ALLIANCE & LEICESTER PLC

Company Number 3263713

Annual Report and Accounts
For the year ended 31 December 2005

Registered Office: Carlton Park, Narborough, Leicester LE19 0AL

Directors' Report

The directors have pleasure in presenting their report and the consolidated financial statements of Alliance & Leicester plc for the year ended 31 December 2005.

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 Company's subsidiary, Alliance & Leicester Commercial Bank 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 4 to 26.

Results and Dividends
The profit on ordinary activities before tax for the year ended 31 December 2005 was £547.1m (2004: £586.6m).

An interim net dividend of 16.8 pence per share (2004: 15.7 pence per share) was paid on 10 October 2005.

The directors propose a final net dividend for the year of 34.7 pence per share (2004: 32.6 pence per share) to be paid on 8 May 2006.

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

Sir Derek Higgs *Chairman* (from 28 October 2005)
Mr J R Windeler *Chairman* (to 27 October 2005)
Mr M P S Barton *Deputy Chairman*
Mr R A Pym *Group Chief Executive*
Mr M R Aish (from 20 May 2005)
Mr M J Allen
Mr R L Banks
Mrs J V Barker
Mr D J Bennett
The Hon D Brougham (to 7 May 2005)
Mr R M McTighe
Mr C S Rhodes
Mrs M Salmon
Mr E J Watts

The names and brief biographies of the current directors are shown on pages 28 and 29. Messrs R A Pym, D J Bennett and R M McTighe will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting. Sir Derek Higgs and Mr M R Aish were appointed directors on 28 October 2005 and 20 May 2005 respectively and will offer themselves for election at the forthcoming Annual General Meeting. Mr R J Duke was appointed director on 1 January 2006 and will offer himself for election at the forthcoming Annual General Meeting.

Directors' Interests in Contracts
No director had a material interest at any time during the year in any contract of significance, other than a service contract (see Directors' Report on Remuneration on page 37), with the Company or any of its subsidiary undertakings.

Directors' Interests in Shares
Directors' interests in the shares of the Company and options to acquire shares are set out in the Directors' Remuneration Report on pages 35 to 41.

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 37 on page 77.

Corporate Governance
The Group's Statement of Corporate Governance is set out on pages 31 to 34.

Social Responsibilities
The Group's Corporate Social Responsibility Report is set out on pages 14 to 17.

Charitable and Political Donations
No donations were made to political parties. Charitable donations are disclosed in the Corporate and Social Responsibility Report on pages 16 to 17.

Staff
The Group's staff policies are set out under 'Our Workplace' on pages 15 to 16.

Creditor Payment Policy
The Group's creditor payment policy is set out on page 14.

Risk Management
The financial risk management objectives and policies of the Group are shown in Notes 2 and 3 on pages 54 to 59.

Authority to Purchase Shares
During the year, 575,000 shares of 50 pence each, representing a nominal value of £287,500, were repurchased and cancelled, representing 0.13% of the Company's issued capital as at 31 December 2005. The aggregate consideration (including stamp duty) paid for the shares was £5.0m. The purpose of the share buyback programme was to help manage the Group's capital base.

Capital efficiency remains a key financial objective and shareholder authority will again be sought, at the Annual General Meeting, for the Company to purchase in the market up to 44.8 million of its shares, representing some 15% of the issued share capital, in order to retain flexibility in managing the Company's capital requirements.

Special Business
The Annual General Meeting will be held on 2 May 2006. Special business to be transacted at the Meeting is set out in full in the Notice of the Annual General Meeting

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

On behalf of the Board

Sim Lloyd

S Lloyd
Group Secretary
26 February 2006

Corporate Governance
Statement of Corporate Governance

Principles of Corporate Governance
The Board of Alliance & Leicester recognises that good corporate governance practices are essential to the prosperity of the Group and to achieving our strategic objectives. It believes that an effective Board is fundamental in ensuring strong corporate governance and continues to strive for excellence in the execution of its duties.

Compliance Statement
For the year ended 31 December 2005, Alliance & Leicester has applied the principles and complied with the provisions of Section 1 of the Combined Code on Corporate Governance. Details of how Alliance & Leicester complied with the Code are summarised in this statement.

Board Structure
At the date of this report, the Group Board comprises the Chairman, Sir Derek Higgs, the Group Chief Executive, Richard Pym, three executive directors and eight non-executive directors, all of whom are considered to be independent by the Board. Peter Barton is Deputy Chairman and Senior Independent non-executive Director. Biographical details of the current directors are set out on pages 28 and 29.

The directors come from diverse business backgrounds and each actively and effectively contributes to the work of the Board and its Committees.

Role of the Group Board
The Group Board is responsible for delivering the Group's strategy of sustained growth in shareholder value through challenging performance objectives, whilst ensuring compliance with legal and regulatory requirements. The non-executive directors constructively challenge the management team and supplement the executive directors' management expertise with a diversity of business skills and experience.

The Group Board is scheduled to meet monthly and reviews and debates strategy, operating and financial performance, risk management and internal controls. Details of the number of Board and Committee meetings and attendance at those meetings are set out on page 34. Formal minutes or reports of each meeting are prepared and circulated to all directors.

In addition the Group Board held a one day meeting during the year to review strategic matters.

There is a formal schedule of matters reserved to the Group Board, including:

- setting corporate strategies and objectives;
- approval of interim and final financial results;
- approval of major capital expenditure;
- approval of annual budgets and medium term plans;
- approval of significant changes in the Group structure and product range.

The Board has empowered the Group Chief Executive to approve all other matters within agreed financial limits and he in turn delegates the operational and financial management of the Group to the executive directors and senior managers, to achieve agreed targets.

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

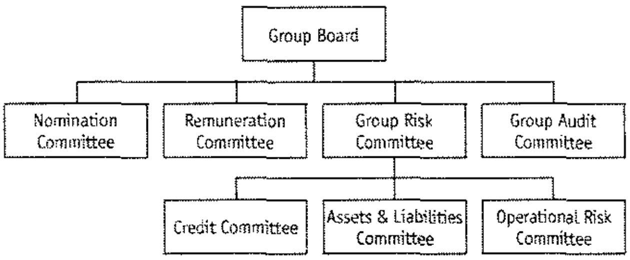
During the year Sir Derek Higgs was appointed to the Board to succeed Mr J R Windeler as Chairman and an additional independent non-executive director, Mr M R Aish, who has extensive experience in banking and risk issues, was appointed to the Board. Mr R J Duke was appointed to the Board with effect from 1 January 2006 and has considerable banking experience.

The process for appointing new directors is determined by the Nomination Committee. Prior to the appointment of a non-executive director, clear selection criteria are agreed by the Committee before an external search consultancy is appointed to identify prospective candidates, from which a short list is presented to the Committee. This process was followed for the recent appointments.

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

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

Board Committees
The terms of reference for the principal Group Board Committees are available on the Group website at www.alliance-leicester-csr.co.uk. As explained later in this report, with effect from 1 January 2006, the Board Committee structure was changed and the current principal Board and management committees and terms of reference and membership of the highlighted Board Committees are detailed below.



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

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

As at the 26 February 2006, the Committee members are:

Sir Derek Higgs (Chairman)
Mr M J Allen
Mr M P S Barton
Mrs M Salmon
Mr E J Watts

Sir Derek Higgs replaced Mr J R Windeler who resigned as Chairman of the Nomination Committee, on 27 October 2005.

Mrs D Henderson, Head of Board Office, is the Secretary of the Nomination Committee.

During 2005, the Committee's activities included considering the nominations for a new Chairman and new non-executive directors and reviewing the Group Board's succession plan.

Statement of Corporate Governance

Remuneration Committee
The composition and work of the Remuneration Committee and the Group's remuneration policy is described in detail in the Directors' Remuneration Report on pages 35 to 41.

Group Audit & Risk Committee
The Group Audit & Risk Committee comprised five non-executive directors and until 31 December 2005 was responsible for the following areas:

- Risk and internal controls
  - risk management and internal controls;
  - reviewing the annual Group Risk plan;
  - approving the annual internal audit and compliance plans and monitoring their progress;
  - reviewing the annual report from the Group Money Laundering Reporting Officer.
- Financial Reporting: reviewing
  - the Annual Report & Accounts and Interim Results on behalf of the Group Board;
  - management representations;
  - changes to accounting policy and compliance with best principles and regulatory requirements;
  - recommending the appointment and re-appointment of external auditors.

The Committee carried out all these activities during the year.

The Committee was scheduled to meet at least four times a year and during 2005 met five times. The additional meeting was arranged to enable the Committee to fully discuss the impact of International Financial Reporting Standards on the financial results of the Group.

During the year the Committee reviewed the level of fees in respect of audit services and oversaw the policy for engaging the Group's External Auditors for audit and non-audit services – details of this policy can be found at www.alliance-leicester-csr.co.uk. The Committee also reviewed the independence of the auditors on a regular basis during 2005 and met separately the Head of Group Internal Audit and the Audit partner from Deloitte, in both cases without any other attendee from the Group.

