for cash in post offices decline as a result of this potential change, such a development would increase the demand for cash from other financial institutions. It is against this background that we are already positioning Girobank as a major provider of cash to other financial institutions. For example, the amount of cash sold to non-post office customers increased by 26% in 1999, from £9.0bn to £11.4bn.

Merchant Acquisition

In 1996, Girobank entered the merchant acquisition market (the electronic processing of credit and debit card transactions), supported by EDS, the technology company, which provide transaction processing. Our share of this market has increased rapidly to over 5.5%.

Bill Payments

Girobank's bill payments service can be used to make payments to almost all UK utility companies and local authorities, as well as to a significant number of retail businesses. It allows the customers of these businesses to pay bills at any of the UK's 18,500 post offices.

The bill payments market is moving from paper to electronic-based transactions, which provides the opportunity for technology-led competition to enter the market. Girobank has responded and maintained its overall market share by providing electronic solutions for its customers. In particular, the bank has just launched an additional, internet-based facility, BillPay, which is described on page 8. Recognising the increasing trend to debit and credit card and other electronic transactions, Girobank successfully outsourced its paper processing operations to Unisys Payment Services Ltd in 1997.

Girobank has continued to build on its core competencies in cash transmission, on its unique sales force, and by developing the range of its services for corporate customers

Asset Finance

We see asset finance as an area of expansion for the Group. In 1999, our net outstandings increased from £1.0bn to £1.3bn.

During 1999 there were few big ticket transactions available at acceptable margins. We have refocused our corporate team towards other structured transactions at better margins. We have also continued to develop our fleet activities by launching a Personal Car Purchase scheme aimed at large corporate customers.

Another telesales centre for asset finance was opened in January 2000, as this has proved to be an efficient way of making asset finance product sales to smaller companies.

Commercial Deposits

The Group has taken the opportunity during 1999 to build on our well-established links with our corporate customers to raise deposits at interest rates which are attractive to the customer, but compare favourably with rates which are required to attract new retail funds. Corporate customer balances are now in excess of £4.5bn.

Treasury

Alliance & Leicester Group Treasury (ALGT) is developing on plan, and we expect to see further controlled growth in the Treasury contribution to Group earnings in the years ahead.

A considerable effort has been put into diversifying our investor base with roadshows throughout Europe. These were well received, reflecting the Group's underlying balance sheet strength, good financial performance and strong ratings.

As a result, ALGT's non-sterling funding sources increased significantly, with two US dollar and one Euro-denominated public floating rate note issues during the year. In addition, we launched a Euro-commercial paper programme, to augment our existing successful US programme.

The diversification of the investment portfolios continues, with good growth in the holdings of mortgage backed and floating rate securities. Work is also underway to improve further the risk management and systems infrastructure needed to support the planned development of the business.

E-Commerce and Direct Banking

Alliance & Leicester has been at the forefront of the trend towards 'direct' banking in the UK, with well-established telephone and postal services.

Our retail banking web-site provides customers with product information on our full range of personal financial service products. It also allows customers to make applications for the majority of these products, including savings products, unsecured loans, mortgages and credit cards. We also have an internet current account service, which can be used by all of our 1.8m current account users.

We launched a web-site specifically for mortgage intermediaries in July 1999, enabling them to make mortgage applications on-line, as well as checking product information.

In addition to these developments, we have a team working on the launch of an internet-only banking operation. This business is being built by a separate management team within Alliance & Leicester, learning from the very successful launch and growth of Alliance & Leicester Personal Finance, which also started as a stand-alone business within the Group. This project will result in incremental costs of around £15m in 2000.

Many of our customers already transact their business without using a branch. All of our current account customers can manage their accounts by telephone and post. More than 80% of our unsecured personal loan applications come via the telephone, and 5% via the internet. Similarly, the majority of our credit card applications are received 'direct'.

During 1999 we introduced our Mortgage Direct service, receiving mortgage applications by telephone or the internet, and are now generating significant business in this way.

There are currently over 60,000 visits to our retail banking web-site each month, producing well over 2,000 product applications per month from the Web.

The experience of the United States suggests that business-to-business internet usage will grow faster, and more profitably, than retail customer net-usage. Girobank has developed a number of PC and web-based services for its corporate customers, including:

- BillPay, an innovative service which allows customers of any bank to pay bills by debit card, at a secure web-site, to any participating service provider (e.g. utilities).
- InterConnect, an internet banking package primarily for the small and medium-sized business sectors.
- AccountManager, a service for larger corporate customers, offering the functionality of InterConnect plus facilities enabling the transmission of large volumes of transaction data, especially useful for utilities and local authorities.

Girobank has plans to build on these capabilities and to increase the ability of its customers to use the internet to transact business.

In total we have three main web-sites: www.alliance-leicester.co.uk, www.girobank.co.uk and www.billpayment.co.uk.

Product Development

We recognise the continuing importance of innovative and effective product development and will build on our successful development record by introducing products that meet customers' changing needs.

Our MoneyBack credit card, launched in 1997 effectively started a new segment of the credit card market in the UK, and we are continuing to grow that business. This success is one example of a process that earlier saw the Group enter the unsecured loan market with highly successful products and services for that sector. More recently, during 1999, we have introduced a new mortgage range, as well as new investment products and bonds. Girobank also continues to offer innovative new developments in its business sectors.

growth through innovation

Customer Information

Considerable resources have been invested improving our understanding of customers and their needs: what they want and how they behave. The technology and data we have assembled is already delivering a number of tangible benefits.

We can link data on the Alliance & Leicester products customers hold – giving us a picture of their relationship with the Group. Armed with this information, sales opportunities can be targeted much more effectively, either through direct marketing, or using the sales system in place at all our branch counters.

We have a detailed knowledge of the current, and potential future, profitability of our customers, and will be using this information to strengthen profitable customer relationships. This means catering for the particular financial service needs that arise as customers move through the various life-stage changes that materially influence the type of products they require.

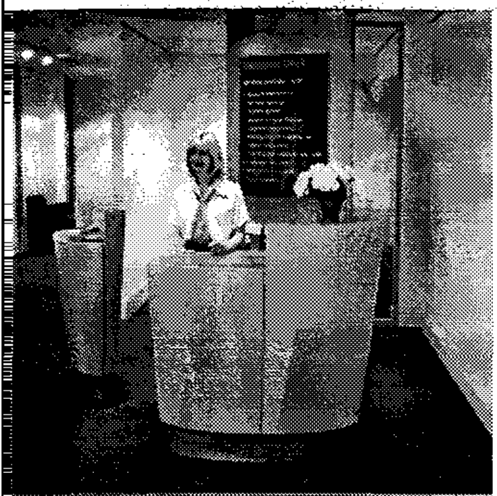
A good example during 1999 was the launch of our Centralised Appointments Booking Service (CABS). Sales leads are now generated automatically from a central database, allowing us to make outbound telephone calls from a call centre at times convenient to the customer, in order to arrange sales interviews in branches. Since this system was introduced, the conversion rate from lead to actual product sales has improved substantially.

Credit & Risk Skills

The Group adopts a prudent approach to all personal lending, with both secured and unsecured lending centrally credit-scored. We view our systems and knowledge in this area as a sustainable competitive advantage. The continuing growth in our unsecured personal lending business has been achieved at delinquency rates well below industry averages. Asset quality has been maintained thanks to daily performance monitoring of different loan tranches, backed up by sophisticated arrears management processes.

This prudent approach on unsecured personal loans is also to be found in our secured lending activities. Loan quality was reflected in the value of our mortgage arrears, which fell by 40% over the year.

Our commercial asset finance business has also demonstrated a strong ability to grow its book whilst managing arrears at below industry averages.



We aim to make it possible for customers to do business with us in the ways they want. We have a UK-wide branch network, well-developed telephone and postal banking services and during 1999 an increasing internet facility.

Business Review continued

Retail Distribution Network

Very many customers still prefer the traditional branch network for their financial service requirements. We have a network of 315 branches – relatively few compared to most of our competitors, but sufficient to provide a presence throughout the UK. This network is further augmented through our relationship with the Post Office, which enables our customers to transact certain types of business at 18,500 further offices.

We have continued to focus branch activity on sales, with customers increasingly using other media for basic transactions. In response to increasing demand, we have taken action during 1999 to raise the number of ATMs from 594 to 687. This includes the introduction of machines at retailer sites such as Debenhams stores, Dillons convenience stores, and at Heathrow and Gatwick airports.

Cost Control

Our record on effective cost control over recent years has been strong. The Group's cost:income ratio improved further in 1999 to 53.5% against 55.8% in 1998. Within the Mortgage Lending & Investments sector, the cost:income ratio improved further during 1999 to 41.6%, compared to over 54.9% in 1995.

We are continuing to improve the efficiency of our operations, reducing the costs of overhead and back office functions. We have developed a new business model for processing mortgage applications, which has been piloted in three of our eight mortgage processing units. We have proved that this model can increase productivity by around 50% compared to our historic processes, as well as improving customer service. We will roll this out to the other mortgage processing units during 2000.

We are structuring our administrative operations so that common processes can be delivered from efficient centres of expertise across the range of our Retail Banking products. This re-engineering of our business will lead to more efficient processes, and improved customer service. Examples of this approach include the centralisation of arrears and collection activities and the introduction of common application processing for different products.

We have installed a new Virtual Private Network (VPN) telephone system in our administration sites and are rolling this out to the branches from January 2000. This will enable us to implement more efficient call-handling procedures across the Group, improving costs and delivering enhanced customer service.

These activities, and others, ensure that processing costs continue to be attacked. We are using some of the resultant savings to invest in revenue-enhancing activities, such as increasing our regulated sales force.

Effective cost control will remain a key Group priority and we will rigorously pursue fresh opportunities for cost-cutting and efficiency gains, and look to further outsourcing where it can add value.

Building Effective Alliances

We believe that effective alliances will become increasingly important as the Group builds value.

A prime example is Girobank's cash handling services which are offered in partnership with Post Office Counters Ltd (POCL).

We have also successfully outsourced significant 'manufacturing' activities to various partners. In Commercial Banking this includes the processing of paper transactions (cheques and credits) to Unisys Payment Services Ltd, outsourcing CHAPS payment, and the processing of our merchant acquisition service – which is provided by EDS. In Retail Banking, Marlborough Stirling provide the administration of our life and unit trusts products, with our funds management outsourced to Gartmore. Our general insurance administration is outsourced to Eagle Star.

We have used alliances to build product-enhancing services. For example, major companies, such as BP, Going Places and Currys have continued as partners on our MoneyBack Partner scheme. 1999 has seen the introduction of additional companies like Vodafone, Thistle Hotels and Hertz to the scheme.

In a highly cost-conscious and competitive world, we believe we are in a good position to develop additional effective alliances, capable of delivering clear benefits for the partners. One current example is the partnership between Girobank and POCL who are working with Bank of Ireland to jointly develop a cash centre in Northern Ireland.

We also use alliances in developing our technology. For example, we work with, amongst others, IBM as strategic provider of management information software, with Compaq as a supplier of hardware and with BT on communications for ATMs, branches and our internal telephone network. As well as the usual customer-supplier commercial relationships, we also have a number of formal partnerships involving shared risk and shared reward.

We recognise establishing and managing successful partnerships is an important skill required to meet changing customer needs.

In a highly cost-conscious and competitive world, we believe we are in a good position to develop additional effective alliances, capable of delivering clear benefits for the partners

Our Staff

The quality of the Group's staff, and our emphasis on personal development, constitute key strengths. Our commitment to employee development manifests itself in a variety of ways. For example, around 1,300 employees have attended 'High Performance' workshops and over 48% of our people receive some form of training every month.

Alliance & Leicester Personal Finance (ALPF), as well as Girobank and Sovereign Finance all have Investors in People (IIP) accreditation, with both Girobank and ALPF being re-accredited in December 1999. IIP is a nationally recognised standard which demonstrates an organisation's continued commitment to the development of its people and business in a consistent framework.

Closely aligned with the development of potential, is the recognition for, and reward of, superior performance at both an individual and collective level. To this end, a range of bonus and incentive schemes are in place across the Group, including a number introduced during 1999.

Over 400 senior management are now eligible for performance-related annual bonus payments and all staff were offered free shares in 1999, equivalent to 2.6% of their salary. Sales incentive schemes operate throughout the Group; performance incentives have been introduced in Treasury, and cost incentives into Procurement. Over 90% of our staff own shares in the Group.

Supply Chain Management

We have an objective to achieve targeted reductions each year in our procurement costs and this goal was met in each of the last three years.

We achieve this through our dedicated procurement resources, strategic and co-ordinated management of the supply chain, by using the leverage provided by the size of the Group's overall expenditure on goods and services, and by emphasising value for money.

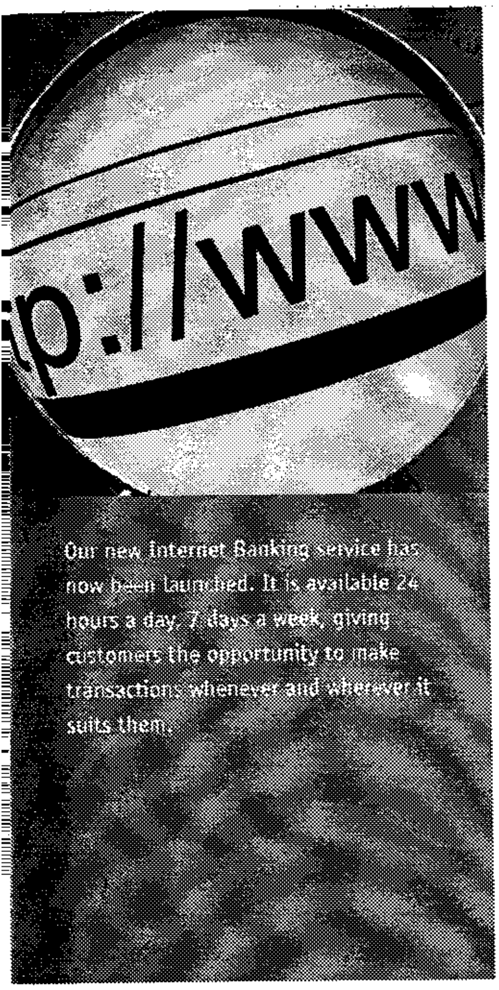
Our Business and The Environment

Concern for the environment is an integral part of our corporate business strategy. We recognise that ongoing improvement in our environmental performance is sound business practice.

We have embarked on a series of initiatives to reduce the environmental impact of our business activities to a practical minimum in accordance with robust environmental practices, and we have set out ten core objectives in our Environmental Policy document, which was first published in May 1998.

For example:

- We participate in the annual 'Index of Corporate Environmental Engagement' survey published by Business in the Environment.
- We are developing additional Group-wide environmental performance targets appropriate to our business sector. We already apply targets in key areas such as energy and water usage.
- We gained accreditation for our energy management practices from the Institute of Energy in 1999. This is based on independent assessment and, to date, fewer than 100 companies have received this accreditation.
- We are working to reduce the amount of packaging waste produced, and will fully meet our waste recovery and recycling obligations under the UK Packaging Plan.



Business Review continued

Proven Ability to Deliver

Since flotation in April 1997, Alliance & Leicester has delivered against the investment messages which we set out to achieve growth in long-term shareholder value:

- We have demonstrated growth in our chosen business sectors.
- We have continued to diversify income streams.
- We have significantly improved cost efficiency.
- We have maintained a strong balance sheet, whilst returning significant capital to shareholders.

During 1999, earnings per share grew by 13% and profits and business volumes have increased in each of our business units. Moreover, the proportion of earnings from outside the Mortgage Lending & Investments sector is now 45%, and we have met our pledge to push total costs in 1999 down below the 1998 level. We have also returned £293m of capital to our shareholders through our share buyback programme.

The Group recognises the enormous pace of change in financial services. We will respond to this in a focused and flexible manner

We have delivered against those investment messages, and will continue to deliver against promises which we make to our shareholders.

The emphasis on shareholder return remains of pivotal importance to Alliance & Leicester. We measure the return on equity of each of our business units, and ensure that capital is only invested in activities and products that make a return higher than the appropriate cost of capital. It is notable that, excluding so called 'excess capital' the Group's underlying return on capital is over 28%, one of the highest in the UK banks' sector.

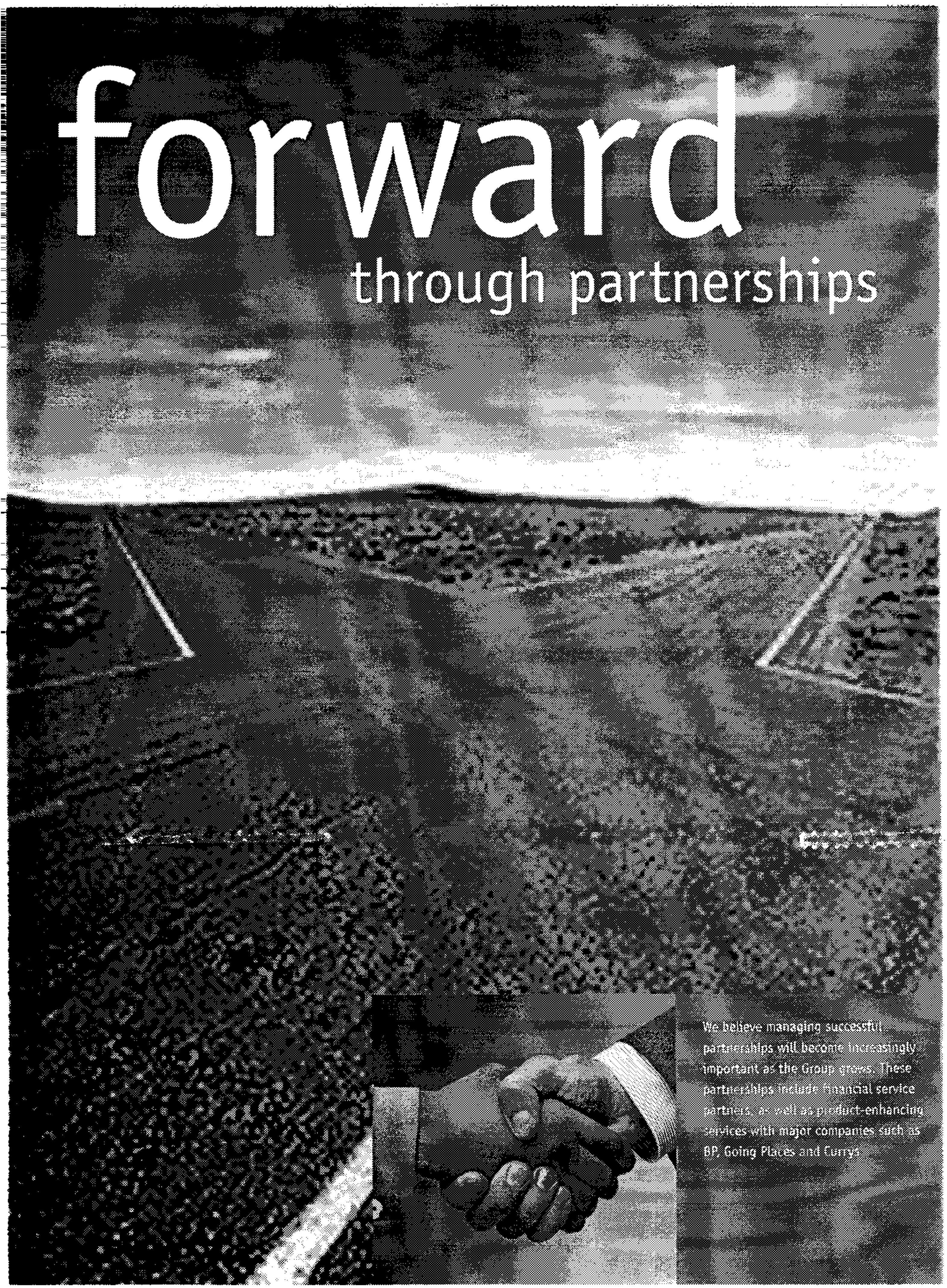
Future Opportunities

The Group recognises the enormous pace of change in financial services. We will respond to this in a focused and flexible manner. Our size and our streamlined management means that we can move quickly and effectively to exploit emerging opportunities.
A variety of factors underpin our ability to meet the challenges ahead:

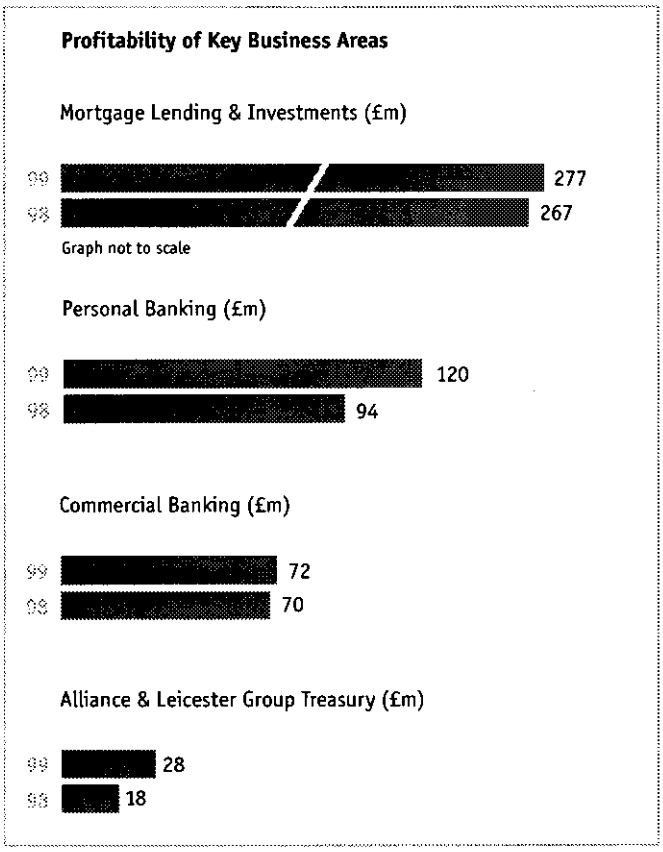
- Building on our brand strength.
- Building on our retail banking customer base, by retaining profitable customers and attracting new ones through developments which offer them positive value and by investment in proven sales methods, such as our branch-based regulated sales force.
- Building on our commercial banking customer base, by continuing to be a leader in our main markets, whilst broadening the range of commercial banking services which we provide.
- Exploiting our proven credit and risk skills in a world of rapid change. Successful banking depends on the ability to lend money profitably. Our skills provide a strong basis for this.
- Improving our capital efficiency, by meeting our target of a maximum Tier 1 ratio of 8% in 2001, and by taking other opportunities to improve capital efficiency when appropriate.
- Building on our current strong presence on the internet.
- Continuing to develop alliances and partnerships to provide the diverse products and services required by our customers at the lowest cost.

forward

through partnerships



We believe managing successful partnerships will become increasingly important as the Group grows. These partnerships include financial service partners, as well as product-enhancing services with major companies such as BP, Going Places and Currys.



Overview of Results

Group pre-tax profit increased by 10% to £500m (1998: £455m). The underlying Group cost:income ratio, excluding costs associated with EMU and Year 2000 fell to 53.5% (1998: 55.8%).

Underlying earnings per share increased by 13% to 61.8p (1998: 54.6p). A final dividend of 19.8p per share is proposed, payable in May 2000, which together with an interim dividend of 9.5p per share already paid, gives a total dividend of 29.3p per share for 1999, compared to a total dividend for 1998 of 24.5p. Underlying earnings represent a dividend cover of 2.17 (1998: 2.23).

Summary Profit and Loss Account

A comparison of the profit and loss account headings is affected, as announced in the 1998 Annual Report, by the change in accounting treatment from 1 January 1999 of various Post Office related cost and income items. The change in treatment was necessary in order to reflect revised contractual terms between Girobank and Post Office Counters Ltd.

Throughout this review comparative figures have been disclosed on a proforma basis to reflect this change.

	Six months ended 30.06.99 £m	Six months ended 31.12.99 £m	**Year ended 31.12.99 £m**	Year ended 31.12.98 Proforma £m
Net interest income	367	386	**753**	748
Non-interest income	214	206	**420**	401
Total income	581	592	**1,173**	1,149
Administrative expenses	(311)	(321)	**(632)**	(655)
Bad debt provisions	(23)	(18)	**(41)**	(39)
Profit before tax	247	253	**500**	455
Taxation	(72)	(74)	**(146)**	(137)
Profit after tax	175	179	**354**	318
Earnings per share	30.0p	31.8p	**61.8p**	54.6p

Group pre-tax profit for the year to 31 December 1999 has increased by 10% to £500m. The underlying trend, on a comparable basis, is an increase in total income of £24m, a reduction in administrative expenses of £23m, and an increase in the loss charge of £2m to give an overall increase in pre-tax profit of £45m or 10% compared to 1998. The impact of the share buyback was to reduce profit by £3.8m. Profit after tax increased by 11% to £354m and earnings per share benefited from the share buyback programme and increased by 13% to 61.8p.

Business Sector Profitability

The contribution to profit by each business sector, compared to 1998 is set out below.

	Six months ended 30.06.99 £m	Six months ended 31.12.99 £m	**Year ended 31.12.99 £m**	Year ended 31.12.98 £m
Mortgage Lending & Investments	131	146	**277**	267
Personal Banking	62	58	**120**	94
Retail Banking	193	204	**397**	361
Commercial Banking	33	39	**72**	70
Treasury & Group	22	14	**36**	38
Year 2000 and EMU costs	(1)	(4)	**(5)**	(14)
Profit before tax	247	253	**500**	455

Profit from the Retail Banking sector has increased by 10% to £397m (1998: £361m). The main source of growth was in the Personal Banking sector, up 27% over 1998 due to growth in personal loan and credit card earnings. The second half of 1999 increased by 28% over the corresponding period in 1998. The contribution from Mortgage Lending & Investments and Commercial Banking increased by 4% and 3% respectively over 1998.

As a result of the increase in the Personal Banking sector, 45% of Group profit has now been derived from activities outside the Mortgage Lending & Investments sector (1998: 41%).
The following tables provide a breakdown of the profit and loss account by business sector. The Treasury & Group sector includes Alliance & Leicester Group Treasury plc (ALGT), central overheads including the costs associated with Year 2000 and EMU and the impact of reduced profit arising from the share buyback programme.

Year ended 31 December 1999

	Mortgage Lending & Investments £m	Personal Banking £m	Retail Banking £m	Commercial Banking £m	Treasury & Group £m	**Total Group £m**
Net interest income	344	264	608	83	62	**753**
Non-interest income	111	102	213	205	2	**420**
Total income	455	366	821	288	64	**1,173**
Administrative expenses	(189)	(196)	(385)	(214)	(33)	**(632)**
Bad debt provisions	11	(50)	(39)	(2)	–	**(41)**
Profit before tax	277	120	397	72	31	**500**

Year ended 31 December 1998

	Mortgage Lending & Investments £m	Personal Banking £m	Retail Banking £m	Commercial Banking Proforma £m	Treasury & Group £m	Total Group Proforma £m
Net interest income	375	227	602	82	64	748
Non-interest income	104	91	195	206	–	401
Total income	479	318	797	288	64	1,149
Administrative expenses	(208)	(190)	(398)	(217)	(40)	(655)
Bad debt provisions	(4)	(34)	(38)	(1)	–	(39)
Profit before tax	267	94	361	70	24	455

A review of each significant line of the profit and loss account, together with the analysis by business sector now follows.

Net Interest Income

Bank base rates averaged 5.46% for the first half of 1999 and 5.23% for the second half of 1999 to give a full year average of 5.35% for 1999, compared to 7.23% for 1998. The following table provides a detailed analysis of the net interest margin achieved on interest-earning assets.

	Six months ended 30.06.99 £m	Six months ended 31.12.99 £m	**Year ended 31.12.99 £m**	Year ended 31.12.98 Proforma £m
Net interest income	367	386	**753**	748
Average balances:				
Interest-earning assets (IEA)	27,490	29,108	**28,306**	25,216
Financed by:				
Interest-bearing liabilities	23,459	25,009	**24,241**	21,346
Interest-free liabilities	4,031	4,099	**4,065**	3,870
Average rates:	%	%	**%**	%
Bank base rate	5.46	5.23	**5.35**	7.23
Gross yield on average IEA	6.74	6.43	**6.58**	8.20
Cost of interest-bearing liabilities	4.74	4.43	**4.58**	6.18
Interest spread	2.00	2.00	**2.00**	2.02
Contribution of interest-free liabilities	0.70	0.62	**0.66**	0.95
Net interest margin on average IEA	2.70	2.62	**2.66**	2.97

Average interest-earning assets have increased by 12% over 1998. Group net interest of £753m was marginally higher than the comparable period and the Group net interest margin was 0.31% lower at 2.66%. The interest spread was broadly maintained but the contribution from interest-free liabilities fell from 0.95% to 0.66%.The interest earned on the investment of the Group's non-interest bearing liabilities and the impact of the hedging policy of the Group's balance sheet is explained further in the Risk Management and Control section.

Net Interest Margin by Business Sector

	Mortgage Lending & Investments	Personal Banking	Retail Banking	Commercial Banking	Treasury & Group	Total Group
Six months ended 30 June 1999						
Net interest £m	168	128	296	40	31	367
Mean interest-earning assets £m	21,456	3,822	25,278	2,762	13,397	27,490
Net interest margin as % mean IEA	1.58	6.77	2.36	2.95	0.47	2.70
Six months ended 31 December 1999						
Net interest £m	176	136	312	43	31	386
Mean interest-earning assets £m	21,228	4,138	25,366	2,974	14,152	29,108
Net interest margin as % mean IEA	1.65	6.49	2.44	2.81	0.44	2.62
Year ended 31 December 1999						
Net interest £m	344	264	608	83	62	**753**
Mean interest-earning assets £m	21,341	3,981	25,322	2,869	13,778	**28,306**
Net interest margin as % mean IEA	1.61	6.62	2.40	2.88	0.45	**2.66**
% increase in mean interest-earning assets from 31 December 1998	4%	14%	5%	31%	27%	**12%**
Year ended 31 December 1998 Proforma						
Net interest £m	375	227	602	82	64	748
Mean interest-earning assets £m	20,595	3,480	24,075	2,194	10,832	25,216
Net interest margin as % mean IEA	1.82	6.52	2.50	3.73	0.59	2.97

The Retail Banking net interest margin reduced by 0.10% to 2.40% in 1999. This was mainly due to lower spreads in Mortgage Lending & Investments which was partly offset by improvement in the Personal Banking margin of 0.10% to 6.62%. The reduction in the Retail Banking margin was more than offset by growth in the interest-earning assets of 5% resulting in an improvement in the net interest income of £6m to £608m.

The Retail Banking margin improved in the second half of the year by 0.08% to 2.44% due to the easing of the competitive pressure on retail savings and growth in the Personal Banking higher margin business. Commercial Banking interest-earning assets increased by 31%, but the net interest margin has reduced due to a higher proportion of lower margin asset finance business and a lower contribution from interest free liabilities.

The Treasury & Group margin includes ALGT, and the income from the Group's capital not allocated to the other business sectors. The margin has fallen by 0.14% reflecting the impact of lower earnings on excess capital due to lower interest rates.

The following table provides a detailed analysis of the net interest margin achieved in the Mortgage Lending & Investments sector:

Mortgage Lending & Investments	Six months ended 30.06.99 £m	Six months ended 31.12.99 £m	**Year ended 31.12.99 £m**	Year ended 31.12.98 £m
Net interest income	168	176	**344**	375
Average balances:				
Interest-earning assets (IEA)	21,456	21,228	**21,341**	20,595
Financed by:				
Interest-bearing liabilities	20,145	19,824	**19,983**	19,246
Interest-free liabilities	1,311	1,404	**1,358**	1,349
Average rates:	%	%	**%**	%
Bank base rate	5.46	5.23	**5.35**	7.23
Gross yield on average IEA	6.07	5.83	**5.95**	7.63
Cost of interest-bearing liabilities	4.78	4.48	**4.63**	6.22
Interest spread	1.29	1.35	**1.32**	1.41
Contribution of interest-free liabilities	0.29	0.30	**0.29**	0.41
Net interest margin on average IEA	1.58	1.65	**1.61**	1.82

The MLI net interest margin increased from 1.58% in the first half of 1999 to 1.65% in the second half, mainly due to an improvement in spreads caused by the lower cost of retail funds.