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

As at the 31 December 2005, the Committee members were:

Mrs J V Barker (Chairman)*
Mr M P S Barton*
Mr M R Aish (from 20 May 2005)*
Mr R M McTighe
Mr E J Watts

The Hon. D Brougham resigned from the Committee on 7 May 2005 at the same time that his retirement from the Board took effect.

*The Board considers that these members of the Committee have recent and relevant financial experience.

Miss A Ward, Head of Group Internal Audit, was the Secretary of the Group Audit & Risk Committee and meetings were attended by the Group Chief Executive, the other executive directors, the Director of Accounting & Taxation, the Director of Group Risk, the Group Secretary and representatives from Deloitte, the External Auditors.

Group Credit Policy Committee
The Group Credit Policy Committee comprised three non-executive directors, the Group Chief Executive, the Director of Group Risk and the Directors of Credit and Risk for Retail Banking and Wholesale Banking, and until 31 December 2005 was responsible for approving the Group's credit, market and liquidity risk policies and reviewing Group credit and market risk and related issues. The Committee met five times during 2005 and as at 31 December 2005 the Committee members were:

Mr M P S Barton (Chairman)
Mr M R Aish
Mrs J V Barker
Mr R A Pym
Mr M Thomas
Mr S Baum
Mr R L Towers

A senior member of the Group Risk Department acted as the Secretary to the Committee and meetings were attended by the executive directors, the Director of Corporate Banking and others as the Committee thought necessary.

Changes to Board Committees
Following a review of Committee responsibilities the Group Board has replaced the Group Audit & Risk Committee and the Group Credit Policy Committee with the Group Audit Committee and the Group Risk Committee, both with effect from 1 January 2006.

Group Audit Committee
The Group Audit Committee has responsibility for financial reporting and the monitoring of internal controls on behalf of the Board, and will approve the annual Compliance and Internal Audit plans. Committee members recognise the importance of maintaining an effective system of internal controls to safeguard shareholders' investments and Group assets.

The Committee comprises five independent non-executive directors and is attended by the Group Chief Executive, executive directors, the Director of Accounting & Taxation, the Director of Group Risk, the Group Secretary, the Head of Group Internal Audit and a representative from Deloitte, the External Auditors.

The Committee members as at 26 February 2006 are:

Mrs J V Barker (Chairman)*
Mr M R Aish*
Mr M P S Barton*
Mr R M McTighe
Mr E J Watts

Miss A Ward, Head of Group Internal Audit, is the Secretary of the Group Audit Committee.

*The Board considers that these members of the Committee have recent and relevant financial experience.

Group Risk Committee
The Group Risk Committee (which has taken responsibility for all the activities previously carried out by the Group Credit Policy Committee) reviews the management of business, market, credit and liquidity risks and internal controls, and approves policies for the management of risk and internal control. The Committee also receives the report from the Group Money Laundering Reporting Officer.

The Committee comprises three independent non-executive directors, the Group Chief Executive and the Director of Group Risk, and is attended by the other executive directors, the Directors of Credit & Risk for Wholesale Banking and Retail Banking, the Director of Lending, the Group Secretary, the Head of Group Internal Audit and the Head of Group Compliance.

The Committee members as at 26 February 2006 are:

Mr M R Aish (Chairman)
Mr M P S Barton
Mrs J V Barker
Mr R A Pym
Mr M Thomas

A senior member of the Group Risk Department acts as the Secretary to the Group Risk Committee.

Chairman's Committee
The Chairman's Committee is empowered to take urgent decisions between Board meetings and comprises the Chairman or a non-executive director, the Deputy Chairman or another non-executive director and the Group Chief Executive or one other Executive Director.

Evaluation of the Group Board and Committees
The Board is subject to rigorous annual evaluation of its own performance. Each director completes a detailed questionnaire identifying areas for improvement in the conduct and proceedings of the Board and information provided to it.

The performance of each Board Committee was evaluated during the year and the results of those evaluations were reported to the Group Board.

The evaluation results are used to debate and constructively improve the performance of the Board and each Board Committee.

The Chairman and non-executive directors receive annual performance evaluations, where directors score their performance according to a scale and give qualitative comments as appropriate. The results enable the Chairman to discuss with individual directors their contribution, commitment and any development areas. The Nomination Committee receives the results of the individual evaluations to assist in its annual review of the performance and re-appointment of non-executive directors.

The performance of the Chairman is reviewed by the senior independent non-executive director and the other non-executive directors, although as Sir Derek Higgs was appointed as Chairman on 28 October 2005, he did not receive an evaluation in 2005.

The Chairman is responsible for appraising the Group Chief Executive's performance annually against objective criteria agreed by the Remuneration Committee. The Group Chief Executive in turn is responsible for appraising the performance of the other executive directors and presents the results of those appraisals to the Remuneration Committee for consideration and determination of their remuneration.

Accountability and Audit
Internal Control
The Board is responsible for the Group's system of internal controls and for monitoring its effectiveness. The directors are required by law to establish systems for the control of the conduct of the business under the Financial Services and Markets Act 2000 and to conduct the business with prudence and integrity, ensuring that there are adequate reserves and other capital resources and assets in liquid form for the protection of depositors.

The Group's system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives, and provide reasonable assurance as to the effectiveness of the safeguards protecting the business against the risk of material error, loss or fraud. The Group Audit & Risk Committee reviewed the effectiveness of the Group's system of internal control for the year to 31 December 2005 on behalf of the Board, and the Group Audit Committee and Group Risk Committee have reviewed the operation of the Group's controls to identify any material developments occurring since the year end.

There has been in place for the year under review and up to the date of this report a process of identifying, evaluating and managing the significant risks faced by the Group. This process is regularly reviewed by the Board and accords with the Turnbull Guidance for Directors contained in the Combined Code.

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

The Board has delegated oversight of the Group's Internal Control Policy to the Group Risk Committee.

Each meeting of the Group Risk Committee and the Group Audit Committee receives a report identifying the effectiveness of internal controls together with specific reports on any major issues. The Board retains control over this area through the presentation of regular Group Audit Committee and Group Risk Committee "activities" reports to the Group Board, together with the minutes of the Committees' meetings.

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

- A Group Internal Control Policy requiring all senior managers to identify major risks and monitor the effectiveness of internal controls against key performance indicators applied throughout the business. The effectiveness of these controls is confirmed and certified to the Board in February and July each year via the Group Risk Committee and the Group Audit Committee. The Group's Internal Audit Department carries out reviews of the self certification process operated by each department or business unit as part of the audit of that department or unit;
- A well defined management structure with clear accountabilities and delegations;
- The Group Audit Committee, the Group Risk Committee and a system of executive management committees, including the Executive Directors Meeting and the Group Executive Management Committee. These committees enhance and support the oversight role of the Board;
- A comprehensive planning and budgeting process that delivers detailed annual financial forecasts and targets for Board approval;
- Management information systems which enable the Board to receive comprehensive monthly analysis of financial and business performance including variance against budget;
- A Group Risk Management function and Group Operational Risk Committee with overarching responsibility for the monitoring and reporting of all major risks to which the Group is exposed, supported by specialist risk functions;
- An Internal Audit function which reports to the Group Audit Committee on the effectiveness of key internal controls in relation to these major risks;
- A Compliance function to manage relationships with the Group's key regulators and to identify major compliance and regulatory risks;
- A Financial Crime Steering Group, chaired by the Group Chief Executive, which considers the potential exposure of the Group to loss through financial crime and the controls in place to mitigate the risk of such loss;
- A Group Money Laundering Reporting Officer and anti-money laundering procedures and controls including training programmes for all staff; 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

Statement of Corporate Governance

with its supervisors, conducting the relationship in an open and constructive manner.

Going Concern

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

Relations with shareholders

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

Institutional shareholders may attend meetings, conference calls, presentations and results briefings. The Company's major institutional shareholders have the opportunity to meet regularly with the Company's management and have the opportunity to request a meeting with the Chairman or non-executive directors. Representatives from two institutional shareholders were invited to meetings of the Group Board in 2005 at which they presented their views on the Group. The Chairman and non-executive directors attend results presentations and the senior independent non-executive director is available to deal with any concerns raised by institutional shareholders, which cannot be resolved through the normal channels of the Chairman or Group Chief Executive.

Communications with private shareholders are primarily managed by the Group Secretary. All shareholders have the opportunity to meet the directors at the Annual General Meeting which is held in the evening at the Company's Leicestershire head office. Shareholders who are unable to attend are encouraged to vote by proxy and may appoint their proxy by post, on the internet or via CREST.

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

Attendance at Board and Committee Meetings during 2005

	Group Board	Remuneration	Nomination	Audit & Risk
Total number of meetings held in 2005	11	6	2	5
Sir Derek Higgs, Chairman (from 28.10.2005)	2		1	
Mr J R Windeler (to 27.10.2005)	9		1	
Mr R A Pym	11			
Mr M P S Barton	11	6	2	5
Mr M R Aish (from 20.5.2005)	6			2
Mr M J Allen	10	5	1	
Mr R L Banks	11			
Mrs J V Barker	11			5
Mr D J Bennett	11			
The Hon. D Brougham (to 7.5.2005)	2			1
Mr R M McTighe	10	5		4
Mr C S Rhodes	11			
Mrs M Salmon	11	6	2	
Mr E J Watts	11		2	4

During the year, apologies were received from Mr Aish, Mr McTighe and Mr Allen for one Board meeting, and for the Hon. D Brougham for two meetings, owing to unavoidable commitments outside Alliance & Leicester. All directors receive the Board papers and have the opportunity to raise questions via the Chairman or Group Secretary if they are unable to attend.