The table below shows the analysis of the mortgage incentive costs, calculated as a discount to the headline mortgage rate, charged to the profit and loss account:

	Year ended 31.12.99 £m	Year ended 31.12.98 £m
Cashbacks and variable rate discounts	**103**	105
Fixed and capped rate discounts	**147**	91
Total	**250**	196
Mortgage incentives as % mean IEA	**1.17%**	0.95%

The major increase in incentives was in fixed rate discounts which primarily related to fixed rate lending in the second half of 1998. The average remaining duration of fixed rate discounts was 10 months (1998: 13 months). For variable rate discounts the average remaining duration was 27 months (1998: 26 months).

If a policy of amortisation of mortgage incentives had been adopted, on a level yield basis in line with certain other mortgage lenders, the estimated charge to the profit and loss account would have been £187m (1998: £138m). The net interest income in MLI would be £63m higher (1998: £58m higher) on the alternative basis, and the net interest margin would be 0.30% higher at 1.91%.

Non-Interest Income

Non-interest income by business sector is as follows:

	Six months ended 30.06.99 £m	Six months ended 31.12.99 £m	Year ended 31.12.99 £m	Year ended 31.12.98 Proforma £m
Mortgage Lending & Investments	57	54	**111**	104
Personal Banking	55	47	**102**	91
Retail Banking	112	101	**213**	195
Commercial Banking	101	104	**205**	206
Treasury & Group	1	1	**2**	–
Total	214	206	**420**	401

Non-interest income, representing mainly fees and commissions, was £420m, up 5% over 1999.

In the Retail Banking division non-interest income has increased by £18m or 9% over 1998 after charging £16m (1998: £10m) in respect of cashbacks paid to customers with a MoneyBack credit card. Mortgage Lending & Investments' income is 7% higher than 1998 due to increased income from sales of investment products. Personal Banking fee income has increased by 13% reflecting growth in the volume of personal loans and credit cards.

Administrative Expenses

Administrative expenses were in total £632m for the year to 1999, a fall of £23m or 4% over 1998. If the costs associated with Year 2000 and EMU, redundancy and relocation were excluded, the underlying cost base would have fallen by £14m or 2%. An analysis of administrative expenses (including depreciation) is as follows:

	Six months ended 30.06.99 £m	Six months ended 31.12.99 £m	Year ended 31.12.99 £m	Year ended 31.12.98 Proforma £m
Staff costs and related expenditure	100	103	**203**	204
Post Office related	61	60	**121**	126
Advertising and promotions	33	30	**63**	68
Premises, equipment and other	95	98	**193**	197
Depreciation	18	17	**35**	34
Underlying costs	307	308	**615**	629
Redundancy and relocation	3	9	**12**	12
Year 2000 and EMU	1	4	**5**	14
Total	311	321	**632**	655
By Business Sector:				
Mortgage Lending & Investments	95	94	**189**	208
Personal Banking	98	98	**196**	190
Retail Banking	193	192	**385**	398
Commercial Banking	107	107	**214**	217
Treasury & Group	11	22	**33**	40
Total	311	321	**632**	655

The increase in staff costs for the second half of 1999 is due to the annual pay review, which is implemented in July. Treasury & Group costs rose in the second half of 1999 due to the cost of further staff reductions.

Financial Review continued

In the Retail Banking division costs have fallen by 3% compared to 1998, *with a reduction of 9% in the Mortgage Lending & Investments* sector primarily due to savings from efficiency initiatives. The cost base expressed as a percentage of average interest-earning assets, has fallen from 1.65% to 1.52% in the Retail Banking division, and from 1.01% to 0.89% in the Mortgage Lending & Investments sector.

The Group cost:income ratio, excluding costs associated with Year 2000 and EMU, has reduced to 53.5% (1998: 55.8%). Analysing the cost:income ratio by sector shows:

	Six months ended 30.06.99 %	Six months ended 31.12.99 %	**Year ended 31.12.99 %**	Year ended 31.12.98 Proforma %
Mortgage Lending & Investments	42.1	41.1	**41.6**	43.4
Personal Banking	53.3	53.7	**53.5**	59.9
Retail Banking	47.1	46.7	**46.9**	49.9
Commercial Banking	76.0	72.6	**74.3**	75.3
Treasury & Group	31.3	56.0	**43.7**	40.1
Group Total	53.3	53.7	**53.5**	55.8

The cost:income ratio for Mortgage Lending & Investments would be further reduced to 36.6% (1998: 38.7%) if mortgage incentives were amortised in line with the policy of certain other mortgage lenders.

Staff Numbers

The number of staff employed by the Group on a full time equivalent basis has risen from 7,544 at the end of 1998 to 7,569 at the end of 1999.

The number of agency and contract staff engaged by the Group at the end of 1999 fell to 213 compared with 279 at the end of 1998. The figures include agency staff engaged in the Year 2000 project.

In total, own staff and agency staff decreased by 41 from 7,823 at the end of 1998 to 7,782 at the end of 1999.

Year 2000 and EMU

The Group's systems successfully moved into the new Millennium. This resulted from a Groupwide programme of work, initiated in 1996, through which all areas assessed, corrected, and tested all services, including those supplied by external service providers and links with trading partners, payments systems, etc.

Monitoring will continue through the early part of 2000, to ensure that no problems arise as remaining processes operate live for the first time and, in particular, that service is fully maintained over the leap year date of 29 February 2000.

The total cost of preparing the Group's systems for the year 2000 was £33m, of which £18m was incremental. During 1999, incremental costs incurred totalled £4m (1998: £12m).

Developments necessary to support the initial introduction of the Euro were completed in 1998, and the Group was able to transact in Euros when markets opened on 4 January 1999. Since then, and in common with the rest of the banking industry, the Group has continued to consider the implications of UK entry to EMU and, whilst committed to being prepared for the latter, will defer major investment until Government intentions are clearer.

Provisions for Bad and Doubtful Debts

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

	Year ended 31.12.99 £m	Year ended 31.12.98 £m
Residential mortgages	**(4)**	13
Commercial secured loans	**(7)**	(9)
Unsecured loans and credit cards	**50**	34
Leasing	**2**	1
Total	**41**	39
By Business Sector:		
Mortgage Lending & Investments	**(11)**	4
Personal Banking	**50**	34
Commercial Banking	**2**	1
Treasury & Group	**–**	–
Total	**41**	39

The revised closing balances of provisions, together with the ratio of closing provisions to gross loans and advances balances were as follows:

	As at 31.12.99 £m	As at 31.12.99 %	As at 31.12.98 £m	As at 31.12.98 %
Residential mortgages	**41**	**0.21**	55	0.30
Commercial secured loans	**17**	**5.81**	23	8.61
Unsecured loans and credit cards	**83**	**2.98**	74	3.23
Leasing	**15**	**1.52**	17	2.03
Total	**156**	**0.67**	169	0.78
General	**42**		42	
Specific	**114**		127	
Total	**156**		169	

In addition to the £41m of residential provisions held on balance sheet, the Group has an offshore captive insurance subsidiary with available funds totalling £45m. These funds are disclosed in the Group balance sheet under the heading 'accruals and deferred income'. Together this pool provides £86m of cover within the Group for losses in the residential mortgage book. Further cover is provided through re-insurance of risk with external insurers.

An analysis of the Group's arrears on residential mortgage loans was as follows:

Arrears as a % of mortgage balance	31.12.1999 Value of arrears £'000	31.12.1999 Arrears as a % of residential mortgage balances	31.12.1998 Value of arrears £'000	31.12.1998 Arrears as a % of residential mortgage balances
2.5 - 5%	**5,590**	**0.029**	9,299	0.051
5 - 7.5%	**4,127**	**0.021**	7,218	0.040
7.5 - 10%	**3,181**	**0.016**	5,470	0.030
10% +	**9,811**	**0.051**	16,362	0.090
Repossession stock	**2,297**	**0.012**	3,263	0.018
Total	**25,006**	**0.129**	41,612	0.228

The 40% reduction in the value of residential arrears since December 1998 is due to a more pro-active approach to collections activity as well as a more favourable economic environment.

The following table shows the arrears level on unsecured lending by Alliance & Leicester Personal Finance Limited (ALPF) compared with the average for members of the Finance and Leasing Association:

Value of loans > 30 days in arrears as % of total loans	As at 31.12.99 %	As at 31.12.98 %
ALPF	**5.4**	5.0
Average for Finance and Leasing Association Members	**7.7**	7.0
% ALPF arrears to FLA	**70%**	71%

Taxation

A corporation tax rate of 30.25% (1998: 31%) has been used in preparing these results. The tax charge for 1999 of £146.0m (1998: £137.3m) represents 29.2% of profit before tax (1998: 30.2%).

Balance Sheet

The structure of the consolidated balance sheet as at 31 December 1999 is shown below in summary format:

	As at 31.12.99 £m	As at 31.12.98 £m
Assets		
Cash, treasury assets and loans and advances to banks	**5,410**	4,857
Loans and advances to customers:		
Residential mortgages	**19,326**	18,185
Commercial secured loans	**621**	239
Unsecured loans	**2,800**	2,228
Leasing and guaranteed loans	**985**	823
	23,732	21,475
Fixed assets:		
For use in the business	**286**	287
Leased to customers	**230**	154
Other assets	**834**	806
	30,492	27,579
Liabilities		
Customer accounts:		
Personal customers	**15,639**	15,908
Corporate customers	**4,486**	3,984
	20,125	19,892
Deposits by banks	**1,024**	721
Debt securities in issue	**5,751**	3,407
Other liabilities	**1,567**	1,433
Subordinated loan capital	**273**	273
Shareholders' funds	**1,752**	1,853
	30,492	27,579

Net lending to customers was £2.2bn. Gross residential mortgage lending was £4.0bn (1998: £3.8bn) which represents a market share of 3.5% (1998: 4.2%). Fixed rate mortgage lending represented 11% of gross advances in 1999 compared to 42% in 1998. Net residential lending of £1.2bn (1998: £1.2bn) represents a market share of 3.1% (1998: 4.6%). Of the total residential mortgages at the end of 1999, 71% is covered by redemption penalties. The increase in commercial secured loans mainly relates to secured lending to non-bank financial institutions.

The table below analyses residential lending for the year:

	Year ended 31.12.99 £bn	Year ended 31.12.98 £bn
Gross advances	**4.0**	3.8
Redemptions and capital repayments	**(2.8)**	(2.6)
Net lending	**1.2**	1.2

The following table analyses residential lending by type of borrower:

	Year ended 31.12.99 %	Year ended 31.12.98 %
First time buyer	**23**	19
Next time buyer	**44**	42
Remortgage	**33**	39
	100	100

The following table analyses unsecured loans:

	As at 31.12.99 £m	As at 31.12.98 £m
Unsecured consumer loans	**1,842**	1,544
Credit card balances	**695**	504
Other	**263**	180
	2,800	2,228

There has been significant growth in unsecured loan balances since December 1998, with unsecured consumer loans increasing by 19%, and credit card balances by 38%. Gross unsecured consumer lending increased by 11% over 1998:

Unsecured consumer lending gross advances:	Six months ended 30 June £m	Six months ended 31 Dec £m	Year ended 31 Dec £m
1999	714	606	1,320
1998	654	535	1,189
% increase in 1999	9%	13%	11%

Sovereign Finance plc, our asset finance subsidiary, has two main categories of lending – the 'big ticket' portfolio of individual transactions over £20m, of £603m (1998: £494m), and a small/medium ticket portfolio of £667m (1998: £545m). The total asset finance book, net of loss provisions and intercompany lending, is included in the following balance sheet headings:

	As at 31.12.99 £m	As at 31.12.98 £m
Loans and advances to banks	**34**	30
Loans and advances to customers:		
Finance leases and hire purchase	**985**	823
Unsecured loans	**1**	8
Fixed assets:		
Operating leases	**230**	154
	1,250	1,015

Customer balances have increased by £233m to £20.1bn (1998: £19.9bn) *reflecting a decrease of £269m in personal customer balances and an* increase of £502m in corporate customer balances since 1998. The majority of the reduction of personal customer balances arose in the second half of the year when interest rates on offshore balances were realigned.

Capital Structure

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

	As at 31.12.99 £m	As at 31.12.98 £m
Capital: Tier 1	**1,725**	1,845
Tier 2	**317**	317
Deductions	**(77)**	(77)
Total capital	**1,965**	2,085
Total risk weighted assets	**15,343**	13,791
Risk asset ratios:		
Total capital	**12.8%**	15.1%
Tier 1	**11.2%**	13.4%

The Group's excess Tier 1 capital above a target ratio of 8% is around £500m at the end of December 1999 and it remains the Group's objective to achieve the target ratio in 2001.

The Group commenced its share buyback programme in June 1999, and during the period to 31 December 1999 repurchased a total of 35m shares, representing approximately 6% of the equity base, at a total cost of £293m.

The Group plans to repurchase for cancellation around a further £300m of shares during 2000.

Alliance & Leicester has a very conservative balance sheet and depending on economic circumstances at the time, there could be an opportunity to have a Tier 1 ratio eventually lower than 8% and in line with ratios of other competitor banks.

Profit Ratios

The Group's profit ratios compared to 1998 were as follows :

	Year ended 31.12.99 %	Year ended 31.12.98 %
Post tax return on capital	**19.7**	18.0
Post tax return on mean assets	**1.2**	1.2
Post tax return on mean risk weighted assets	**2.4**	2.5

The post tax return on capital by sector is analysed below:

1999	Mortgage Lending & Investments £m	Personal Banking £m	Commercial Banking £m	Treasury & Group £m	Total Group £m
Underlying post tax profit	*195*	*83*	*52*	*24*	**354**
Average Tier 1 allocated	884	208	162	548	**1,802**
Post tax return on capital %	22.0	40.1	31.9	4.5	**19.7**
1998 post tax return on capital %	20.9	40.7	42.0	2.9	**18.0**

Capital has been allocated to business units with 8% equity and 3% subordinated debt.

The fall in return on capital for Commercial Banking is due to the growth in Sovereign Finance assets. This business is more capital intensive than Girobank and so has a lower return on capital, reducing the overall Commercial Banking return.

To illustrate the return on underlying capital, at 8% Tier 1 ratio the Group's post tax return on capital would be 28.3% and at 7% would be 31.8%.

Risk Management and Control

The Group Board approves policy and limits with respect to credit risk, market risk and liquidity risk and has delegated its monitoring and control responsibilities to the Group Credit Policy Committee (GCPC) and the Group Assets and Liabilities Committee (ALCO). Membership of these committees consists of both main Board directors and senior management.

Credit Risk

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

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

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

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

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

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

Market Risk

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

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

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

Interest Rate Risk

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

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

Non-interest bearing liabilities comprise mainly interest-free personal and corporate current accounts and shareholders' funds and totalled £4.2bn at 31 December 1999 (1998: £4.0bn). Wherever it decides to invest these funds, the Group is exposed to market risk – if the funds are invested short term net interest income will be very volatile but the market value of the assets will be relatively stable, whilst investing the funds longer term will achieve more stability in net interest income but at the expense of greater volatility in the market value of the assets. In balancing these two extremes the Group's objective is to minimise volatility in net interest income over the medium term.

These balances, particularly current account balances, are constantly changing and it is therefore necessary to establish a view of the core balance and to keep this under review on a regular basis. This responsibility rests with ALCO. At 31 December 1999, the core fund was £3.3bn (1998: £3.1bn) and the remainder, representing fluctuations above core balance levels on current accounts and capital not allocated to business units, was £0.9bn (1998: £0.9bn).

The following table summarises the interest rate repricing profile of the core fund.

	Less than 1 year	More than 1 year
31 December 1999	18%	82%
31 December 1998	30%	70%

A full interest rate repricing table is shown in Note 36 on page 64.

Foreign Exchange Risk

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

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

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

Equity Risk

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

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

Liquidity Risk

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

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

Derivatives

A derivative is an off balance sheet agreement which defines certain financial rights and obligations which are contractually linked to interest rates, exchange rates or other market prices. Derivatives are an efficient and cost effective means of managing market risk and limiting counterparty exposures and are an indispensable tool in treasury management. Derivatives are used by the Group for balance sheet management purposes and not for speculative, trading purposes.