Statement of Directors' Responsibilities

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

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

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

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

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

Corporate Governance
Directors' Remuneration Report
For the Year Ended 31 December 2005

This report provides the Company's statement of how it has applied the principles of good governance set out in the Combined Code and the disclosures required by Schedule 7A to the Companies Act. The report of the auditors on the financial statements set out on page 42 confirms that the scope of their report covers, where required, the disclosures contained in or referred to in this report that are specified for their audit by the UK Listing Authority and under the Companies Act. It has been approved by the Board and will be put to the shareholders at the Annual General Meeting inviting them to consider and approve the report.

Remuneration Committee

Role

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

During the year, the Committee, inter alia, (a) reviewed the remuneration of the executive directors, Group Secretary and senior managers of the Group, (b) considered the impact of the Pensions Simplification regime on executive directors, senior managers and the Group's pension schemes, (c) reviewed and considered changes to the Group's share schemes prior to requesting renewal of shareholder approval, (d) monitored the performance of external advisers to the Committee in relation to executive remuneration and human resource activities, (e) implemented the Long Term Incentive Plan approved at the 2005 Annual General Meeting and (f) monitored the vesting of awards under the Executive Share Options schemes and the Deferred Bonus scheme.

Membership and Meetings

The Committee comprises the following non-executive directors:

Mr M P S Barton
(Committee Chairman and Senior Independent non-executive Director)
Mr M J Allen
Mr R M McTighe
Mrs M Salmon

The Hon. David Brougham was a member of the Committee until 7 May 2005.

The Group Secretary, Mr S Lloyd, acted as secretary to the Committee throughout 2005 and provided professional assistance to the Committee on governance issues.

The number of Committee meetings held during 2005 and directors' attendance is set out on page 34. At the invitation of the Chairman of the Committee, the Group Chairman, the Group Chief Executive and the Director of Human Resources, Ms F Rodford, attend Committee meetings to provide background and context on matters relating to the remuneration of the executive directors and senior managers, but do not attend when the Committee discusses matters relating to their personal remuneration.

The Committee's performance is evaluated on an annual basis and the results are reported to the Board. The evaluation process is set out in the Statement of Corporate Governance on pages 31 to 34.

Advisers

The Committee used the services of Towers Perrin during the year to provide general remuneration advice and comparator information, and Mercer Human Resource Consulting ('Mercer') to advise specifically on pension related issues. With the agreement of the Group Audit Committee, the Company's external auditor, Deloitte & Touche LLP, continues to provide specialist advice on the Group's Share Schemes. Mercer also acts as actuaries and advisers to the Group's pension scheme and advises the Company on matters relating to its operation.

Remuneration Policy

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

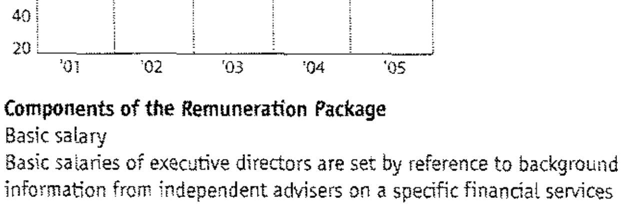
Also, under Committee guidelines, each executive director is required to build up over a period of five years and retain, whilst a director, a minimum holding of shares in the Company with a value equivalent to his or her annual basic salary.

The Committee also monitors the bonus schemes and share awards for all senior managers in the Group.

For 2006 and beyond, annual salary will continue to be set at levels not normally exceeding market median, whilst bonuses and long term incentive plans will reflect market upper quartile competitive levels, subject to fulfilment of performance conditions based on Earnings per Share ('EPS') and Total Shareholder Return ('TSR'). The Committee reviews the elements of the reward package, benchmarking them against other banks and financial services organisations.

Performance Graph

The performance graph below shows the Company's performance, measured by TSR, in comparison with the FTSE 100 Index over the five years ended 31 December 2005. The FTSE Index was chosen as it is a broad equity market index of which the Company forms a component.



Components of the Remuneration Package

Basic salary

Basic salaries of executive directors are set by reference to background information from independent advisers on a specific financial services comparator group and general market trends within companies in the FTSE 100 Index. Salary levels are reviewed annually (unless responsibilities change) and may vary depending on each executive director's experience, responsibilities, and personal contribution. Details of salaries payable for 2005 are set out on page 38.

Similarly, the senior managers' salary levels are assessed annually against those of other major UK based financial institutions and FTSE 100 companies and pay levels set at market median.

Directors' Remuneration Report

For the Year Ended 31 December 2005

At 31 December 2005, the average salary for the most senior managers was £166,100. The salary banding for this group is as follows:

Salary band (£)	Number of managers
125,000-150,000	6
150,000-175,000	8
175,000-200,000	2
200,000-225,000	1
225,000-250,000	1
Grand total	18

Annual Bonus

For 2005, bonuses are contingent on achievement of performance targets set by the Committee. These combine corporate (pre-tax profit and return on equity) and individual performance targets. The return on equity target is 17% to 23%. The pre-tax profit target is considered commercially sensitive. The corporate targets are consistent across all senior managers and directors who are eligible to participate in the bonus scheme. Assessment of the executive directors' individual performance against their individual objectives is carried out by the Committee. The individual performance objectives are directly linked to achievement of the Group's strategic targets.

The bonus for executive directors, for on-target performance, is 75% of salary, with a maximum of 150% of salary for exceptional performance.

For 2006, it is intended that the same bonus scheme will operate.

In line with the Committee guidelines to build up a shareholding equivalent to his basic salary, each executive director will continue to take at least one quarter of his annual bonus in deferred shares until he has achieved the appropriate shareholding. There will be no match of the deferred shares by the Company. The rights to deferred shares cannot normally be exercised for three years and will lapse if not exercised within seven years.

Bonuses are discretionary and are non-pensionable.

Share Options

Share options allow a holder to buy shares at a future date, at the share price prevailing at the time of grant. All executive directors and senior managers were eligible in 2005 for the grant of options under the Alliance & Leicester Approved and Unapproved Company Share Option Schemes. From 2006 options will be granted to executive directors, associate directors and divisional directors only.

The options granted prior to 2006 are linked to the achievement of compound EPS growth over the three year performance period of RPI+9%. This achievement results in full vesting. However, for options granted from 2006, subject to receiving shareholder approval for renewal of the Plans and in accordance with best practice, it is intended to introduce a sliding scale. Only 50% of the awards will become exercisable at EPS growth of RPI+3% per annum and 100% of awards will become exercisable if EPS growth exceeds RPI+5% per annum over the three year performance period. Straight line interpolation will be used for achievement between those points. The Committee considers this performance condition to be suitable and appropriate as a means of focusing executive directors on generating earnings growth and accords with current market practice.

From 2006, the aggregate value of new shares, for which options to subscribe may be granted to each executive director in any year, cannot exceed a maximum total annual award of two times basic salary.

The value of shares subject to option grants to executive directors has typically been up to one and half times basic salary (two times for new appointments), but from 2006 it is intended that the grants will be between 150% and 200% of basic salary, although the Committee will keep the performance conditions under review. Senior managers, other than executive, associate and divisional directors, who previously participated in the Company's share option schemes, will from 2006 participate in a Restricted Share Plan under which awards ranging between 0% and 15% of basic salary (depending on individual performance ratings) will be made. For associate and divisional directors it is intended that from 2006 option grants will be between 100% and 150% of basic salary, having previously been subject to a maximum of 100%. Grants are made in two tranches following the final and interim results. No options are awarded within two years of an individual's 60th birthday, although from 2006 no options will be awarded within six months of an individual's 60th birthday, to ensure the scheme complies with age discrimination legislation.

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

Under the rules of the share option schemes, options are exercisable prior to the third anniversary of the date of grant where an option holder ceases to be employed by the Company by reason of death, injury, ill-health, disability, redundancy, retirement or transfer of the employing company outside the Group or at the discretion of the Committee in any other circumstances. Also, in these circumstances, any performance conditions attaching to the exercise of the options awarded prior to 2006 cease to apply.

It is proposed that for future awards from 2006, if any of these events should take place, the number of shares over which the option can be exercised will be pro-rated in line with the amount of time elapsed since the grant of the option, and performance conditions will also apply, subject to the Committee's discretion.

Fair Value Volatility

The Committee recognises that fair value accounting volatility arises from the requirement in IAS 39 to measure all derivatives at fair value, with changes in fair value recorded in the income statement unless designated as part of a hedging relationship. The volatility from derivative fair value movements can be mitigated by hedging, but in practice some accounting volatility will remain, even where hedges are used to match the risk exposure on an economic basis. Therefore, for grants made in 2006 and beyond, the Committee has agreed that calculation of the underlying EPS should exclude fair value accounting volatility, which is consistent with the Group's primary strategic target for return on equity, the calculation of which also excludes this.

Long Term Incentive Schemes

Deferred Bonus Scheme

The last grant to directors, under the deferred bonus scheme, was made during the year, relating to the bonuses awarded for 2004.

Awards of matched shares only begin to vest when median TSR performance relative to the peer group is achieved, with linear progression from one matching share at median performance up to three matching shares for upper quartile performance.
The constituents of the peer group, excluding the Company are:

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

The rights to matching shares cannot normally be exercised for three years, except in the circumstances set out below, and lapse if not exercised within seven years. TSR is considered by the Committee to be a suitable measure for this type of scheme, as it provides clear links with the creation of shareholder value. Further details are set out on page 40.

Under the Deferred Bonus Scheme, options may be exercised prior to the third anniversary of the date of grant where the executive director ceases to be employed by reason of death, injury, ill-health, disability, retirement or at the discretion of the Trustees to the Scheme, based on the recommendations by the Committee in any other circumstances. Performance conditions apply unless waived by the Committee and are normally subject to a three-year performance period, without re-testing.

For senior managers, other than executive, associate or divisional directors, a new deferred bonus plan is proposed to be introduced in 2006, subject to shareholders' approval. No performance conditions will apply to this plan.

Performance Share Plan
The first award under the Performance Share Plan ('Plan') was made to executive directors in 2005. The annual award under the Plan will normally be over shares to the value of 125% of salary, with the Committee retaining discretionary flexibility to adjust this level up or down, having regard to the performance of the business and the individual. Any adjustment is likely to be in the range of plus or minus 25% of salary, with an absolute maximum annual award of 200% of annual salary. The award in 2005 was 125% of salary in each case. The performance period is three years, with no re-testing.
The performance test is in two parts:

- The vesting of 50% of the award depends on the performance of the Company's TSR relative to a peer group of retail banks which consists of the following:

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

- 30% of this part of the award is payable at median performance and maximum vesting is for achieving upper quartile performance, with straight-line interpolation between these points.
- The vesting of the other 50% of the award depends on the Company's adjusted EPS growth relative to inflation over each performance period. 30% of this part of the award will vest when the adjusted EPS growth equals RPI +3% per annum over the performance period, and with further vesting at a growth of RPI +8% per annum, with straight-line interpolation between these points.

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

If an individual leaves the Group, an unvested award will normally lapse. However, in exceptional circumstances (for example, as a result of retirement) the rules of the Plan allow awards to vest early at the discretion of the Committee.

The shares required in connection with the Plan are sourced from market purchase or, subject to the usual dilution limits, new issue or treasury shares.

From 2006, it is intended that the associate and divisional directors will participate in the Plan.

None of these benefits is pensionable.

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

Service Contracts
Executive directors have service contracts that continue until terminated by twelve months' notice (but which in any event terminate on their 60th birthday).

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

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

Pensions
Executive directors are members of the Defined Benefit Section of the Alliance & Leicester Pension Scheme, which has a normal retirement age of 60.

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

(a) Pensions from age 60 of 1/60th of basic salary averaged over the last twelve months prior to retirement 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 are 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.

Member contributions are 5% of basic salary.

The following directors have special arrangements:

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

(b) Mr Pym is not required to contribute. Mr Bennett contributes 15% of the Earnings Cap.

(c) Mr Banks's pension entitlement reduced during the year due to the implementation of a pension sharing order.

There is currently an unfunded, unapproved pension arrangement to increase the pension and lump sum life assurance 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. Such arrangements apply to Mr Pym and Mr Bennett. Following its review of the impact of the Pension Simplification regime coming into effect from 6 April 2006, the Committee has concluded that the total pension commitment to the executive directors will remain the same. The allocation between the Alliance & Leicester Pension Scheme and unfunded, unapproved arrangements will change during the year in order that a pension can be provided in the most tax efficient manner.

An executive director may, with the consent of the employer, draw an accrued pension from the Alliance & Leicester Pension Scheme at any time after his 50th birthday (55th birthday from 2010). The pension

Directors' Remuneration Report

For the Year Ended 31 December 2005

will be reduced in accordance with the Rules of the Scheme to reflect payment before his 60th birthday.

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

There are no discretionary practices that are taken into account in calculating transfer values on leaving service.

Other Benefits

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

Other Directorships

The Group is supportive of executive directors who wish to take one non-executive directorship with a publicly quoted company in order to broaden their experience. They are entitled to retain any fees they may receive. Mr R A Pym is a non-executive director of Halfords plc and his fees for the year ended 31 December 2005 were £60,000. Mr D J Bennett was appointed a non-executive director of easyJet plc on 1 October 2005 and his fees for the period from 1 October 2005 to 31 December 2005 were £12,500.

Remuneration for the Chairman and Non-Executive Directors

The fees of the Chairman and the non-executive directors are determined by the Board as a whole in the light of recommendations by the Group Chief Executive, based on comparator information, and within the limits specified in the Articles of Association of the Company. These fees are reviewed annually.

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

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

Non-executive directors who are in full-time employment with a third party employer may elect to pay the whole or part of their fees to it. Payments in respect of Mrs J V Barker are made to her employer.

Details of appointment periods appear below:

	Date of current appointment or reappointment*	Expiry date	Notice period
Sir Derek Higgs	28 October 2005	28 October 2007	None
M R Aish	20 May 2005	20 May 2007	None
M J Allen	1 January 2005	1 January 2007	None
M P S Barton	13 May 2005	13 May 2007	None
R J Duke	*1 January 2006*	*1 January 2008*	*None*
R M McTighe	1 June 2005	1 June 2007	None
E J Watts	8 May 2005	8 May 2007	None
Mrs J V Barker	1 January 2006	1 January 2008	None
Mrs M Salmon	*1 July 2004*	*1 July 2006*	*None*

* which may follow earlier renewals

Chairman

Mr J R Windeler retired on 27 October 2005, after declaring his intention to do so at the Annual General Meeting in May 2005. Sir Derek Higgs was appointed as Chairman on 28 October 2005.

Audited information

Directors' Remuneration

Year ended 31 December 2005

	Salaries /fees £000	Bonus £000	Other benefits £000	Total 2005(i) £000	Total 2004(ii) £000
Executive Directors					
R A Pym	619	575	23	**1,217**	1,027
R L Banks	307	255	22	**584**	508
D J Bennett	382	300	2	**684**	555
C S Rhodes	346	290	1	**637**	500
Subtotal	1,654	1,420	48	**3,122**	2,590
Chairman					
Sir Derek Higgs (from 28.10.05)	61	–	–	**61**	–
J R Windeler (to 27.10.05)	333	–	–	**333**	394
Non-Executive Directors					
M R Aish (from 20.5.05)	33	–	–	**33**	–
M J Allen	53	–	3	**56**	54
J V Barker	60	–	–	**60**	52
M P S Barton	136	–	–	**136**	135
The Hon D Brougham (to 7.5.05)	21	–	7	**28**	62
R M McTighe	53	–	3	**56**	52
M Salmon	57	–	–	**57**	26
E J Watts	53	–	2	**55**	54
F A Cairncross (to 31.12.04)	–	–	–	**–**	52
P J Stone (to 30.9.04) (iii)	–	–	–	**–**	46
Subtotal	860	–	15	**875**	927
Total	2,514	1,420	63	**3,997**	3,517

Notes:

i) The total for 2005 does not include deductions made to basic salary for SMART pensions.

ii) Includes aggregate market value of deferred share options granted in respect of bonus related to 2004. This scheme has been replaced by the Performance Share Plan. More details can be found on page 41.

iii) Mr Stone's fees were paid to his company and include VAT.

Pension Entitlements

Executive Director	J R Windeler(i)	R L Banks	D J Bennett	R A Pym	C S Rhodes
Age attained at 31.12.05	62	54	43	56	42
Normal retirement age	60	60	60	60	60
	£	£	£	£	£
Amount of accrued pension £p.a. at 31.12.05	35,427	50,984	64,362	269,199	96,319
at 31.12.04	32,479	84,193	51,501	225,339	85,317
Change in amount of accrued pension £p.a. to 31.12.05	2,948	(33,209)	12,861	43,860	11,002
to 31.12.04	2,813	9,862	11,963	47,303	18,447
Change in amount of Accrued pension £p.a. net of revaluation during year to 31.12.05	1,941	(35,819)	11,264	36,874	8,357
to 31.12.04	1,982	7,781	10,856	42,318	16,574
Directors contributions payable during year to 31.12.05 (ii) (C)	–	15,375	15,705	–	16,625
	£000's	£000's	£000's	£000's	£000's
Cash equivalent transfer value at 31.12.04 (A)	566	1,154	432	3,303	683
Cash equivalent transfer value at 31.12.05 (B)	640	794	645	4,449	925
Change in transfer value over year to 31.12.05 net of member contributions (B-A-C)	74	(375)	197	1,146	225

Notes:

i) Mr J R Windeler was a non-executive director until 27 October 2005. He left the Scheme on 20 March 2003 with entitlement to a deferred pension. The figures shown relate to the benefits that would be payable if he had chosen to retire on 27 October 2005, including increases for late payment.

ii) Notional due to SMART pensions.