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 loans, leasing arrangements, funding and investment activities and foreign exchange services to customers.

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

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

Control of Derivatives

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

All exchange traded instruments are subject to cash requirements under the standard margin arrangements applied by the individual exchanges and are not subject to significant credit risk. Other derivatives contracts are on an 'Over the Counter' basis with OECD financial institutions. The exposures arising from these contracts are shown in Note 36 on page 66.

Board of Directors

John Windeler Aged 56
Executive Chairman

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

Sir Michael Thompson Aged 68
Non-Executive Deputy Chairman

Sir Michael Thompson is a distinguished physicist with a scientific background that includes electronics and computers. Formerly Vice Chancellor of the University of Birmingham and before that the University of East Anglia, he has broad management and strategic planning experience. He has served on many public authorities, trusts and committees in education, health and science.

Richard Banks Aged 48
Managing Director, Girobank

Richard Banks became Managing Director of Girobank in March 1996 having held a number of senior positions in Girobank since he joined the Company in 1987. He is responsible for the Group's commercial banking operations.

Peter Barton Aged 62
Non-Executive Director

Peter Barton is a solicitor and investment banker who has many years experience in the finance sector including nine years with Lehman Brothers and four years with Robert Fleming & Co. His other directorships include Foreign & Colonial US Smaller Companies plc, Howard de Walden Estates Limited and the Guinness Trust Group.

Frances Cairncross Aged 55
Non-Executive Director

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

Nicholas Corah Aged 68
Non-Executive Director

Nicholas Corah is an industrialist with wide business experience and is a Deputy Lieutenant of Rutland. He was formerly Deputy Chairman of East Midlands Electricity plc, Chairman of East Midlands Development Company and Chairman of Corah plc. He is Chairman of the Group Audit Committee.

Trevor Hilliard Aged 54
Managing Director, Retail Financial Services

Trevor Hilliard joined Alliance & Leicester in 1988 as Managing Director of the unsecured personal lending operation. Formerly with Abbey National plc and Mercantile Credit Company Ltd he became Managing Director, Retail Financial Services in December 1997, having held a number of senior positions since joining the Company.

He is responsible for all sales to personal customers, including mortgages, unsecured loans, retail savings and current accounts.

Richard Pym Aged 50
Group Finance Director

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

Michael Allen Aged 62*
Non-Executive Director

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

David Bennett Aged 38*
Group Treasury Director

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

* Appointed 1 January 2000

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 1999.

Principal Activities and Business Review

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

The Group's business during the year and future plans are reviewed on pages 2 to 24.

Results and Dividends

The profit on ordinary activities before tax for the year ended 31 December 1999 was £500.3m (1998: £455.2m).

An interim net dividend of 9.5 pence per share (1998: 8.0 pence per share) was paid on 18 October 1999.

The directors propose a final net dividend for the year of 19.8 pence per share (1998: 16.5 pence per share) to be paid on 15 May 2000.

Directors

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

J R Windeler *Executive Chairman (Chairman & Chief Executive)*
Sir Michael Thompson *Deputy Chairman*
R L Banks
M P S Barton
F A Cairncross
G N Corah
S Everard *(to 4 May 1999)*
T M Hilliard
R A Pym
P R White *(to 29 October 1999)*

The names and brief biographies of the current directors are shown on page 25. Miss F A Cairncross and Mr G N Corah will retire by rotation and being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting. Mr M J Allen and Mr D J Bennett, who were appointed directors on 1 January 2000, will stand for election at the Annual General Meeting.

Directors' Service Contracts

Details of directors' service contracts are included in the Report on Directors' Remuneration on pages 29 and 30.

Directors' Interests in Shares

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

Substantial Shareholders

Shareholders with an interest in the issued ordinary share capital of the Company disclosed in accordance with Sections 198-208 of the Companies Act 1985 are shown in note 30.

Corporate Governance

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

Charitable and Political Donations

During 1999, the Group made donations for charitable purposes amounting to £393,000 including its support for Business in the Community. No contributions were made for political purposes.

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

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

Staff

It is the Group's policy to have effective communication and consultation with its staff. Regular staff involvement is achieved through two-way dialogue between staff and their managers, and consultative and negotiating committees, including discussion with in-house staff associations and trade unions. Regular meetings, group-wide team briefings, circulars and newsletters help to ensure that staff are aware of the organisation's performance and objectives. In addition, top management holds briefing sessions for the Group's top 1,000 managers each year, signposting future direction and responding to questions from around the Group. The Group encourages the involvement of employees in the performance of the Company through the employee ShareSave Scheme and introduced a Share Award Scheme in 1999.

The Group has an equal opportunities policy. The aim of this policy is to ensure that no job applicant or staff member receives less favourable treatment on the grounds of race, colour, religion, nationality, ethnic or national origin, sex, marital status or physical disability. In 1999, the Group introduced a joint management/union equal opportunities forum to better facilitate constructive dialogue on equality issues. It is the Group's policy to give all applications for employment from disabled people full consideration in relation to the vacancy concerned and their own aptitude and abilities. In the event of existing staff members becoming disabled, every effort is made to move them to suitable work within the Group if they cannot continue in their present job. The Group offers suitable training and career development for all disabled staff.

Health and Safety

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

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

Creditor Payment Policy

The Group recognises the importance of maintaining good business relationships with its suppliers. Although the Group does not formally follow any external code or standard on payment practice it is Group policy to pay all invoices within the agreed terms. It is Group policy to:

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

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

Environmental Policy

The Group recognises that concern for the environment is an integral part of business strategy. The Group is fully aware of all its environmental responsibilities and seeks to minimise the impact of its operations on the environment.

In 1998 the Group initiated formal reporting of environmental issues. We launched our 'Environmental Policy : Statement of Intent' within which we set out our objectives for achieving environmental best practice.

We also participated in Business in the Environment's Index of Corporate Environmental Engagement survey and the results from this Index were published early in 1999.

During 2000 it is our aim to meet meaningful performance targets appropriate to our business sector and produce our first Environmental Review Document. We will be looking to consolidate those environmentally friendly initiatives already in place within the organisation and to develop new ones.

Authority to Purchase Shares

During the year, 34,889,500 shares of 50p each were repurchased and cancelled, representing 5.97% of the Company's issued capital as at 31 December 1999. The aggregate consideration (including stamp duty) paid for the shares was £293,440,899. The purpose of the share buyback programme in 1999, together with the Board's present intention to continue the programme in 2000, is to achieve a Tier 1 capital ratio of 8% in 2001.

The authority for the Company to purchase in the market, up to 58,427,000 of its shares, representing some 10 per cent of the issued share capital, expires at the Annual General Meeting. Shareholders will be asked to give a similar authority at the Annual General Meeting.

Special Business at the Annual General Meeting

The Annual General Meeting will be held on 2 May 2000. Shareholders will see from the Notice of the Annual General Meeting that they are asked to consider and, if thought fit, pass a number of resolutions as special business.

Auditors

KPMG Audit Plc have signified their willingness to continue in office and a resolution reappointing them as auditors and authorising the directors to determine their remuneration will be proposed at the Annual General Meeting.

On behalf of the Board
J Hepplewhite
Company Secretary

11 February 2000

Report on Directors' Remuneration

Remuneration Committee's Composition and Scope

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

Sir Michael Thompson (Chairman)
Mr G N Corah
Miss F A Cairncross

The Committee is responsible for determining, pursuant to a policy framework on executive remuneration approved by the Board, the pay and benefits and contractual arrangements of each executive director.

The Executive Chairman attends meetings of the Committee except when his own remuneration is being considered.

Remuneration Policy

The policy of the Board and the Remuneration Committee is to set remuneration so as to attract and retain high calibre executives and to encourage and reward superior business performance. Remuneration for executive directors should reward both individual and Company performance measured against performance criteria that are relevant and realistic but also challenging, so that good performance is encouraged. Of the total remuneration package of executive directors, a potentially significant proportion should relate directly to the performance of the Company and of the interested directors. Within the parameters set by the Board, individual performance-related payments and share awards are made by the Committee with the objective of rewarding achievements and aligning the interests of the individual with those of the Group's shareholders. The individual salary, bonus and benefit levels of executive directors are normally reviewed annually by the Committee and due consideration is given to advice from independent advisers.

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

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

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

Basic Salary

Basic salary for executive directors takes into account the role and responsibilities, performance and experience of the individual set against background information from independent advisers on salary levels for similar positions amongst a specific comparator group of financial organisations having regard to general salary trends within companies in the FTSE 100. Executive directors participate in the staff Profit Related Pay Scheme.

Annual Bonus

At the discretion of the Committee, executive directors are eligible to receive an annual performance bonus up to a maximum of 70% of their annual basic salaries at the time the bonus is awarded. The amount of the bonus is determined by the director's performance and is based on the achievement of profit targets and individual performance goals specified and agreed at the beginning of each year together with a discretionary element to be determined by the Committee.

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

Long-Term Incentive Schemes

In order to align the interests of executive directors and certain senior managers with those of shareholders, there are share schemes for executive directors and certain senior managers :

1. Executive directors and certain senior managers are granted options under the Alliance & Leicester Approved and Unapproved Company Share Option Schemes. The aggregate value of options to subscribe for new shares (at market value on the day before the grant) granted to each individual cannot exceed four times annual remuneration in any ten year period. Options cannot normally be exercised for three years from the date of issue. The performance condition that has been applied to the schemes is that options can only be exercised if the percentage growth in earnings per share over a three year period exceeds the Retail Price Index (RPI) inflation by at least 6% (9% for the 1998 scheme) over the same period.

2. In addition, for executive directors, the Company will match an award of deferred shares (see under Annual Bonus above) on the basis of up to two matched shares for each deferred share comprised within an award. The rights to matching shares cannot normally be exercised for three years and lapse if not exercised within seven years. The performance criteria involves use of a formula that compares over the relevant period, total shareholder return (TSR) performance against (i) constituents of the FTSE Retail Banks Sector and (ii) the FTSE 100 Share Index. The maximum matching award would be for performance in the top 25th percentile and no award would be made for below 50th percentile performance, with pro rata awards in between.

Employee Share Schemes

Executive directors may also participate in the Company's existing Employee Share Schemes and Savings Related Share Option Schemes on the same basis as all other employees.

Pensions

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

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

(a) *Pensions from age 60 of 1/60th of basic salary averaged over the* last twelve months prior to retirement (restricted to the earnings cap where it applies) for each year of pensionable service.

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

(c) Pensions payable in the event of ill-health.

(d) Pensions for dependants on a member's death generally equal to half the member's prospective retirement pension at 60 on death in service, or half the member's pension entitlement on death in retirement.

(e) Member contributions are 5% of basic salary.

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

Mr Pym is not required to contribute. Mr Bennett contributes 15% up to the earnings cap.

There is an unfunded unapproved pension arrangement to increase the Pension Scheme benefit to the level promised, where, because of Inland Revenue limitations (including those resulting from the earnings cap) these cannot be paid in total from the Scheme.

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

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

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

Other Benefits

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

Remuneration for Non-Executive Directors

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

Two non-executive directors, Sir Michael Thompson and Mr G N Corah, are entitled as former directors of the Company's predecessor Alliance & Leicester Building Society, to an unfunded unapproved arrangement providing for a pension on retirement. These obligations have been transferred to the Company. The amounts (which have been fully accrued) are payable from a normal retirement age of 70 and are calculated as two-thirds of the individual's 1996 director's fees. These amounts are revalued over the period to retirement and increase when the pension comes into payment, in line with the contractual RPI related increase applicable to executive directors plus :

(i) 80% of the annual percentage rise in the RPI falling between 5% *and 15%; and*
(ii)50% of the annual percentage rise in the RPI in excess of 15%.

Whilst several non-executive directors continue to have the benefit of membership of the Group's private medical insurance scheme, the Remuneration Committee has determined that this benefit is not to be available for new non-executive directors. Other benefits include the reimbursement of travel and other incidental expenses for attendance at Board meetings.

Service Contracts

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

The service contract of Mr D Bennett is terminable by the Company on twelve months notice.

The service contracts of the other executive directors are terminable by the Company on two years' notice, but subject to termination in any event on their 60th birthdays. If their employment is terminated by the Company for any reason (other than due cause) without such notice being given they receive payment of 18 months' basic salary (or two years' basic salary if at the time the executive director is 55 or over) and pension benefits (or, if a lesser sum, salary and pension benefits for the period from the date of termination to the executive director's 60th birthday).

The executive directors may terminate their contracts of employment at any time by giving six months prior notice, (three months in the case of Mr Bennett). The Board has the objective of moving towards contracts with a twelve months notice period over a period of time, having regard to existing arrangements.

Directors' Remuneration

Year ended 31 December 1999

	Salaries £'000	Bonus £'000	Deferred Bonus (i) £'000	Other Benefits £'000	Contractual Termination Payment (ii) £'000	Total 1999 £'000	Total 1998 £'000
Executive Chairman							
J R Windeler (iii)	208	–	–	–	–	**208**	48
Executive Directors							
R L Banks (from 1.2.98)	208	120	30	9	–	**367**	270
T M Hilliard	292	190	45	9	–	**536**	386
R A Pym	298	205	50	15	–	**568**	428
P R White (to 29.10.99)	438	110	–	49	1,050	**1,647**	878
Subtotal	1,444	625	125	82	1,050	**3,326**	2,010

	Fees £'000	Bonus £'000	Deferred Bonus (i) £'000	Other Benefits £'000	Contractual Termination Payment £'000	Total 1999 £'000	Total 1998 £'000
Non-Executive Directors							
M J Allen	–	–	–	–	–	–	11
E J Baden (to 18.8.98)	–	–	–	–	–	–	48
M P S Barton (from 13.5.98)	29	–	–	–	–	**29**	17
F A Cairncross	30	–	–	–	–	**30**	28
G N Corah	33	–	–	4	–	**37**	38
S Everard (to 4.5.99)	47	–	–	1	–	**48**	158
Sir M Thompson	57	–	–	1	–	**58**	57
Subtotal	196	–	–	6	–	**202**	357
Total	1,640	625	125	88	1,050	**3,528**	2,367

Note:

(i) Maximum aggregate market value at date of grant of shares recommended by the Remuneration Committee to the Trustees of the Alliance & Leicester Share Ownership Trust to be awarded in February 2000, in accordance with the deferred bonus arrangements described on page 28 of this report. The director will receive the deferred shares after 3 years if he is still employed by the Company (or, at the discretion of the Trustees, if he leaves the Group early) and the Matching Shares upon fulfilment of the performance criteria.

(ii) In addition a payment of £586,000 (of which £52,500 represented a contribution by Mr White) was made by the Company into the pension fund to credit Mr White with two years' additional pensionable service in accordance with the provisions of his service contract.

(iii) Pending the appointment of a permanent successor following Mr White's departure on 29 October 1999, Mr J R Windeler assumed the additional responsibilities of the Group Chief Executive role in his capacity as Executive Chairman. His remuneration comprised non-executive director's fees to 29 October 1999 of £142,500 and an executive salary and benefits thereafter.

Pension Entitlements

Executive Director	R L Banks	T M Hilliard	R A Pym	P R White
Age attained at 31.12.99	48	54	50	57
Normal retirement age	60	60	60	60
	£	£	£	£
Amount of accrued pension per annum at 31.12.99	42,941	83,988	60,033	345,112
(at 31.12.98)	(32,506)	(53,264)	(43,124)	(297,514)
Change in amount of accrued pension p.a. net of revaluation during year to 31.12.99	10,077	30,138	16,435	44,325
(to 31.12.98)	(9,887)	(16,767)	(11,575)	(76,967)
Directors contributions payable during year to 31.12.99	10,375	14,583	–	21,875

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

The amount of accrued pension per annum for Mr White includes the amount of increase in pension arising from Mr White being credited with two years' pensionable service in accordance with the provisions of his service contract.