Details of terms and conditions associated with these pensions are shown on pages 37 and 38.

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 1.1.05 (or date of appointment if later)	As at 31.12.05
M R Aish (from 20.5.05)	–	5,000
M J Allen	1,900	5,000
R L Banks	26,544	52,781
J V Barker	5,000	5,000
M P S Barton	6,500	10,000
D J Bennett	19,621	20,918
The Hon. D Brougham (to 7.5.05)	5,000	–
Sir Derek Higgs (from 28.10.05)	–	10,000
R M McTighe	500	5,500
R A Pym	33,783	59,148
C S Rhodes	18,147	25,162
M Salmon	1,000	1,000
E J Watts	5,000	5,000
J R Windeler (to 27.10.05)	107,809	–

± Directors' share interests include the interests of their spouses and infant children, as required by Section 328 of the Companies Act 1985. In addition to the beneficial interests in shares shown as at 31 December 2005, Mr R L Banks, Mr D J Bennett, Mr R A Pym and Mr C S Rhodes were each allocated 85 shares in the capital of the Company by the Share Incentive Plan Trustee on 13 January 2006. There were no other changes in the beneficial interests of the directors in Company shares between 31 December 2005 and 10 February 2006.

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 Schemes:

Directors	Number of options: As at 01.01.05 or at date of appointment if later	During the year: Granted	Exercised	Lapsed	As at 31.12.05	Exercise price £	Market price on date of exercise £	Exercise period
R L Banks	38,589			38,589	–	–		–
	47,320		47,320		–	8.77*	9.245	–
	28,731		28,731		–	6.70*	9.73	–
	14,587				14,587	8.055*		23/7/04-22/7/11
	2,094				2,094	6.32=		1/11/07-1/5/08
	14,038				14,038	8.37*		12/3/05-11/3/12
	17,924				17,924	7.95*		6/8/05-5/8/12
	25,844				25,844	7.545*		26/2/06-25/2/13
	25,582				25,582	8.795*		1/9/06-31/8/13
	3,488				3,488	8.60#		3/3/07-2/3/14
	20,930				20,930	8.60*		3/3/07-2/3/14
	28,776				28,776	8.34*		29/7/07-28/7/14
	–	25,817			25,817	8.715*		7/4/08-6/4/15
	–	28,093			28,093	8.81*		8/8/08-7/8/15
D J Bennett	3,420				3,420	8.77#		17/6/02-16/6/09
	42,189		42,189		–	8.77*	9.245	–
	15,518				15,518	8.055*		23/7/04-22/7/11
	16,427				16,427	8.37*		12/3/05-11/3/12
	20,441				20,441	7.95*		6/8/05-5/8/12
	29,821				29,821	7.545*		26/2/06-25/2/13
	29,846				29,846	8.795*		1/9/06-31/8/13
	2,447				2,447	6.68=		1/11/09-1/5/10
	28,343				28,343	8.60*		3/3/07-2/3/14
	34,622				34,622	8.34*		29/7/07-28/7/14
	–	30,550			30,550	8.715*		7/4/08-6/4/15
	–	32,776			32,776	8.81*		8/8/08-7/8/15

Directors' Remuneration Report

For the Year Ended 31 December 2005

	Number of options							
		During the year						
Directors	As at 01.01.05 or at date of appointment if later	Granted	Exercised	Lapsed	As at 31.12.05	Exercise price £	Market price on date of exercise £	Exercise period
R A Pym	5,628		5,628		–	5.33#	9.73	–
	31,093			31,093	–			–
	59,293		59,293		–	8.77*	9.245	–
	60,784		60,784		–	5.10*	9.73	–
	47,761				47,761	6.70*		23/2/04-22/2/08
	21,104				21,104	8.055*		23/7/04-22/7/11
	1,503		1,503		–	6.32≠	9.445	–
	22,700				22,700	8.37*		12/3/05-11/3/12
	32,704				32,704	7.95*		6/8/05-5/8/12
	44,731				44,731	7.545*		26/2/06-25/2/13
	51,165				51,165	8.795*		1/9/06-31/8/13
	45,784				45,784	8.60*		3/3/07-2/3/14
	60,701				60,701	8.34*		29/7/07-28/7/14
	–	51,635			51,635	8.715*		7/4/08 -6/4/15
	–	56,186			56,186	8.81*		8/8/08-7/8/15
C S Rhodes	7,190			7,190	–			–
	14,171		14,171		–	7.85*	9.245	–
	28,544				28,544	6.70*		23/2/04-22/2/08
	22,243				22,243	8.055*		23/7/04-22/7/08
	2,618				2,618	6.32≠		1/11/07-1/5/08
	3,584				3,584	8.37#		12/3/05-11/3/12
	5,885				5,885	8.37*		12/3/05-11/3/12
	20,219				20,219	7.95*		6/8/05-5/8/12
	23,856				23,856	7.545*		26/2/06-25/2/13
	23,877				23,877	8.795*		1/9/06-31/8/13
	26,162				26,162	8.60*		3/3/07-2/3/14
	31,474				31,474	8.34*		29/7/07-28/7/14
	–	27,969			27,969	8.715*		7/4/08-6/4/15
	–	30,221			30,221	8.81*		8/8/08-7/8/15

≠ Options granted under the Alliance & Leicester ShareSave Scheme

The following schemes are subject to performance conditions:

Options granted under the Alliance & Leicester Approved Company Share Option Scheme

* *Options granted under the Alliance & Leicester Unapproved Company Share Option Scheme*

Gains on exercised options are disclosed in Note 42 to the accounts.

On 30 December 2005 the market price of ordinary shares in Alliance & Leicester plc was £9.94 and the range during 2005 was £8.145 to £9.945.

Bonus Awards

The following table shows the directors' interests in deferred share options awarded under the deferred bonus scheme.

Director	Bonus year		Value of award £	Market value at date of grant £	No. of shares under option	Exercise price £	Exercise period
R L Banks	2002	Deferred Shares	88,200	7.545	11,689#	Nil	26/2/06-26/2/10
	2003	Deferred Shares	78,750	8.60	9,156#	Nil	3/3/07-2/3/11
	2004	Deferred Shares	48,750	8.71	5,593#	Nil	7/4/08-6/4/15
D J Bennett	2001	Deferred Shares	30,000	8.37	3,584#	Nil	12/3/05-12/3/09
	2002	Deferred Shares	72,750	7.545	9,642#	Nil	26/2/06-26/2/10
	2003	Deferred Shares	65,000	8.60	7,558#	Nil	3/3/07-2/3/11
	2004	Deferred Shares	48,000	8.71	5,507#	Nil	7/4/08-6/4/15
R A Pym	1999	Deferred Shares	49,995	5.10	9,803*	Nil	17/2/03-17/2/07
	2000	Deferred Shares	92,000	6.70	13,731#	Nil	23/2/04-23/2/08
	2001	Deferred Shares	80,000	8.37	9,557#	Nil	12/3/05-12/3/09
	2002	Deferred Shares	168,750	7.545	22,365#	Nil	26/2/06-26/2/10
	2003	Deferred Shares	233,000	8.60	27,093#	Nil	3/3/07-2/3/11
	2004	Deferred Shares	228,400	8.71	26,207#	Nil	7/4/08-6/4/15
C S Rhodes	2002	Deferred Shares	67,000	7.545	8,879#	Nil	26/2/06-26/2/10
	2003	Deferred Shares	62,500	8.60	7,267#	Nil	3/3/07-2/3/11
	2004	Deferred Shares	43,500	8.71	4,991#	Nil	7/4/08-6/4/15

* For 1999 bonus year, a maximum of up to two matching shares for each deferred share were awarded as the Company's Total Shareholder Return (TSR) performance ranked greater than 50th percentile against the TSR performance of two comparator groups namely the FTSE Retail Banks Index and the FTSE 100 Index (*with application on a linear basis of between zero for 50th percentile performance and two matching shares for the top 25th percentile performance*).

For the 2000 to 2004 bonus years (when a maximum of up to 3 matching shares for each share may be awarded) TSR performance is measured against the TSR performance of a single comparator group of Retail Banks (see page 36).

Long term Incentive Scheme

The following tables show the directors' interests in matched share options awarded under the deferred bonus scheme and under the Performance Share Plan. The figures for the matched shares represent the maximum potential award.

Deferred Bonus scheme

	Award date	Awards held at 1/1/05	Awards granted during the year	Vested during the year	Lapsed during the year	Awards held at 31/12/05	End of period when qualifying conditions must be met
R L Banks	26/2/03	35,067#				35,067#	31/12/05
	3/3/04	27,468#				27,468#	31/12/06
	7/4/05*	–	16,779#	–	–	16,779#	31/12/07
D J Bennett	12/3/02	10,752~		10,752~		–	31/12/04
	26/2/03	28,926#				28,926#	31/12/05
	3/3/04	22,674#				22,674#	31/12/06
	7/4/05*	–	16,521#	–	–	16,521#	31/12/07
R A Pym	17/2/00	–**				–**	31/12/02
	23/2/01	–**				–**	31/12/03
	12/3/02	28,671~		28,671~		–	31/12/04
	26/2/03	44,730#				44,730#	31/12/05
	3/3/04	81,279#				81,279#	31/12/06
	7/4/05*	–	78,621#	–	–	78,621#	31/12/07
C S Rhodes	26/2/03	23,856#				23,856#	31/12/05
	3/3/04	21,801#				21,801#	31/12/06
	7/4/05*	–	14,973#	–	–	14,973#	31/12/07

** Option over 19,606 shares vested during 2003 and over 41,193 shares vested in 2004 for Mr R A Pym. These options remain unexercised at 31 December 2005.

~ The market value of shares on date of grant was £8.37p. The market value on the date of options vesting was £8.765p, representing an aggregate gain of £11,325 for Mr R A Pym, and an aggregate gain of £4,247 for Mr D J Bennett. These options remain unexercised at 31 December 2005.

For the 2000 to 2004 bonus years (when a maximum of up to 3 matching shares for each share may be awarded) TSR performance is measured against the TSR performance of a single comparator group of Retail Banks (see page 36).
The exercise price for the matched share options is nil. There were no variations in terms and conditions of the Scheme during the year.

* The market value of shares awarded on 7 April 2005 was £8.715p.

Performance Share Plan

	Award date	Awards held at 1/1/05	Awards granted during the year	Vested during the year	Lapsed during the year	Awards held at 31/12/05	End of period when qualifying conditions must be met
R L Banks	8/8/05	–	44,693##	–	–	44,693##	31/12/07
D J Bennett	8/8/05	–	52,497##	–	–	52,497##	31/12/07
R A Pym	8/8/05	–	89,387##	–	–	89,387##	31/12/07
C S Rhodes	8/8/05	–	48,240##	–	–	48,240##	31/12/07

Grants made under the Performance Share Plan. The conditions attached to these awards are set out on page 37.

On behalf of the Board

M P S Barton
Chairman of the Remuneration Committee

26 February 2006

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

We have audited the Group and individual Company financial statements (the "financial statements") of Alliance & Leicester plc for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated and individual Company balance sheets, the consolidated and individual Company cash flow statements, the consolidated and individual company statements of recognised income and expenses, and the related notes 1 to 51. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

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

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the Directors' Report is not consistent with the financial statements. We also report to you 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 regarding directors' remuneration and other transactions is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

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

We read the Directors' Report and the other information contained in the Annual Report for the above year as described in the contents section, including the unaudited part of the Directors' Remuneration Report, and 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report described as having been audited. 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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report described as having been audited.

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the individual Company financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union as applied in accordance with the requirements of the Companies Act 1985, of the individual Company's ~~state of~~ affairs as at 31 December 2005; state of the
- the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRS
As explained in Note 1, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended.

Deloitte & Touche LLP
Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, England
26 February 2006

4 Statutory Accounts

Consolidated Income Statement

For the year ended 31 December 2005	Notes	2005 £m	2004 £m
Interest receivable and similar income		**2,576.1**	2,300.2
Interest expense and similar charges		**(1,825.1)**	(1,608.9)
Net interest income	6	**751.0**	691.3
Fee and commission income		**508.8**	570.4
Fee and commission expense		**(32.4)**	(67.0)
Gains/(losses) from fair value accounting volatility	7	**(1.0)**	n/a
Other operating income	8	**160.5**	185.6
Total non-interest income		**635.9**	689.0
Operating income		**1,386.9**	1,380.3
Administrative expenses:			
Core administrative expenses and strategic investment costs		**(660.7)**	(674.7)
Exceptional costs arising from the rationalisation of the branch network		**-**	(9.0)
Total administrative expenses	9	**(660.7)**	(683.7)
Depreciation and amortisation:			
On fixed assets excluding operating lease assets		**(31.2)**	(30.1)
On operating lease assets		**(74.0)**	(72.8)
		(105.2)	(102.9)
Total costs		**(765.9)**	(786.6)
Impairment losses on loans and advances	12	**(73.9)**	(59.1)
Operating profit		**547.1**	534.6
Profit on disposal of Group operations	10	**-**	52.0
Profit on ordinary activities before tax		**547.1**	586.6
Tax on profit on ordinary activities	13	**(140.2)**	(161.2)
Profit on ordinary activities after tax		**406.9**	425.4
Profit attributable to minority interests:			
Non-equity tier 1	35	**17.5**	-
Other minority interests	36	**-**	2.1
Profit attributable to the ordinary shareholders of Alliance & Leicester plc		**389.4**	423.3
Earnings per share:			
Basic earnings per ordinary share	14	**86.9p**	92.6p
Diluted earnings per ordinary share	14	**86.5p**	92.1p

Consolidated Balance Sheet

As at 31 December 2005	Notes	2005 £m	2004 £m
Assets			
Cash and balances with central banks	16	**1,704.6**	585.3
Treasury bills and other eligible bills		**17.1**	–
Due from banks	17	**2,524.5**	1,795.6
Trading securities		**306.3**	n/a
Derivative financial instruments	18	**570.8**	n/a
Loans and advances to customers	19	**40,093.8**	33,562.5
Net investment in finance leases and hire purchase contracts	20	**2,146.3**	2,045.8
Debt securities	21	**n/a**	10,523.6
Investment securities:			
– available-for-sale	22	**9,817.8**	n/a
– held-to-maturity	22	**342.5**	n/a
– loans and receivables	22	**150.3**	n/a
– at fair value through profit or loss	22,23	**331.0**	n/a
Intangible fixed assets	25	**18.6**	8.5
Property, plant and equipment	26	**262.4**	272.5
Operating lease assets	27	**364.4**	367.1
Fair value macro hedge		**59.8**	n/a
Other assets	28	**218.6**	93.9
Prepayments and accrued income		**53.2**	465.8
Total assets		**58,982.0**	49,720.6
Liabilities			
Due to other banks	29	**6,566.6**	4,651.2
Derivative financial instruments	18	**410.4**	n/a
Due to customers		**26,437.8**	24,748.4
Debt securities in issue		**21,405.3**	15,843.1
Other liabilities	30	**329.7**	355.9
Current tax liabilities		**52.9**	82.2
Accruals and deferred income		**261.8**	1,032.0
Deferred tax liabilities	31	**259.8**	163.7
Other borrowed funds	32	**939.1**	812.7
Non-equity tier 1	35	**n/a**	297.2
Retirement benefit obligations	33	**106.9**	87.7
Total liabilities		**56,770.3**	48,074.1
Minority interests:			
Non-equity tier 1	35	**310.6**	n/a
Other	36	**–**	4.8
		310.6	4.8
Called up share capital	37	**224.4**	223.2
Share premium account	39	**85.1**	66.7
Capital redemption reserve	39	**73.0**	72.7
Reserve for share-based payments	39	**13.8**	6.7
Available-for-sale reserve	39	**5.8**	n/a
Cash flow hedging reserve	39	**22.5**	n/a
Profit and loss account	39	**1,476.5**	1,272.4
Total ordinary shareholders' equity		**1,901.1**	1,641.7
Total equity and liabilities		**58,982.0**	49,720.6

Approved by the Board of directors on 26 February 2006 and signed on its behalf by:

R A Pym Group Chief Executive

D J Bennett Group Finance Director

Company Balance Sheet

As at 31 December 2005	Notes	2005 £m	2004 £m
Assets			
Cash and balances with central banks	16	**1,221.9**	100.3
Treasury bills and other eligible bills		**17.1**	-
Due from banks	17	**4,344.2**	2,074.0
Trading securities		**306.5**	n/a
Derivative financial instruments	18	**656.5**	n/a
Loans and advances to customers	19	**40,447.1**	34,739.7
Debt Securities	21	**n/a**	9,811.6
Investment securities:			
– available-for-sale	22	**9,794.2**	n/a
– held-to-maturity	22	**342.5**	n/a
– loans and receivables	22	**n/a**	n/a
– at fair value through profit or loss	22,23	**314.8**	n/a
Shares in group undertakings	24	**724.3**	739.1
Intangible fixed assets	25	**8.3**	2.6
Property, plant and equipment	*26*	**151.7**	*162.3*
Operating lease assets	27	**-**	13.4
Deferred tax assets	31	**15.2**	64.8
Current tax assets		**43.9**	-
Fair value macro hedge		**24.7**	n/a
Other assets	28	**143.8**	105.1
Prepayments and accrued income		**27.7**	370.5
Total assets		**58,584.4**	48,183.4
Liabilities			
Due to other banks	29	**10,996.2**	7,395.3
Derivative financial instruments	18	**421.6**	n/a
Due to customers		**22,582.4**	21,391.3
Debt securities in issue		**21,325.9**	15,733.5
Other liabilities	30	**442.9**	412.4
Current tax liabilities		**-**	10.6
Accruals and deferred income		**260.3**	969.8
Other borrowed funds	32	**939.1**	812.7
Non-equity tier 1	35	**n/a**	297.2
Retirement benefit obligations	33	**106.9**	87.7
Total liabilities		**57,075.3**	47,110.5
Minority interests: Non-equity tier 1	35	**310.6**	n/a
Called up share capital	37	**224.4**	223.2
Share premium account	39	**85.1**	66.7
Capital redemption reserve	39	**73.0**	72.7
Reserve for share-based payments	39	**13.8**	6.7
Available-for-sale reserve	39	**5.8**	n/a
Cash flow hedging reserve	39	**27.0**	n/a
Profit and loss account	39	**769.4**	703.6
Total ordinary shareholders' equity		***1,198.5***	*1,072.9*
Total equity and liabilities		**58,584.4**	48,183.4