Non-Executive Director	G N Corah	Sir Michael Thompson
Age attained at 31.12.99	67	68
Normal retirement age	*70*	*70*
	£	£
Amount of accrued pension p.a. at 31.12.99	15,850	31,700
Amount of pension accruing during 1999	–	–
Directors' contributions	–	–

On the death of Sir Michael Thompson or Mr Corah before their normal retirement age or after their pension commences, a widow's pension *of one half of that director's full pension entitlement is payable.* If Sir Michael Thompson or Mr Corah cease to be directors before their normal retirement age, their pension may be drawn immediately *without reduction.*

Directors' Interests in Ordinary Shares

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

Directors	Fully Paid Shares of 50p each As at 1.1.99 (or date of appointment if later)	As at 31.12.99‡
R L Banks	500	918
M P S Barton	500	500
F A Cairncross	8,964	8,964
G N Corah	4,217	4,217
T M Hilliard	1,350	2,016
R A Pym	500	1,244
Sir Michael Thompson	3,455	3,455
J R Windeler	1,000	2,500

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

Rights to Acquire Shares

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

Directors	Number of options As at 1.1.99	Granted during the year	As at 31.12.99	Exercise price £	Exercise period
R L Banks	5,628		5,628	5.33#	23/4/00 – 23/4/07
	16,417		16,417	5.33*	23/4/00 – 23/4/04
	3,239		3,239	4.26‡	1/8/02 – 1/2/03
	513		513	6.72‡	1/11/03 – 1/5/04
	38,589		38,589	9.00½*	6/3/01 – 6/3/05
	Nil	*47,320*	*47,320*	*8.77**	17/6/02 – 17/6/06
	Nil	3,768	3,768	Nil†	17/6/02 – 17/6/06
T M Hilliard	5,628		5,628	5.33#	23/4/00 – 23/4/07
	58,161		58,161	5.33*	23/4/00 – 23/4/04
	4,049		4,049	4.26‡	1/8/02 – 1/2/03
	33,870		33,870	9.00½*	6/3/01 – 6/3/05
	Nil	63,283	63,283	8.77*	17/6/02 – 17/6/06
	Nil	5,490	5,490	Nil†	17/6/02 – 17/6/06
R A Pym	5,628		5,628	5.33#	23/4/00 – 23/4/07
	76,923		76,923	5.33*	23/4/00 – 23/4/04
	4,049		4,049	4.26‡	1/8/02 – 1/2/03
	31,093		31,093	9.00½*	6/3/01 – 6/3/05
	Nil	59,293	59,293	8.77*	17/6/02 – 17/6/06
	Nil	5,938	5,938	Nil†	17/6/02 – 17/6/06

‡ Options granted under the Alliance & Leicester ShareSave Scheme.
# Options granted under the Alliance & Leicester Approved Company Share Option Scheme.
* Options granted under the Alliance & Leicester Unapproved Company Share Option Scheme.
† Options granted over Matching Shares under the Alliance & Leicester Deferred Bonus Scheme.
No options were exercised during the year.

The following changes in directors' share interests were reported between 31 December 1999 and 3 February 2000:

Directors	Fully Paid Shares of 50p each as at 1.1.2000
M J Allen	*500*
D J Bennett	500

In addition D J Bennett has the following options:

Director	As at 1.1.2000	Exercise price £	Exercise period
D J Bennett	3,420	8.77#	17/6/02 – 17/6/09
	42,189	8.77*	17/6/02 – 17/6/06
	1,443	6.712‡	1/11/02 – 1/5/03

On 31 December 1999 the market price of ordinary shares in Alliance & Leicester plc was £8.025 and the range during 1999 was £7.44 to £9.405.

Bonus Awards

The following table shows the directors' interests in options awarded under the deferred bonus scheme. The value of the award is included within the table of directors' emoluments in the relevant bonus year.

Executive Director	Bonus year		Value of award £	Market value at date of grant £	No. of options	Exercise price £	Exercise period
R L Banks	1998	Deferred Shares	16,530	8.77	1,884*	Nil	17/6/02 – 17/6/06
T M Hilliard	1997	Deferred Shares	18,812	9.00½	2,089	Nil	6/3/01 – 6/3/05
	1997	Matched Shares	18,812	9.00½	2,089~	Nil	6/3/01 – 6/3/05
	1998	Deferred Shares	24,080	8.77	2,745*	Nil	17/6/02 – 17/6/06
R A Pym	1997	Deferred Shares	22,800	9.00½	2,532	Nil	6/3/01 – 6/3/05
	1997	Matched Shares	22,800	9.00½	2,531~	Nil	6/3/01 – 6/3/05
	1998	Deferred Shares	26,040	8.77	2,969*	Nil	17/6/02 – 17/6/06

~ The matching shares granted in 1998 in respect of the 1997 bonus year were not subject to a performance objective.

* The options over Matching Shares granted in 1999 in respect of the 1998 bonus year are subject to performance criteria, set out below, and shown in the table on page 31.

In the case of the 1998 bonus year, a maximum of two Matching Shares for each Deferred Share may be awarded subject to the Company's total shareholder return (TSR) performance ranking against the TSR performance of two different comparator groups as follows:

(i) one Matching Share will be awarded if the Company ranks in the top 25th percentile performance against the FTSE Retail Banks Index, calculated by comparing TSR performance between 1 January 1999 and 31 December 2001, and in addition

(ii) one Matching Share will be awarded if the Company ranks in the top 25th percentile performance against the FTSE 100 Index as at 21 April 1997 (the date of the Company's flotation), calculated by comparing TSR performance between 21 April 1997 and 31 December 2001

In each case, if the Company's TSR performance is greater than 50th percentile but less than 25th percentile, the share-matching multiple will be applied on a linear basis between zero for 50th percentile performance and one share for the top 25th percentile performance.

On behalf of the Board
Sir Michael Thompson
Chairman of the Remuneration Committee

11 February 2000

Statement of Corporate Governance

Principles of Corporate Governance

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

Board Structure

The Company's Board comprises the Executive Chairman, five non-executive directors and four executive directors who have the collective responsibility for ensuring that the affairs of the Company and its subsidiaries are managed competently and with integrity. The Executive Chairman is Mr John Windeler who has assumed, as an interim arrangement, the executive role of Group Chief Executive pending appointment of a permanent successor. This combination of the roles of the Chairman and Chief Executive is balanced by non-executive directors who bring independent judgement and wide business experience to the Board. The senior independent non-executive director is the Deputy Chairman, Sir Michael Thompson.

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

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

The non-executive directors are not employees of the Company and the Board considers that all the non-executive directors are independent of management and free from business or other relationships which could materially interfere with the exercise of their independent judgement. It should be noted in this context that the pension entitlements of two non-executive directors are fully accrued in accordance with the details disclosed in the Report on Directors' Remuneration. The non-executive directors do, however, play a full part as members of the Board 'team' and share responsibility for Board decisions. They bring a diversity of business perspective and objectivity which complements the 'hands on' expertise of their executive director colleagues. In his present executive role, Mr Windeler is an employee of the Company.

The composition of the Board is kept under review with the aim of ensuring that the Board collectively possesses the necessary skills and experience for the proper direction of the Group's business activities.

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

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

Nomination Committee

Under the chairmanship of Mr Windeler, this Committee has the task of recommending new appointments to the Board and reviewing re-appointments when they become due. It has formal Terms of Reference and its current membership comprises the Executive Chairman, the Deputy Chairman (non-executive) and Miss F A Cairncross (non-executive).

Remuneration Committee

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

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

Sir Michael Thompson (Chairman)
Mr G N Corah
Miss F A Cairncross
Mr J R Windeler stepped down from the membership of the Committee upon his appointment as Executive Chairman.

Audit Committee

Under the chairmanship of Mr Corah (non-executive director) the duties of the Committee fall into two main areas: internal control and financial reporting.

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

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

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

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

Other Committees

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

Pension Funds

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

Relations with Shareholders

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

Compliance Statement

All directors in post at the time of flotation of the Company in April 1997 will have stood for re-election by May 2000 which will ensure an orderly transition to a system of retirements at three yearly intervals thereafter. Subject to this exception, in the directors' opinion the Company complied with the provisions of Section 1 of the Combined Code throughout the year ended 31 December 1999.

Internal Control

The Board has adopted the transitional approach for implementing the Combined Code set out in the letter from the London Stock Exchange to listed companies at the end of September 1999.

The Board reviewed the Group's system of non-financial internal controls in comparison to 'Internal Control: Guidance for Directors on the Combined Code'. The review identified that financial and non-financial controls (see Systems of Business Control below) had been implemented and embedded but that more formal reporting to the Board would be required to achieve full compliance. The Board can confirm that, by the year end, it had changed internal reporting procedures in order to implement the guidance fully.

In accordance with the Combined Code, the Board has reviewed the effectiveness of the Group's system of internal control for the year to 31 December 1999 and has taken account of any material developments that may have taken place since the year end.

Systems of Business Control

The Board is responsible for the Group's system of internal controls and for monitoring its effectiveness. The systems of internal control are designed to provide reasonable assurance as to the effectiveness of the safeguards protecting the business against the risk of material error, loss or fraud, but it must be recognised that they cannot provide absolute assurance.

The directors are additionally required by law to establish systems for the control of the conduct of the business in accordance with Schedule 3 of the Banking Act 1987 (the 'Act'). The directors are required 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 key features of the system of business control established by the Board are:

- a Group Internal Control Policy requiring senior management to identify major risks and monitor the effectiveness of internal controls through key performance indicators and certify to the Board on a twice yearly basis that they are effective. The results of this self certification are subject to internal audit scrutiny and are reported via the Audit Committee;
- a well defined management structure with clear accountabilities;
- management information systems, including a budgetary and financial control system;
- Risk Management and Compliance functions to identify and monitor all major risks to which the Group is exposed;
- an Internal Audit function to report to the Board on the effectiveness of key internal controls in relation to these major risks; and
- documented procedures and authority levels to ensure that risks involved in major projects are properly assessed and controlled.

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

Going Concern

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

Statement of Directors' Responsibilities

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

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

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

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

We have audited the financial statements on pages 38 to 69. We have also examined the amounts disclosed relating to emoluments, share options, long-term incentive scheme interests and directors' pension entitlements which form part of the Report on Directors' Remuneration on pages 28 to 32.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 36 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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

We review whether the statement on page 34 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group'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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants, Registered Auditor,
8 Salisbury Square, Blackfriars, London

11 February 2000

Consolidated Profit and Loss Account

For the year ended 31 December 1999	Notes	Continuing Operations 1999 £m	 1998 £m
Interest receivable:			
Interest receivable and similar income arising from debt securities		**196.0**	196.4
Other interest receivable and similar income		**1,667.1**	1,871.9
Interest payable		**(1,110.5)**	(1,328.6)
Net interest income		**752.6**	739.7
Fees and commissions receivable		**457.8**	443.9
Fees and commissions payable		**(81.4)**	(67.1)
Other operating income		**44.2**	72.5
Total *non-interest income*		**420.6**	449.3
Operating income		**1,173.2**	1,189.0
Administrative expenses	2	**(594.9)**	(660.9)
Depreciation and amortisation		**(36.8)**	(34.2)
		(631.7)	(695.1)
Provisions for bad and doubtful debts	14	**(41.2)**	(38.7)
Operating profit on ordinary activities before tax		**500.3**	455.2
Tax on profit on ordinary activities	7	**(146.0)**	(137.3)
Profit attributable to the shareholders of Alliance & Leicester plc	8	**354.3**	317.9
Dividends	9	**(162.9)**	(142.6)
Retained profit for the year	31	**191.4**	175.3
Earnings per ordinary share	10	**61.8p**	54.6p
Diluted earnings per ordinary share	10	**61.5p**	54.3p

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

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

Consolidated Balance Sheet

As at 31 December 1999	Notes	1999 £m	1998 £m
Assets			
Cash and balances at central banks		**155.8**	66.5
Treasury bills and other eligible bills	11	**279.5**	454.9
Loans and advances to banks	12	**1,230.7**	2,061.1
Items in the course of collection from other banks		**102.0**	128.8
Loans and advances to customers	13	**23,732.0**	21,475.1
Debt securities	15	**3,743.9**	2,274.8
Tangible fixed assets	17	**516.5**	440.5
Other assets	18	**170.8**	171.9
Prepayments and accrued income	19	**238.2**	269.2
Long-term assurance business attributable to shareholders	20	**64.8**	56.2
		30,234.2	27,399.0
Long-term assurance assets attributable to policyholders	20	**258.0**	179.6
Total assets		**30,492.2**	27,578.6
Liabilities			
Deposits by banks	21	**1,023.8**	721.0
Items in the course of transmission to other banks		**197.7**	141.6
Customer accounts	22	**20,125.0**	19,892.2
Debt securities in issue	23	**5,751.4**	3,406.8
Other liabilities	24	**352.0**	345.3
Accruals and deferred income	25	**659.2**	711.6
Provisions for liabilities and charges	26	**100.1**	54.0
Subordinated liabilities	29	**273.5**	273.2
		28,482.7	25,545.7
Shareholders' funds (equity)			
Called up share capital	30	**274.7**	292.1
Share premium account	31	**19.9**	19.7
Capital redemption reserve	31	**17.4**	-
Profit and loss account	31	**1,439.5**	1,541.5
		1,751.5	1,853.3
		30,234.2	27,399.0
Long-term assurance liabilities to policyholders	20	**258.0**	179.6
Total liabilities		**30,492.2**	27,578.6
Memorandum items			
Contingent liabilities	34	**51.8**	30.5
Commitments	34	**410.6**	306.0

Approved by the Board of directors on 11 February 2000 and signed on its behalf by:

J R Windeler Executive Chairman

R A Pym Group Finance Director

Company Balance Sheet

As at 31 December 1999	Notes	1999 £m	1998 £m
Assets			
Cash and balances at central banks		**122.7**	54.4
Treasury bills and other eligible bills	11	**-**	-
Loans and advances to banks	12	**2,745.8**	3,248.4
Loans and advances to customers	13	**20,151.0**	18,806.8
Debt securities	15	**75.2**	193.3
Shares in group undertakings	16	**662.9**	442.9
Tangible fixed assets	17	**236.5**	237.4
Other assets	18	**211.8**	201.8
Prepayments and accrued income	19	**113.9**	146.1
Total assets		***24,319.8***	*23,331.1*
Liabilities			
Deposits by banks	21	**6,759.2**	4,826.1
Customer accounts	22	**14,225.6**	14,551.5
Debt securities in issue	23	**993.3**	1,279.2
Other liabilities	24	**249.7**	293.1
Accruals and deferred income	25	**468.3**	565.0
Provisions for liabilities and charges	26	**15.9**	14.6
Subordinated liabilities	29	**273.5**	273.2
		22,985.5	21,802.7
Shareholders' funds (equity)			
Called up share capital	30	**274.7**	292.1
Share premium account	31	**19.9**	19.7
Capital redemption reserve	31	**17.4**	-
Profit and loss account	31	**1,022.3**	1,216.6
		1,334.3	1,528.4
Total liabilities		**24,319.8**	23,331.1

Approved by the Board of directors on 11 February 2000 and signed on its behalf by:

J R Windeler Executive Chairman

R A Pym Group Finance Director

Group Statement of Total Recognised Gains and Losses

For the year ended 31 December 1999	**1999 £m**	1998 £m
Total recognised gains & losses, being the profit attributable to the shareholders of Alliance & Leicester plc	**354.3**	317.9

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 1999	**1999 £m**	1998 £m
Group profit attributable to the shareholders of Alliance & Leicester plc	**354.3**	317.9
Dividends	**(162.9)**	(142.6)
Retained profit for the financial year	**191.4**	175.3
New share capital:		
QUEST share issue		
Shares issued	**-**	1.1
Share premium	**-**	19.7
Reduction in general reserve	**-**	(20.8)
	-	-
Repurchase of share capital	**(293.4)**	-
Share premium on issue of shares under option	**0.2**	-
Net (decrease)/increase in shareholders' funds	**(101.8)**	175.3
Opening shareholders' funds	**1,853.3**	1,678.0
Closing shareholders' funds	**1,751.5**	1,853.3

Consolidated Cash Flow Statement

For the year ended 31 December 1999	Notes	1999 £m	1998 £m
Net cash inflow from operating activities	37	**2,118.2**	941.8
Returns on investments and servicing of finance:			
Interest paid on loan capital		**(24.8)**	(44.8)
Taxation		**(113.1)**	(123.5)
Capital expenditure and financial investment:			
Purchase of investment securities		**(6,694.1)**	(7,922.5)
Sale and maturity of investment securities		**5,407.8**	7,705.5
Injection of capital into life fund		**-**	(17.5)
Purchase of tangible fixed assets		**(253.1)**	(157.7)
Sale of tangible fixed assets		**97.8**	13.6
Net cash outflow from capital expenditure and financial investment		**(1,441.6)**	(378.6)
Acquisitions and disposals		**-**	(2.3)
Equity dividends paid		**(145.1)**	(126.7)
Net cash inflow before financing		**393.6**	265.9
Financing:			
Repurchase of share capital	37	**(293.4)**	-
Repayment of loan capital		**-**	(303.0)
Increase/(decrease) in cash	37	**100.2**	(37.1)

Notes to the Accounts

1 Principal accounting policies

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

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

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

The Alliance & Leicester Group was created by the transfer, on 21 April 1997, of the whole of the undertakings of the Alliance & Leicester Building Society ('the Society') to a newly formed company Alliance & Leicester plc pursuant to Section 97 of the Building Societies Act 1986.