Approved by the Board of directors on 26 February 2006 and signed on its behalf by:

R A Pym Group Chief Executive

D J Bennett Group Finance Director

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2005	2005 £m	2004 £m
Available-for-sale investments:		
Valuation gains taken to equity	0.1	n/a
Transferred to profit or loss on sale	–	n/a
Cash flow hedges:		
Gains taken to equity	12.5	n/a
Transferred to profit or loss for the year	(0.3)	n/a
Transferred to the initial carrying amount of hedged items	–	n/a
Actuarial losses on retirement benefit obligations	(22.3)	(5.1)
Tax on items taken directly in equity	2.8	1.5
Net expense recognised directly in equity	(7.2)	(3.6)
Profit on ordinary activities after tax	406.9	425.4
Minority interests:		
Non-equity tier 1	(17.5)	–
Other	–	(2.1)
Total recognised income for the period attributable to ordinary shareholders of Alliance & Leicester plc	382.2	419.7

Company Statement of Recognised Income and Expense

For the year ended 31 December 2005	2005 £m	2004 £m
Available-for-sale investments:		
Valuation gains taken to equity	**0.1**	n/a
Transferred to profit or loss on sale	**-**	n/a
Cash flow hedges:		
Gains taken to equity	**15.2**	n/a
Transferred to profit or loss for the year	**-**	n/a
Transferred to the initial carrying amount of hedged items	**-**	n/a
Actuarial losses on retirement benefit obligations	**(22.3)**	(5.1)
Tax on items taken directly in equity	**1.9**	1.5
Net expense recognised directly in equity	**(5.1)**	(3.6)
Profit on ordinary activities after tax	***249.0***	*347.6*
Minority interest: Non-equity tier 1	**(17.5)**	-
Total recognised income for the period attributable to ordinary shareholders of Alliance & Leicester plc	**226.4**	344.0

Consolidated Cash Flow Statement

For the year ended 31 December 2005	Notes	2005 £m	2004 £m
Cash flows from operating activities			
Operating profits		**547.1**	534.6
Decrease/(increase) in accrued income and prepayments		**111.6**	(207.3)
(Decrease)/increase in accruals and deferred income		**(42.3)**	8.2
Provisions for impairment		**73.9**	59.1
Loans and advances written off net of recoveries		**(57.2)**	(69.6)
Depreciation and amortisation		**108.2**	106.8
Interest on subordinated loan added back		**49.6**	60.1
Provisions for liabilities and charges		**(3.1)**	(124.9)
Unamortised costs on subordinated debt and non-equity tier 1		**0.2**	(2.2)
Other non-cash movements		**(5.6)**	–
Cash generated from operations		**782.4**	364.8
Interest paid on loan capital		**(67.1)**	(60.1)
Taxation		**(74.8)**	(70.9)
Other non-cash movements		**–**	(22.0)
Cash flows from operating profits before changes in operating assets and liabilities		**640.5**	211.8
Changes in operating assets and liabilities:			
Net (increase)/decrease in treasury and other eligible bills		**(17.1)**	0.6
Net increase in amounts due from banks and loans and advance to customers		**(7,327.5)**	(2,093.7)
Net decrease in debt securities		**n/a**	128.5
Net (increase)/decrease in non-investment debt and equity securities		**(244.4)**	119.1
Net increase in fair value macro hedge		**(59.8)**	n/a
Net (increase)/decrease in other assets		**(111.9)**	81.1
Net increase in amounts due to other banks and customers		**3,199.5**	50.2
Net increase in derivative financial instruments		**(352.2)**	n/a
Net increase in debt securities in issue		**5,776.0**	862.0
Net (decrease)/increase in other liabilities		**(38.8)**	74.1
Net increase in other borrowed funds		**39.0**	–
Other non-cash movements		**5.6**	3.4
Net cash from operating activities		**1,508.9**	(562.9)
Cash flows from investing activities			
Purchase of non-dealing securities		**(5,499.5)**	(3,565.5)
Proceeds from sale and redemption of non-dealing securities		**5,205.1**	4,401.8
Acquisition of subsidiaries, net of cash acquired		**–**	(0.7)
Disposal of subsidiaries, net of cash disposed		**60.2**	2.3
Disposal of Merchant Acquisition Business		**–**	83.5
Disposal of Credit Card Balances		**–**	3.3
Purchase of intangible assets and property and equipment		**(146.6)**	(151.0)
Proceeds from sale of property and equipment		**41.6**	51.1
Net cash used in investing activities		**(339.2)**	824.8
Cash flows from financing activities			
Proceeds from borrowed funds		**261.8**	300.0
Repayments of borrowed funds		**(188.4)**	–
Issue of ordinary shares		**19.9**	13.0
Repurchase of ordinary shares		**(5.0)**	(152.8)
Dividends paid		**(220.7)**	(208.0)
Net cash from financing activities		**(132.4)**	(47.8)
Net increase in cash and cash equivalents		**1,037.3**	214.1
Cash and cash equivalents at beginning of year		**1,006.4**	792.3
Cash and cash equivalents at end of year	41	**2,043.7**	1,006.4

Company Cash Flow Statement

For the year ended 31 December 2005	Notes	2005 £m	2004 £m
Cash flows from operating activities			
Operating profits		**340.8**	448.9
Increase in accrued income and prepayments		**(0.8)**	(96.1)
(Decrease)/increase in accruals and deferred income		**(10.0)**	196.8
Provisions for impairment		**(0.8)**	7.5
Loans and advances written off net of recoveries		**(4.2)**	(26.6)
Depreciation and amortisation		**37.3**	21.4
Interest on subordinated loan added back		**49.6**	60.1
Provisions for liabilities and charges		**(3.1)**	(124.9)
Unamortised costs on subordinated debt and non-equity tier 1		**0.2**	(2.2)
Other non-cash movements		**14.8**	–
Cash generated from operations		**423.8**	484.9
Interest paid on loan capital		**(67.1)**	(60.1)
Taxation		**(99.0)**	(76.8)
Cash flows from operating profits before changes in operating assets and liabilities		**257.7**	348.0
Changes in operating assets and liabilities:			
Net (increase)/decrease in treasury and other eligible bills		**(17.1)**	0.6
Net increase in amounts due from banks and loans and advance to customers		**(8,068.1)**	(2,170.6)
Net decrease in debt securities		**n/a**	144.4
Net (increase)/decrease in non-investment debt and equity securities		**(273.7)**	119.1
Net increase in fair value macro hedge		**(24.7)**	n/a
Net (increase)/decrease in other assets		**(38.7)**	31.7
Net increase in amounts due to other banks and customers		**4,440.8**	471.7
Net increase in derivative financial instruments		**(358.5)**	n/a
Net increase in debt securities in issue		**5,818.3**	904.6
Net (decrease)/increase in other liabilities		**(7.8)**	8.9
Net increase in other borrowed funds		**39.0**	–
Other non-cash movements		**5.6**	(5.4)
Net cash from operating activities		**1,772.8**	(147.0)
Cash flows from investing activities			
Purchase of non-dealing securities		**(5,328.0)**	(3,441.5)
Proceeds from sale and redemption of non-dealing securities		**4,510.8**	3,836.9
Acquisition of subsidiaries, net of cash acquired		**–**	(40.0)
Disposal of subsidiaries, net of cash disposed		**2.7**	12.3
Disposal of Credit Card Balances		**–**	3.3
Purchase of intangible assets and property and equipment		**(26.3)**	(23.7)
Proceeds from sale of property and equipment		**7.3**	9.3
Net cash used in investing activities		**(833.5)**	356.6
Cash flows from financing activities			
Proceeds from borrowed funds		**261.8**	300.0
Repayments of borrowed funds		**(188.4)**	–
Issue of ordinary shares		**19.9**	13.0
Repurchase of ordinary shares		**(5.0)**	(152.8)
Dividends paid		**(220.7)**	(208.0)
Net cash from financing activities		**(132.4)**	(47.8)
Net increase in cash and cash equivalents		**806.9**	161.8
Cash and cash equivalents at beginning of year		**536.6**	374.8
Cash and cash equivalents at end of year	41	**1,343.5**	536.6

1 Principal accounting policies

Basis of preparation
The accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time (see Notes 44 to 49).