The acquisition of the Society was accounted for in accordance with the principles of merger accounting as set out in Financial Reporting Standard No 6 'Acquisitions and Mergers' and Schedule 4A to the Companies Act 1985.

FRS 6 and the Companies Act set out certain conditions to be met in order that merger accounting can be adopted. Not all of these conditions were met by the transfer of the Society's business to Alliance & Leicester plc, however, the directors believe that it is appropriate to apply merger accounting. Had acquisition accounting been applied, only post conversion results would have been reported and there would have been adjustments to fair values: the directors do not believe this would have given a true and fair view of the results and state of affairs of the Group. It was not practicable to quantify the effect of the departure.

Goodwill
Goodwill arising on the acquisition of subsidiary companies, which is represented by the excess of fair value of the purchase consideration over the fair value of assets acquired, is capitalised and shown as an asset in the balance sheet and subsequently amortised over the economic life of the asset as a charge to the profit and loss account. This is a change from the previous policy of writing off goodwill to reserves on acquisition. As permitted by FRS 10 prior year figures have not been restated to reflect this change in accounting policy. Goodwill previously written off to reserves amounts to £42.2m. There is no effect on profit for the year of this change.

Deferred taxation
Provision is made using the liability method for taxation which is deferred as a result of timing differences, only to the extent that it is likely that such taxation will become payable or receivable in the foreseeable future.

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

Freehold buildings	40 to 75 years
Leasehold buildings	over the remainder of the lease up to 75 years
Plant, fixtures and major alterations	10 to 15 years
Equipment and motor vehicles	4 to 9 years
No depreciation is provided on freehold land	

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

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

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

Repairs and renewals
The cost of repairs and renewals is charged to administrative expenses in the period in which the expenditure is incurred.

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

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

Pensions
The Group operates both defined benefit and defined contribution arrangements. Under the defined benefit sections the cost of providing pensions and related benefits is charged to the profit and loss account so as to spread the costs evenly over the employees'

1 Principal accounting policies continued

working lives. The difference between the charge to the profit and loss account and the contributions paid to the scheme is shown as an asset or a liability in the balance sheet. The assets of the defined contribution section are held separately in an independently administered fund. Contributions to the scheme are charged to the profit and loss account as they fall due.

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

Provisions for bad and doubtful debts
Specific provisions are made in respect of loans and advances where recovery is considered doubtful; a general provision is made for losses which, although not specifically identified, are known to be inherent in any portfolio of lending. Where the collection of interest is in significant doubt, it is credited to a suspense account and written off when there is no longer any realistic prospect of recovery. The outstanding provisions are deducted from loans and advances, along with the interest on non-performing loans held in suspense. The charge in the profit and loss account represents the net increase in the provisions less recoveries for the year.

Incentives to borrowers
The costs of mortgage cashbacks, discounts and other incentives to borrowers are charged as incurred to interest receivable.

Intra-group charging
Where services are provided between Group members, the charges are made on a commercial basis.

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

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

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

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

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

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

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

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

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

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

2 Administrative expenses

	1999 £m	1998 £m
Staff costs:		
Wages and salaries	**169.8**	163.3
Social security costs	**14.9**	15.1
Other pension costs	**11.2**	10.9
	195.9	189.3
Other administrative expenses	**399.0**	471.6
Total	**594.9**	660.9

The above expenses exclude those incurred by Alliance & Leicester Life Assurance Company Limited, which are charged to the income from long-term assurance business.

3 Profit on ordinary activities before tax

	1999 £m	1998 £m
Is stated after:		
(i) Income		
Income from listed investments	**103.1**	83.5
(ii) Charges		
Hire of computers and equipment	**2.4**	1.0
Auditors' remuneration:		
Group		
as auditors	**0.4**	0.4
other fees paid to the auditors and their associates	**1.8**	1.0
Company		
as auditors	**0.2**	0.2
other fees paid to the auditors and their associates	**1.4**	0.7

4 Staff numbers

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

	Full time		Part time	
	1999	1998	1999	1998
Total	**6,092**	6,376	**2,787**	2,736

5 Directors' emoluments

	1999 £m	1998 £m
Services as a director	**0.3**	0.4
Other services	**2.2**	2.0
	2.5	2.4
Contractual termination payment	**1.0**	–
Total	**3.5**	2.4

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

6 Directors' loans and transactions

The aggregate amount outstanding at 31 December 1999 in respect of loans in the ordinary course of business from the Company, or a subsidiary company, to directors of the Company and persons connected with the directors of the Company was £242,037 representing loans to 5 persons.

7 Tax on profit on ordinary activities

	1999 £m	1998 £m
UK corporation tax at 30.25% (31%)	**96.3**	100.9
Relief for overseas taxation	**(2.7)**	(5.1)
	93.6	95.8
Deferred tax	**44.8**	33.9
Overseas taxation	**7.6**	7.6
	146.0	137.3

The tax charge for 1999 is 29.2% of profit before tax. The tax charge for 1998 was 30.2% of profit before tax.

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

£262.0m (1998: £151.4m) of the Group profit attributable to ordinary shareholders has been dealt with in the accounts of Alliance & Leicester plc. As permitted by Section 230 of the Companies Act 1985, the profit and loss account of Alliance & Leicester plc has not been presented separately.

9 Dividends

	1999 pence per share	1998 pence per share	**1999 £m**	1998 £m
Interim	**9.5**	8.0	**54.8**	46.6
Final	**19.8**	16.5	**108.1**	96.0
Total	**29.3**	24.5	**162.9**	142.6

10 Earnings per share

Earnings per ordinary share are calculated by dividing the Group profit attributable to shareholders of £354.3m (1998: £317.9m) by the weighted average number of ordinary shares in issue and ranking for dividend of 572.8m (1998: 582.1m) during the year.

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

	1999 Number m	1998 Number m
Weighted average number of ordinary shares in issue	**572.8**	582.1
Weighted average dilutive options outstanding	**3.3**	3.4
	576.1	585.5

11 Treasury bills and other eligible bills

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Investment securities				
Treasury bills and similar securities	-	–	-	–
Other eligible bills	**279.5**	454.9	–	–
Total	**279.5**	454.9	-	–
Market value of investment securities	**279.3**	454.9	-	–
Unamortised discounts on investment securities	**1.6**	2.4	–	–

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

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
At 1 January 1999	**454.9**	202.8	-	–
Additions	**1,703.9**	2,652.1	-	–
Disposals	**(1,882.5)**	(2,402.7)	–	–
Amortisation of discounts and premiums	**3.2**	2.7	-	–
At 31 December 1999	**279.5**	454.9	–	–

12 Loans and advances to banks

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Amounts due from subsidiary undertakings	–	–	**2,715.2**	3,212.2
Sale and repurchase agreements	**132.5**	–	-	-
Other loans and advances	**1,098.2**	2,061.1	**30.6**	36.2
Total	**1,230.7**	2,061.1	**2,745.8**	3,248.4
Repayable on demand	**36.2**	25.3	**482.3**	141.2
Remaining maturity:				
3 months or less	**1,177.9**	1,696.7	**2,000.4**	2,728.0
1 year or less but over 3 months	**16.6**	339.1	**63.1**	179.2
5 years or less but over 1 year	–	–	**150.0**	150.0
Over 5 years	–	-	**50.0**	50.0
Total	**1,230.7**	2,061.1	**2,745.8**	3,248.4

Amounts due from subsidiary undertakings include £50m subordinated debt (1998: £50m).

13 Loans and advances to customers

	Group		Company	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Advances secured on residential properties	**19,326.0**	18,185.3	**19,287.4**	18,099.0
Sale and repurchase agreements	**150.0**	–	**–**	–
Other secured advances	**471.0**	238.8	**76.5**	106.2
Unsecured loans	**2,799.9**	2,227.4	**757.8**	566.0
Net investment in finance leases and hire purchase contracts	**985.1**	823.6	**–**	–
Amounts due from subsidiary undertakings	**–**	–	**29.3**	35.6
Total	**23,732.0**	21,475.1	**20,151.0**	18,806.8
Repayable on demand	**167.0**	135.5	**99.5**	105.2
Remaining maturity:				
3 months or less	**1,234.1**	783.6	**713.9**	519.6
1 year or less but over 3 months	**953.5**	681.2	**47.2**	45.8
5 years or less but over 1 year	**1,943.6**	1,731.1	**499.6**	441.7
Over 5 years	**19,590.1**	18,312.5	**18,887.1**	17,813.8
Less: provisions	**(156.3)**	(168.8)	**(96.3)**	(119.3)
Total	**23,732.0**	21,475.1	**20,151.0**	18,806.8

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

The cost of equipment acquired during the year for the purpose of finance lease and hire purchase agreements was £386.6m (1998: £739.8m).

The aggregate amounts receivable, including capital repayments, under finance and hire purchase agreements were £315.4m (1998: £270.0m).

14 Provisions for bad and doubtful debts

	Advances secured on residential property £m	Advances secured on land £m	Unsecured loans and Leasing £m	Total £m
Group				
At 1 January 1999				
General	7.1	5.8	29.3	42.2
Specific	47.8	16.7	62.1	126.6
Total	54.9	22.5	91.4	168.8
Charge for the year:				
Increase/(decrease) in provision	(1.9)	(3.4)	53.9	48.6
Recoveries of amounts previously written off	(2.0)	(3.5)	(1.9)	(7.4)
	(3.9)	(6.9)	52.0	41.2
Amounts written off in year	(9.9)	1.3	(45.1)	(53.7)
At 31 December 1999				
General	11.5	4.8	25.9	42.2
Specific	29.6	12.1	72.4	114.1
Total	41.1	16.9	98.3	156.3
Company				
At 1 January 1999				
General	8.9	5.2	10.3	24.4
Specific	71.7	16.2	7.0	94.9
Total	80.6	21.4	17.3	119.3
Charge for the year:				
Increase/(decrease) in provision	(8.8)	(4.0)	12.3	(0.5)
Recoveries of amounts previously written off	(2.0)	(3.5)	–	(5.5)
	(10.8)	(7.5)	12.3	(6.0)
Amounts written off in year	(9.9)	1.3	(8.4)	(17.0)
At 31 December 1999				
General	17.2	3.7	10.3	31.2
Specific	42.7	11.5	10.9	65.1
Total	59.9	15.2	21.2	96.3

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

	Group 1999 £m	**Company 1999 £m**
Non-performing loans before provisions	**6.6**	**6.1**
Non-performing loans after provisions	**2.3**	**2.3**

15 Debt securities

	Group 1999 Book value £m	Group 1999 Market value £m	Group 1998 Book value £m	Group 1998 Market value £m	Company 1999 Book value £m	Company 1999 Market value £m	Company 1998 Book value £m	Company 1998 Market value £m
Investment securities								
Issued by public bodies:								
Government securities	**179.5**	**178.5**	255.7	265.9	**75.2**	**75.7**	193.3	203.2
Other public sector securities	**74.5**	**73.1**	76.2	77.4	**-**	**-**	-	-
	254.0	**251.6**	331.9	343.3	**75.2**	**75.7**	193.3	203.2
Issued by other issuers:								
Bank and building society certificates of deposit	**1,449.1**	**1,447.8**	875.0	876.9	**-**	**-**	-	-
Other debt securities	**2,040.8**	**2,032.0**	1,067.9	1,071.4	**-**	**-**	-	-
	3,489.9	**3,479.8**	1,942.9	1,948.3	**-**	**-**	-	-
Total	**3,743.9**	**3,731.4**	2,274.8	2,291.6	**75.2**	**75.7**	193.3	203.2
Analysed by listing status:								
Investment securities								
Listed in the UK	**1,354.8**	**1,396.8**	1,048.2	1,062.1	**75.2**	**75.7**	193.3	203.2
Listed or registered elsewhere	**603.2**	**557.5**	153.6	154.7	**-**	**-**	-	-
Unlisted	**1,785.9**	**1,777.1**	1,073.0	1,074.8	**-**	**-**	-	-
Total	**3,743.9**	**3,731.4**	2,274.8	2,291.6	**75.2**	**75.7**	193.3	203.2

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Book value				
Analysed by maturity:				
Due within one year	**1,684.9**	1,023.1	**49.0**	83.2
Due one year and over	**2,059.0**	1,251.7	**26.2**	110.1
Total	**3,743.9**	2,274.8	**75.2**	193.3
Unamortised premiums and indexation on investment securities	**8.3**	5.4	**2.2**	3.3

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

	Cost £m	Discounts, premiums and indexation £m	Net book value £m
Group			
At 1 January 1999	2,267.5	7.3	2,274.8
Acquisitions	4,983.9	7.0	4,990.9
Disposals	(3,515.8)	(10.2)	(3,526.0)
Amortisation of discounts, premiums and indexation	-	4.2	4.2
At 31 December 1999	3,735.6	8.3	3,743.9
Company			
At 1 January 1999	190.0	3.3	193.3
Acquisitions	171.0	7.1	178.1
Disposals	(288.0)	(4.9)	(292.9)
Amortisation of premiums	-	(3.3)	(3.3)
At 31 December 1999	73.0	2.2	75.2

16 Shares in group undertakings

	Company Shares £m
At 1 January 1999	442.9
Additions	220.0
Repayments	–
At 31 December 1999	662.9
Credit institutions	155.6
Other	507.3
Total	662.9

The principal subsidiary undertakings of Alliance & Leicester plc at 31 December 1999 are listed below. These subsidiary undertakings are incorporated and all operate in the United Kingdom except Alliance & Leicester International Limited, which is incorporated in, and operates, in the Isle of Man and Alliance & Leicester Mortgage Insurance (Guernsey) Limited which is incorporated in, and operates in Guernsey.

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

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

All subsidiary undertakings are limited by shares and are unlisted.

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

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

17 Tangible fixed assets

	Freehold land and buildings £m	Leasehold 50 or more years unexpired £m	Leasehold Under 50 years unexpired £m	Equipment fixtures and vehicles £m	Total £m
Group					
Cost					
At 1 January 1999	288.0	14.7	50.7	472.5	825.9
Additions	13.8	0.5	2.9	231.2	248.4
Disposals	(14.6)	(3.8)	(2.8)	(109.3)	(130.5)
At 31 December 1999	287.2	11.4	50.8	594.4	943.8
Depreciation and amortisation					
At 1 January 1999	102.9	4.6	35.3	242.6	385.4
Charge in year	9.7	0.6	3.6	59.3	73.2
Disposals	(12.3)	(0.9)	(1.3)	(16.8)	(31.3)
At 31 December 1999	100.3	4.3	37.6	285.1	427.3
Net book value					
At 31 December 1999	186.9	7.1	13.2	309.3	516.5
At 31 December 1998	185.1	10.1	15.4	229.9	440.5

Freehold land and buildings includes land of £26.1m which is not depreciated. The net book value of land and buildings occupied by the Group for its own activities was £184.4m (1998: £189.5m).

The cost of assets leased to customers under operating leases and included in equipment, fixtures and vehicles above was £296.4m (1998: £196.8m). The related cumulative depreciation of £66.5m (1998: £43.1m) includes £34.9m (1998: £26.3m) charged during the year which is included within interest receivable in the Group profit and loss account.

The aggregate rentals receivable in respect of operating leases were £56.4m (1998: £32.1m).

Included in the total net book value of equipment, fixtures and vehicles is £2.9m (1998: £9.4m) in respect of assets held under finance leases. Depreciation for the year on these assets was £3.2m (1998: £5.2m).

17 Tangible fixed assets continued

	Freehold land and buildings £m	Leasehold 50 or more years unexpired £m	Leasehold Under 50 years unexpired £m	Equipment fixtures and vehicles £m	Total £m
Company					
Cost					
At 1 January 1999	240.6	9.8	43.8	174.4	468.6
Additions	9.2	0.5	2.6	24.4	36.7
Disposals	(16.2)	(3.8)	(2.4)	(3.6)	(26.0)
At 31 December 1999	233.6	6.5	44.0	195.2	479.3
Depreciation and amortisation					
At 1 January 1999	76.6	4.0	29.9	120.7	231.2
Charge in year	8.0	0.5	3.3	16.7	28.5
Disposals	(12.3)	(0.9)	(0.9)	(2.8)	(16.9)
At 31 December 1999	72.3	3.6	32.3	134.6	242.8
Net book value					
At 31 December 1999	161.3	2.9	11.7	60.6	236.5
At 31 December 1998	164.0	5.8	13.9	53.7	237.4

Freehold land and buildings includes land of £26.1m which is not depreciated. The net book value of land and buildings occupied by the Company for its own activities was £156.0m (1998: £161.8m).

Included in the total net book value for equipment, fixtures and vehicles is £1.7m (1998: £3.3m) in respect of assets held under finance leases. Depreciation for the year on these assets was £1.6m (1998: £1.6m).

	Group **1999** **£m**	Group 1998 £m	Company **1999** **£m**	Company 1998 £m
Future capital expenditure:				
Contracted for but not provided in the accounts	**5.7**	0.8	**2.6**	0.5

18 Other assets

	Group **1999** **£m**	Group 1998 £m	Company **1999** **£m**	Company 1998 £m
Due within one year	**170.7**	171.8	**202.9**	191.6
Due after more than one year	**0.1**	0.1	**8.9**	10.2
Total	**170.8**	171.9	**211.8**	201.8
Amounts include				
Due from subsidiary undertakings	**-**	–	**190.5**	189.1

19 Prepayments and accrued income

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Accrued interest	**171.1**	*184.8*	**85.0**	*90.0*
Prepayments and other accruals	**67.1**	84.4	**28.9**	56.1
Total	**238.2**	269.2	**113.9**	146.1

20 Long-term assurance business

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

	1999 £m	1998 £m
Group		
Net tangible assets of life company:		
Surplus retained within the long-term assurance funds	**40.6**	41.3
Net worth of life company:		
Value of policies in force	**24.2**	14.9
Long-term assurance business attributable to shareholders	**64.8**	56.2
The long-term assurance assets attributable to policyholders are:		
Investments	**294.9**	221.3
Value of policies in force	**24.2**	14.9
Net current (liabilities)/assets	**3.7**	(0.4)
	322.8	235.8
Less: Long-term assurance business attributable to shareholders	**(64.8)**	(56.2)
Long-term assurance business attributable to policyholders	**258.0**	179.6

The increase in value of the Group's long-term assurance business included in the profit and loss account amounted to £12.6m before tax (1998: £9.0m) and £8.6m after tax (1998: £6.1m).

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

The key assumptions used are:

	1999	1998
Risk discount rate (net of tax)	**10%**	11.5%
Economic assumptions		
Growth of unit-linked funds (pa gross of tax)	**7.5%**	7.5%
Growth of non-linked funds (pa gross of tax)	**6%**	4.5%
Policyholder taxation – life	**20%**	20%
Shareholder taxation – life	**30%**	30%
Expense inflation	**4.5% pa**	4.5% pa

21 Deposits by banks

	Group 1999 £m	1998 £m	Company 1999 £m	1998 £m
Amounts due to subsidiary undertakings	–	–	**6,756.7**	4,824.1
Other deposits	**1,023.8**	721.0	**2.5**	2.0
Total	**1,023.8**	721.0	**6,759.2**	4,826.1
Repayable on demand	**12.8**	13.7	**334.1**	74.5
Remaining maturity:				
3 months or less	**809.5**	665.5	**6,349.9**	4,558.3
1 year or less but over 3 months	**201.5**	41.8	**49.0**	49.6
5 years or less but over 1 year	–	–	**26.2**	117.0
Over 5 years	–	–	–	26.7
Total	**1,023.8**	721.0	**6,759.2**	4,826.1

22 Customer accounts

	Group 1999 £m	1998 £m	Company 1999 £m	1998 £m
Repayable on demand	**16,175.5**	15,573.5	**13,097.0**	14,010.7
With agreed maturity dates or periods of notice – remaining maturity:				
3 months or less but not repayable on demand	**2,534.6**	3,282.9	**185.6**	40.3
1 year or less but over 3 months	**1,068.4**	1,000.5	**640.9**	473.0
5 years or less but over 1 year	**346.5**	35.3	**302.1**	27.5
Over 5 years	–	–	–	–
Total	**20,125.0**	19,892.2	**14,225.6**	14,551.5

23 Debt securities in issue

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Bonds and medium-term notes – remaining maturity:				
1 year or less	**203.8**	470.6	**199.8**	470.6
2 years or less but over 1 year	**233.0**	399.4	**-**	399.4
5 years or less but over 2 years	**2,258.3**	748.6	**150.0**	–
Over 5 years	**143.2**	224.8	**-**	150.0
	2,838.3	1,843.4	**349.8**	1,020.0
Other debt securities in issue – remaining maturity:				
3 months or less	**2,159.6**	1,085.3	**580.4**	224.0
1 year or less but over 3 months	**613.1**	408.1	**63.1**	35.2
2 years or less but over 1 year	**66.9**	70.0	**-**	–
5 years or less but over 2 years	**73.5**	–	**-**	–
	2,913.1	1,563.4	**643.5**	259.2
Total	**5,751.4**	3,406.8	**993.3**	1,279.2

24 Other liabilities

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Falling due within one year:				
Trade creditors	**19.0**	15.6	**6.7**	4.8
Corporation taxation	**78.5**	97.1	**26.6**	50.6
Other taxation	**50.0**	69.3	**49.4**	66.6
Dividends payable	**119.0**	101.2	**119.0**	101.2
Finance leases	**6.9**	7.8	**0.9**	1.7
Other liabilities	**66.5**	42.2	**41.3**	68.2
	339.9	333.2	**243.9**	293.1
Falling due after more than one year:				
Finance leases	**12.1**	12.1	**5.8**	-
Total	**352.0**	345.3	**249.7**	293.1
Amounts include				
Due to subsidiary undertakings	**-**	–	**11.2**	47.7

The maturity of net obligations under finance leases is as follows:				
1 year or less	**6.9**	7.8	**0.9**	1.7
5 years or less but over 1 year	**10.1**	12.0	**3.8**	-
Over 5 years	**2.0**	0.1	**2.0**	–
Total	**19.0**	19.9	**6.7**	1.7

25 Accruals and deferred income

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Interest accrued on subordinated liabilities	**6.7**	6.7	**6.7**	6.7
Other accrued interest	**440.1**	496.0	**320.5**	411.4
Captive mortgage indemnity fund	**44.8**	47.4	**–**	–
Other	**167.6**	161.5	**141.1**	146.9
Total	**659.2**	711.6	**468.3**	565.0

26 Provisions for liabilities and charges

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Deferred taxation (note 27)	**84.2**	39.4	**–**	–
Other provisions for liabilities and charges (note 28)	**15.9**	14.6	**15.9**	14.6
Total	**100.1**	54.0	**15.9**	14.6

27 Deferred taxation

The amounts provided for deferred taxation are set out below:

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Difference between accumulated depreciation and capital allowances	**88.3**	40.7	**1.4**	2.2
Other timing differences	**(4.1)**	(1.3)	**(10.3)**	(12.4)
Total	**84.2**	39.4	**(8.9)**	(10.2)
Full potential deferred liability/(asset):				
Difference between accumulated depreciation and capital allowances	**85.7**	34.9	**6.1**	7.3
Other timing differences	**(19.7)**	(17.2)	**(18.0)**	(19.4)
Total	**66.0**	17.7	**(11.9)**	(12.1)

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

	Group £m	Company £m
Deferred taxation liability/(asset):		
At 1 January 1999	**39.4**	**(10.2)**
Amount charged during year	**44.8**	**1.3**
At 31 December 1999	**84.2**	**(8.9)**

28 Other provisions for liabilities and charges

	Post retirement medical benefits £m
Group and Company	
At 1 January 1999	14.6
Transfer from profit and loss account	1.8
Provisions utilised	(0.5)
At 31 December 1999	15.9

29 Subordinated liabilities

	Group		Company	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Dated loan capital	**275.0**	275.0	**275.0**	275.0
Total subordinated liabilities	**275.0**	275.0	**275.0**	275.0
Less: Unamortised issue costs	**(1.5)**	(1.8)	**(1.5)**	(1.8)
Total	**273.5**	273.2	**273.5**	273.2

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

	Group 1999	Group 1998	Company 1999	Company 1998
Maturing by 2006	**200.0**	200.0	**200.0**	200.0
Maturing by 2008	**75.0**	75.0	**75.0**	75.0
Total	**275.0**	275.0	**275.0**	275.0

The following subordinated loans each exceed 10% of total subordinated liabilities. Both issues are denominated in UK sterling.

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

30 Called up share capital

	1999 Number m	1999 Amount £m	1998 Number m	1998 Amount £m
Authorised share capital:				
Ordinary shares of 50p each	**776.0**	**388.0**	776.0	388.0
Issued and fully paid	**549.4**	**274.7**	584.3	292.1

The number of shares in issue at 31 December 1999 was after adjusting for the cancellation of shares following the recent share buyback. During the year, 8,798 ordinary shares of 50p each were issued for 533p per share, to employees of the Company exercising share options under the terms of the Alliance & Leicester ShareSave Scheme. Under the Approved and Unapproved Company Share Option Schemes, 28,612 ordinary shares of 50p each were issued for 533p per share, 3,814 ordinary shares of 50p each were issued for 785p per share and 2,776 ordinary shares of 50p each were issued for 900.5p per share to employees of the Company.

The following options are outstanding:

	1999 Number	1998 Number
1997 Approved Company Share Options exercisable 2000 to 2007 at 533p	**531,210**	624,697
1997 Unapproved Company Share Options exercisable 2000 to 2004 at 533p	**454,381**	547,769
1998 Approved Company Share Options exercisable 2001 to 2008 at 900.5p	**88,214**	100,108
1998 Unapproved Company Share Options exercisable 2001 to 2005 at 900.5p	**338,671**	403,648
1999 Approved Company Share Options exercisable 2002 to 2009 at 877p	**3,420**	–
1999 Unapproved Company Share Options exercisable 2002 to 2006 at 877p	**401,500**	–
1999 Approved Company Share Options exercisable 2002 to 2009 at 785p	**60,949**	–
1999 Unapproved Company Share Options exercisable 2002 to 2006 at 785p	**292,834**	–
1997 Alliance & Leicester ShareSave Scheme options exercisable at the end of a 3 or 5 year savings contract commencing July 1997 at 426p	**4,795,780**	5,214,866
1998 Alliance & Leicester ShareSave Scheme options exercisable at the end of a 3 or 5 year savings contract commencing November 1998 at 672p	**1,186,755**	1,346,529
1999 Alliance & Leicester ShareSave Scheme options exercisable at the end of a 3 or 5 year savings contract commencing November 1999 at 671.2p	**852,223**	–
1998 Alliance & Leicester Deferred Share Bonus Scheme exercisable 2002 to 2006 at nil pence	**18,124**	18,124
1999 Alliance & Leicester Deferred Share Bonus Scheme exercisable 2002 to 2006 at nil pence	**40,110**	–

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 3 February 2000.

	%
Alliance & Leicester ShareSafe Limited	**13.7**
Prudential Corporation plc	**3.9**

31 Reserves

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Profit and loss account				
At 1 January	**1,541.5**	1,387.0	**1,216.6**	1,220.2
Retained profit for the year	**191.4**	175.3	**99.1**	8.8
Reduction in reserves resulting from shares issued to QUEST	**–**	(20.8)	**–**	(12.4)
Repurchase of share capital	**(293.4)**	–	**(293.4)**	–
At 31 December	**1,439.5**	1,541.5	**1,022.3**	1,216.6
Share premium account				
At 1 January	**19.7**	–	**19.7**	–
Premium on ordinary shares issued in relation to QUEST	**–**	19.7	**–**	19.7
Share premium on issue of shares under option	**0.2**	–	**0.2**	–
At 31 December	**19.9**	19.7	**19.9**	19.7
Capital redemption reserve				
At 1 January	**–**	–	**–**	–
Repurchase of share capital	**17.4**	–	**17.4**	–
At 31 December	**17.4**	–	**17.4**	–

The cumulative amount of goodwill resulting from acquisitions in earlier financial years, after deducting goodwill relating to disposals made prior to the balance sheet date, which has been written off to Group profit and loss account reserves is £42.2m (1998: £42.2m); Company £nil (1998: £nil).

32 Assets and liabilities in foreign currencies

	Group		Company	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Assets denominated in sterling	**29,552.6**	27,344.3	**23,676.5**	23,071.9
Assets denominated in other currencies	**939.6**	234.3	**643.3**	259.2
Total assets	**30,492.2**	27,578.6	**24,319.8**	23,331.1
Liabilities denominated in sterling	**29,356.4**	27,028.2	**23,676.5**	23,071.9
Liabilities denominated in other currencies	**1,135.8**	550.4	**643.3**	259.2
Total liabilities	**30,492.2**	27,578.6	**24,319.8**	23,331.1

The above assets and liabilities denominated in currencies other than sterling do not indicate the Group's exposure to foreign exchange risk. The Group has hedged all material foreign currency exposures by using off balance sheet hedging instruments. All of the subsidiaries owned by Alliance & Leicester plc use sterling as their functional currency. Therefore, the Group is not subject to any structural currency exposures.

33 Pensions

	1999	1998
	£m	£m
Regular cost	**13.5**	13.5
Variations from regular cost(i)	**(2.1)**	(2.4)
Notional interest on prepayment	**(1.5)**	(1.4)
Total	**9.9**	9.7

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

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

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

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

The pension costs are assessed in accordance with the advice of independent qualified actuaries using the projected unit method. The latest actuarial valuation was made as at 31 March 1998. The significant assumptions in these valuations were that salaries increase on average by 4.75% p.a., long-term return on investments is 7% p.a. in the period before members reach retirement and 6% p.a. in the post-retirement period, and that pensions increase in line with inflation at 2.75% p.a. Assets were valued at their market value as at 31 March 1998.

At 31 March 1998 the market value of the assets of the Scheme was £631.9m and this was sufficient to cover 115% of the liabilities for benefits due to members in respect of service prior to that date. Contributions to the Scheme amounted to £12.5m.

The excess of £2.6m of the contributions over the pension charge has increased the prepayment of £22.4m at the start of the year. An asset of £25.0m representing total net accumulated prepaid contributions is included in the Group balance sheet as at 31 December 1999.

Post retirement benefits

The Group provides post-retirement medical benefits to certain pensioners and active employees. The liability has been assessed by a qualified actuary as at 31 December 1996, using the projected unit method. The principal actuarial assumptions used in the valuation were a gross interest rate of 9% and medical benefit cost inflation of 10% for 5 years gradually reducing to 7% over a further 5 years and 7% thereafter.

The charge in the year for post retirement medical benefits in the Group accounts is £1.3m (1998: £1.2m).

34 Memorandum items

	Group		Company	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
Contingent liabilities				
Guarantees	**51.8**	30.5	**-**	-
Commitments				
Irrevocable undrawn loan facilities	**410.6**	306.0	**-**	-

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

35 Guarantees and other financial commitments

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

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

c) Operating lease commitments:

	Group		Company	
	1999	1998	**1999**	1998
	£m	£m	**£m**	£m
At 31 December, annual commitments under operating leases are as follows:				
Land and buildings				
Leases which expire:				
Within 1 year	**0.4**	0.2	**0.4**	0.2
1-5 years	**2.4**	2.2	**2.4**	2.2
Over 5 years	**7.6**	8.4	**7.5**	8.3
Total	**10.4**	10.8	**10.3**	10.7
Other operating leases				
Leases which expire:				
Within 1 year	**-**	-	**-**	-
1-5 years	**1.5**	-	**-**	2.0
Total	**1.5**	-	**-**	2.0

36 Risk management

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity. The Group distributes financial instruments to its customers and uses wholesale financial instruments to invest its liquidity, raise wholesale funding and to manage market risk.

These financial instruments involve to varying degrees exposure to loss in the event of default by a counterparty ("credit risk") and exposure to future changes in interest, exchange and other market rates ("market risk").

Details of the objectives and policies of the Group's use of financial instruments are presented in the Financial Review on pages 22 to 24. These disclosures form part of the audited financial statements.

i) Interest rate risk

The following table provides an analysis of the repricing periods of Group assets and liabilities at 31 December 1999:

	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Non-interest bearing £m	Total £m
Assets							
Treasury bills and other eligible bills	254	26	–	–	–	–	280
Loans and advances to banks	1,100	10	2	6	–	268	1,386
Loans and advances to customers	18,032	940	1,306	3,438	129	(112)	23,733
Debt securities	2,126	810	296	507	4	–	3,743
Other assets	50	41	29	117	13	778	1,028
Total assets	21,562	1,827	1,633	4,068	146	934	30,170
Liabilities							
Deposits by banks	821	112	89	–	–	1	1,023
Customer accounts	16,017	296	729	896	–	2,187	20,125
Debt securities in issue	4,547	270	343	506	86	–	5,752
Other liabilities	3	2	2	7	–	1,296	1,310
Subordinated liabilities	–	–	–	–	273	–	273
Shareholders' funds	–	–	–	–	–	1,687	1,687
Total liabilities	21,388	680	1,163	1,409	359	5,171	30,170
Off-balance sheet items	(1,489)	777	236	186	290	–	–
Interest rate sensitivity gap	(1,315)	1,924	706	2,845	77	(4,237)	–
Cumulative gap at 31 December 1999	(1,315)	609	1,315	4,160	4,237	–	–

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

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

ii) Fair values of financial instruments

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

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

	Group 1999 Carrying value £m	Group 1999 Fair value £m
Primary non-trading financial instruments:		
Assets		
Cash and balances at central banks	**155.8**	**155.8**
Treasury bills and other eligible bills	**279.5**	**279.3**
Debt securities	**3,743.9**	**3,731.4**
Liabilities		
Debt securities in issue	**(5,751.4)**	**(5,734.4)**
Subordinated liabilities	**(273.5)**	**(301.2)**
Off balance sheet and similar instruments	**-**	**84.7**

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

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

	Group 1999 Contract or underlying principal amounts £m	**Group 1999 Replacement cost £m**	Group 1998 Contract or underlying principal amounts £m	Group 1998 Replacement cost £m
Non-trading derivatives				
Used to manage foreign exchange risk				
Exchange rate contracts:				
Forward foreign exchange	**592.8**	**12.2**	478.3	4.1
Cross currency swaps	**671.0**	**4.6**	–	–
Total	**1,263.8**	**16.8**	478.3	4.1
With OECD financial institutions	**1,182.0**	**15.3**	367.8	3.6
With non-financial institutions	**81.8**	**1.5**	110.5	0.5
Total	**1,263.8**	**16.8**	478.3	4.1
In not more than one year	**592.1**	**12.2**	478.3	4.1
In more than one year but not more than five years	**671.7**	**4.6**	–	–
Total	**1,263.8**	**16.8**	478.3	4.1
Used to manage interest rate risk				
Interest rate contracts:				
Interest rate swaps	**10,947.3**	**114.5**	8,405.3	117.6
Caps, collars and floors	**1,824.6**	**59.7**	1,800.5	43.1
Futures	**250.0**	**–**	500.0	–
Forward rate agreements	**570.0**	**–**	–	–
Total	**13,591.9**	**174.2**	10,705.8	160.7
With OECD financial institutions	**13,591.9**	**174.2**	10,705.8	160.7
With non-financial institutions	**–**	**–**	–	–
Total	**13,591.9**	**174.2**	10,705.8	160.7
In not more than one year	**5,217.3**	**44.3**	3,004.4	25.6
In more than one year but not more than five years	**7,876.3**	**101.1**	6,900.9	67.7
In more than five years	**498.3**	**28.8**	800.5	67.4
Total	**13,591.9**	**174.2**	10,705.8	160.7

iii) Hedging

As explained in the Financial Review on page 22, the Group's policy is to hedge the following exposures:

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

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised.
Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Total unrecognised net gains/(losses) £m
Gains/(losses) on hedges at 1 January 1999	10.0
(Gains)/losses arising in previous years that were recognised in 1999	13.3
Gains/(losses) arising before 1 January 1999 that were not recognised in 1999	23.3
Gains/(losses) arising in 1999 that were not recognised in 1999	61.4
Gains/(losses) on hedges at 31 December 1999	84.7
Of which:	
Gains/(losses) expected to be recognised in 2000	49.5
Gains/(losses) expected to be recognised in 2001 or later	35.2

37 Reconciliation of operating profit to net operating cash flows

For the year ended 31 December 1999	1999 £m	1998 £m
Operating profits	**500.3**	455.2
Decrease/(increase) in accrued income and prepayments	**31.0**	(93.9)
(Decrease)/increase in accruals and deferred income	**(47.7)**	81.5
Provision for bad and doubtful debts	**41.2**	38.7
Loans and advances written off net of recoveries	**(53.7)**	(16.9)
Depreciation and amortisation	**73.2**	65.2
Interest on subordinated loan added back	**24.8**	44.8
Provisions for liabilities and charges	**1.3**	1.2
Increase in shareholders interest in long-term assurance fund	**(8.6)**	(9.0)
Other non-cash movements	**1.7**	(5.0)
Net cash flow from trading activities	**563.5**	561.8
Net decrease/(increase) in collections/transmissions	**82.9**	(69.8)
Net increase in loans and advances to banks and customers	**(1,403.1)**	(2,523.3)
Net increase in deposits by banks and customer accounts	**535.6**	1,575.7
Net increase in debt securities in issue	**2,344.6**	1,586.2
Net decrease/(increase) in other assets	**1.1**	(111.5)
Net increase/(decrease) in other liabilities	**0.8**	(75.7)
Other non-cash movements	**(7.2)**	(1.6)
Net cash inflow from operating activities	**2,118.2**	941.8

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

	At 1/1/99 £m	Cashflow £m	At 31/12/99 £m
Cash and balances at central banks	66.5	89.3	155.8
Loans and advances to other banks repayable on demand	25.3	10.9	36.2
	91.8	100.2	192.0

The Group is required to maintain balances with the Bank of England which at 31 December 1999 amounted to £31.6m (1998: £27.3m).

Analysis of changes in financing during the year

	Share capital £m	Subordinated liabilities £m
Balance at 1 January 1999	292.1	273.2
Net cash outflow from financing	(293.4)	–
Shares repurchased – transfer from reserves	293.4	–
Repurchase of share capital	(17.4)	–
Other movements	–	0.3
Balance at 31 December 1999	274.7	273.5

38 Segmental analysis

The Group has four business sectors: Mortgage Lending & Investments, Personal Banking, Commercial Banking and Treasury & Group. The information contained within the following table, in a format guided by SSAP 25 and the BBA SORP on segmental reporting, represents an analysis of the Group profit before tax and Group total assets. Further information is provided in the notes below.

A more detailed and relevant breakdown is given within the Financial Review on pages 14 to 24.

1999	Mortgage Lending & Investments £m	Personal Banking £m	Commercial Banking £m	Treasury & Group £m	Total Group £m
Total income	454.3	366.3	288.1	64.5	1,173.2
Profit on ordinary activities before tax	276.6	120.1	71.8	31.8	500.3

	Mortgage Lending & Investments £m	Personal Banking £m	Commercial Banking £m	Treasury & Group £m	Inter-group eliminations £m	Total Group £m
Gross assets	23,768.2	4,299.0	3,659.8	14,022.6	(15,257.4)	30,492.2
Inter-group eliminations	(3,487.0)	(1,645.5)	(1,575.2)	(8,549.7)	15,257.4	–
Total assets	20,281.2	2,653.5	2,084.6	5,472.9	–	30,492.2

1998	Mortgage Lending & Investments £m	Personal Banking £m	Commercial Banking £m	Treasury & Group £m	Total Group £m
Total income	478.5	317.9	328.5	64.1	1,189.0
Profit on ordinary activities before tax	267.2	94.2	69.9	23.9	455.2

	Mortgage Lending & Investments £m	Personal Banking £m	Commercial Banking £m	Treasury & Group £m	Inter-group eliminations £m	Total Group £m
Gross assets	22,660.8	3,935.8	2,859.8	11,936.3	(13,814.1)	27,578.6
Inter-group eliminations	(3,492.7)	(1,819.9)	(1,057.8)	(7,443.7)	13,814.1	–
Total assets	19,168.1	2,115.9	1,802.0	4,492.6	–	27,578.6

Notes

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

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

c) The Group operates entirely within the banking and insurance business, and operations are not managed on the basis of an allocation of net assets. The level of banking assets can fluctuate throughout the year, therefore the information derived from the year end figures does not provide a picture representative of the year as a whole. A more meaningful analysis of average interest-earning assets and average interest-bearing liabilities by business sector is contained within the Financial Review on page 15.

Consolidated Profit and Loss Account 5 Year Summary

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Interest receivable:					
Interest receivable and similar income arising from debt securities	**196.0**	196.4	185.8	176.5	178.1
Other interest receivable and similar income	**1,667.1**	1,871.9	1,525.4	1,387.4	1,509.2
Interest payable	**(1,110.5)**	(1,328.6)	(1,017.8)	(920.1)	(1,105.3)
Net interest income	**752.6**	739.7	693.4	643.8	582.0
Fees and commissions receivable	**457.8**	443.9	400.4	406.6	402.2
Fees and commissions payable	**(81.4)**	(67.1)	(47.5)	(37.5)	(39.4)
Other operating income	**44.2**	72.5	71.4	64.3	90.5
Total non-interest income	**420.6**	449.3	424.3	433.4	453.3
Operating income	**1,173.2**	1,189.0	1,117.7	1,077.2	1,035.3
Administrative expenses:					
Underlying	**(594.9)**	(660.9)	(630.8)	(663.3)	(656.3)
Exceptional costs of conversion	**-**	-	(28.0)	(26.0)	-
Other exceptional costs	**-**	-	-	-	(13.0)
Depreciation and amortisation:					
Underlying	**(36.8)**	(34.2)	(35.0)	(35.7)	(35.8)
Supplementary	**-**	-	-	(27.1)	-
	(631.7)	(695.1)	(693.8)	(752.1)	(705.1)
Provision for bad and doubtful debts	**(41.2)**	(38.7)	(29.3)	(19.5)	(2.7)
Operating profit	**500.3**	455.2	394.6	305.6	327.5
Provision for loss on disposal of operations	**-**	-	-	-	(39.7)
Profit on ordinary activities before tax	**500.3**	455.2	394.6	305.6	287.8
Tax on profit on ordinary activities	**(146.0)**	(137.3)	(133.9)	(119.5)	(111.3)
Profit attributable to the shareholders of Alliance & Leicester plc	**354.3**	317.9	260.7	186.1	176.5
Dividends	**(162.9)**	(142.6)	(121.1)	-	-
Retained profit for the year	**191.4**	175.3	139.6	186.1	176.5

				Proforma	Proforma
Earnings per ordinary share	**61.8p**	54.6p	44.8p	32.0p	30.3p
Underlying earnings per ordinary share	**61.8p**	54.6p	49.6p	40.7p	39.4p
Diluted earnings per ordinary share	**61.5p**	54.3p	44.7p	32.0p	30.3p

Proforma earnings per ordinary share calculations in respect of 1995 and 1996 have been given for the purpose of providing comparatives and are based on 582.0 million shares in issue.

The figures have not been restated for 1998 and prior years to reflect the change in accounting treatment for transactions between Girobank and Post Office Counters Ltd.

Consolidated Balance Sheet 5 Year Summary

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Assets					
Cash and balances at central banks	**155.8**	66.5	84.7	100.6	49.5
Treasury bills and other eligible bills	**279.5**	454.9	202.8	85.2	34.7
Loans and advances to banks	**1,230.7**	2,061.1	1,841.6	1,676.0	2,052.6
Items in the course of collection from other banks	**102.0**	128.8	118.0	156.3	360.2
Loans and advances to customers	**23,732.0**	21,475.1	19,133.6	18,261.3	17,490.3
Debt securities	**3,743.9**	2,274.8	2,307.1	3,196.1	2,342.0
Tangible fixed assets	**516.5**	440.5	355.7	321.8	293.0
Other assets	**170.8**	171.9	60.0	80.0	120.0
Prepayments and accrued income	**238.2**	269.2	173.0	107.6	103.8
Long-term assurance business attributable to shareholders	**64.8**	56.2	32.6	28.2	–
	30,234.2	27,399.0	24,309.1	24,013.1	22,846.1
Long-term assurance assets attributable to policyholders	**258.0**	179.6	94.6	65.1	–
Total assets	**30,492.2**	27,578.6	24,403.7	24,078.2	22,846.1
Liabilities					
Deposits by banks	**1,023.8**	721.0	89.1	235.2	213.0
Items in the course of transmission to other banks	**197.7**	141.6	200.6	206.9	264.8
Customer accounts	**20,125.0**	19,892.2	18,948.4	18,201.2	17,196.0
Debt securities in issue	**5,751.4**	3,406.8	1,820.6	2,341.3	2,552.6
Other liabilities	**352.0**	345.3	349.9	382.7	269.7
Accruals and deferred income	**659.2**	711.6	629.2	501.5	551.8
Provisions for liabilities and charges	**100.1**	54.0	18.4	13.4	12.1
Subordinated liabilities					
undated loan capital	**-**	–	198.9	198.9	-
dated loan capital	**273.5**	273.2	376.0	375.7	376.0
	28,482.7	25,545.7	22,631.1	22,456.8	21,436.0
Shareholders' funds (equity)					
Called up share capital	**274.7**	292.1	291.0	–	–
Share premium account	**19.9**	19.7	–	–	–
Capital redemption reserve	**17.4**	–	-	–	–
Profit and loss account	**1,439.5**	1,541.5	1,387.0	1,556.3	1,410.1
	1,751.5	1,853.3	1,678.0	1,556.3	1,410.1
	30,234.2	27,399.0	24,309.1	24,013.1	22,846.1
Long-term assurance liabilities to policyholders	**258.0**	179.6	94.6	65.1	–
Total liabilities	**30,492.2**	27,578.6	24,403.7	24,078.2	22,846.1

Shareholder Information

Shareholder analysis as at 31 December 1999

	No. of holders*	Percentage of total holders	No. of shares	Percentage of ordinary share capital
Shareholding range:				
1 – 250	790,867	92.57	193,101,371	35.15
251 - 500	52,307	6.12	25,293,174	4.60
501 - 10,000	10,391	1.22	12,801,526	2.33
10,001 – 50,000	326	0.04	8,109,155	1.48
50,001 - 100,000	120	0.01	8,787,530	1.60
100,001 and over	316	0.04	301,332,088	54.84
	854,327	100.00	549,424,844	100.00

Classification of shareholders:		
Personal holders (**)	253.0m	46.0%
Institutional holders	296.4m	54.0%

(*) Including those holders whose shares are held in the "Alliance & Leicester ShareSafe" nominee account.
(**) Includes private shareholdings, ShareSafe, shares created on flotation but for which a valid claim has yet to be received, and shares held in Private Client Accounts by institutional investors.

Financial Calendar

Ex dividend date for final dividend	10 April 2000
Record date for final dividend	14 April 2000
Annual General Meeting	2 May 2000
Final dividend for the year to 31 December 1999 payable	15 May 2000
Interim results to be announced	21 July 2000

Dividend History

Interim dividend 1998	8.0p
Final dividend 1998	16.5p
Interim dividend 1999	9.5p
Final dividend 1999	19.8p

Registrar's Address:
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA
Tel: 0870 607 0414

Alliance & Leicester Share Dealing Service:
Barclays Stockbrokers Limited
Tay House
300 Bath Street
Glasgow G2 4JR
Tel: 0870 516 8352

Geographical spread

Alliance & Leicester retail branches and regional offices cover the main population centres of the United Kingdom.

Alliance
Leicester

Registered Office:
49 Park Lane
London W1Y 4EQ

Company No: 3263713

http://www.alliance-leicester.co.uk