Results and disclosures for the comparative period are on the same basis as the 2005 results, except that the Group has taken advantage of the provisions in IFRS 1 not to restate prior year information for the requirements of IAS 32 and IAS 39. The accounting policies for financial instruments in the 2004 comparatives are as set out in the 2004 Annual Report & Accounts.

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

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

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

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

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

Negative goodwill is recognised immediately in the income statement.

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

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

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

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

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

Tangible 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 tangible fixed assets less estimated residual value is written off on a straight line basis over their estimated useful lives as follows:

Freehold buildings	40 to 75 years
Leasehold buildings	over the remainder of the lease up to 75 years
Plant, fixtures and major alterations	10 to 15 years
Equipment and motor vehicles	3 to 9 years

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

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

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

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

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

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

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

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the Statement of Recognised Income and Expense. The retirement benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligations less the fair value of scheme assets.

Post-retirement medical benefit liabilities are determined using the Projected Unit Credit Method, with actuarial valuations updated at each year end. The expected benefit costs are accrued over the period

1 Principal accounting policies continued
of employment using an accounting methodology similar to that for the defined benefit pension scheme.

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

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

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

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

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

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

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

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market then fair value is determined using valuation techniques.

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

Fair value option
Financial assets and liabilities are designated at fair value through profit or loss when this results in more relevant information because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities on different bases or recognising the gains or losses on them on different bases. The fair value option is used by the Group where Treasury assets (investment securities) or liabilities (debt securities in issue) would otherwise be measured at amortised cost, the associated derivatives used to economically hedge the risk are held at fair value, and it is not practical to apply hedge accounting. The Group has also designated certain financial instruments containing embedded derivatives at fair value through profit or loss. The application of the fair value option differs from the 2005 Interim Results. For the 2005 full year results, the revised fair value option, endorsed by the EU in November 2005, is being used.

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

a) significant financial difficulty of the issuer or obligor;

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

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

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

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

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

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

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

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

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

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

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

Interest income and expense
Interest income and expense on financial assets and liabilities held at amortised cost is measured using the effective interest rate method, which allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly

discounts estimated future cash payments or receipts through the expected life of the financial instrument.

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

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

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

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

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

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

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

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

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

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

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

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

Changes to IFRS not adopted in 2005 accounts
In August 2005 the International Accounting Standards Board published IFRS 7 'Financial Instruments: Disclosures'. This is mandatory from 1 January 2007, although the Group has not elected to adopt IFRS 7 early in these financial statements.

2 Risk management policy and control framework

As a result of its normal business activities, the Group is exposed to a variety of risks, the most significant of which are operational risk, credit risk, market risk and liquidity risk. The following table details the work of the main committees that have been established within the Group to manage these risks:

Committee	Status	Main responsibilities	Membership
Group Audit and Risk Committee (GARC)[1]	*Group Board* sub-committee	*Approval of the Group's* overall risk management framework. Approval of policy for management of operational risk. Approval of the Group's internal control policies.	*Non executive Group* Board Directors only. However, executive Board directors and other senior managers attend.
Group Credit Policy Committee (GCPC)[1]	Group Board sub-committee	Approval of policy for the management of credit, market and liquidity risks.	Executive and non-executive Group Board directors and other senior managers.
Group Assets and Liability Committee (ALCO)	Management committee	Monitoring market and liquidity risks and recommending policy in these areas to GCPC[1].	Executive Group Board directors and other senior managers.

1. From 1 January 2006 the Group Audit & Risk Committee (GARC) and the Group Credit Policy Committee (GCPC) have been replaced by the Group Audit Committee (GAC) and the Group Risk committee (GRC). GAC's main responsibilities are to approve the Group's financial statements and liaise with the Group's external auditors, review internal controls and any major control issues and approve the annual plans of the Group Internal Audit and Group Compliance functions. Membership will be the same as the Group Audit & Risk Committee. GRC's main responsibilities are to approve the Group's risk management framework and policies, undertake regular reviews of all current and emerging risks and activities of all risk related committees, deal with group-wide capital adequacy issues and approve the annual report from the Group's Money Laundering Reporting Officer. Membership is made up of non-executive Group Board directors, the Group Chief Executive and the Director of Group Risk.

Operational risk

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

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

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

Credit risk

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

The Group employs sophisticated internal rating, behavioural scoring and underwriting techniques to support sound decision making and minimise losses in its lending activities. These techniques are used to calculate expected loss and the Group's economic capital requirement for credit risk. Behavioural scoring also operates within the personal account management and collections processes. A proactive approach to the control of bad and doubtful debts is maintained within the collections areas.

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

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

Policy statements, covering, amongst other things, criteria to be used in considering limits on counterparties and countries, are reviewed at least annually by the GRC. Authorised limits on a counterparty are determined following rigorous analysis giving due consideration to both internal and external credit ratings.

Counterparty risk is outlined in a table showing the Group's exposures to customer groups and industry sectors in Note 3(i) on page 56.

Market risk

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

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

The Group has established a transfer pricing system with the intention of transferring materially all of the market risks that arise in the various

Group businesses to Group Treasury. Most of the Group's market risk is transferred to Group Treasury by way of appropriate hedging arrangements. Group Treasury plays a pivotal role in managing the Group's market risk. Group Treasury acts as a 'Risk Clearing House', managing these risks within its own limits, and seeks to take advantage of natural hedges within the Group's businesses.

Market risk is measured and reported using a variety of techniques, according to the appropriateness of the technique to the exposure concerned. The techniques used include interest rate gap analysis, basis point value analysis, stress testing, scenario analysis and value at risk. These measures are used to determine the Group's economic capital requirements for market risk.

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

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

Net non-interest bearing liabilities comprise mainly of interest-free personal and corporate current accounts and shareholders' funds, and totalled £4.8bn at 31 December 2005 (2004: £4.7bn). These funds are invested in the variable rate assets which expose the Group to volatility in net interest income. Cashflow hedging of these variable rate assets achieves the Group's objective of minimising volatility in net interest income over the medium term. A full interest rate repricing table is shown in Note 3(ii) on pages 56 and 57.

The Group's trading activities are conducted through the Group's Treasury division. The bank uses a variety of techniques to measure market risk in the trading book, including calculating the sensitivity of the market value of positions to hypothetical changes in interest rates. A table in Note 3(iii) on page 57 sets out the change in the value of the trading book arising from a 1% change in market interest rates.

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

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

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

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

Liquidity risk
Liquidity risk is the risk that the Group, though solvent, either does not have sufficient financial resources available to meet its obligations as they fall due, or can only secure them at excessive cost. It is Group policy to ensure that sufficient liquid assets are at all times available to meet the Group's obligations, including the withdrawal of customer deposits, the draw-down of customer facilities and growth in the balance sheet. The development and implementation of policy is the responsibility of the ALCO. The day to day management of liquidity is the responsibility of Group Treasury, which provides funding to and takes surplus funds from each of the Group's businesses as required.

Liquidity policy is approved by the GRC. Limits on potential cashflow mismatches over defined time horizons are the principal basis of liquidity control. The size of the Group's holdings of readily realisable liquid assets is primarily driven by such potential outflows.

The tables in Note 3(iv) on pages 57 and 58 analyse the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date (to contractual maturity).

Derivatives
A derivative is an agreement which defines certain financial rights and obligations which are contractually linked to interest rates, exchange rates or other financial prices. Derivatives are an efficient and cost effective means of managing market risk and limiting counterparty exposures and are an indispensable tool in treasury management. Derivatives are primarily used by the Group for balance sheet management purposes. However the bank also runs trading book positions in derivatives; details of the level of interest rate risk in the trading book are contained in Note 3(iii) on page 57.

Types of derivatives and uses
The principal derivatives used in balance sheet risk management are interest rate swaps, forward rate agreements (FRAs), futures, interest rate options and foreign exchange contracts, which are used to hedge balance sheet exposures arising from fixed and capped rate mortgage lending, personal and commercial loans, leasing arrangements, fixed rate savings products, funding and investment activities and foreign exchange services to customers. The following table below describes the significant activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks. These risks may alternatively be managed using on balance sheet instruments or natural hedges that exist in the Group balance sheet.

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

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

All exchange traded instruments are subject to cash requirements under the standard margin arrangements applied by the individual exchanges and are not subject to significant credit risk. Other derivatives contracts are on an 'Over the Counter' basis with OECD

2 Risk management policy and control framework continued

financial institutions. The exposures arising from these contracts are shown in Note 18 on page 64 and 65.

Fair values of financial assets and liabilities

A table in Note 3(v) on page 59 summarises the carrying amounts and fair values at 31 December 2005 of those financial assets and liabilities not presented on the Group's balance sheet at their fair value.

3 Risk management disclosures

(i) Counterparty risk

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

	Group		Company	
	31 December 2005 £m	31 December 2004 £m	**31 December 2005 £m**	31 December 2004 £m
Loans secured on residential mortgages	**33,133.1**	28,030.6	**33,075.3**	27,938.3
Unsecured loans and other	**3,559.5**	3,127.7	**75.7**	64.7
Central government and central banks	**1,330.0**	251.3	**1,318.4**	240.4
Other banks, building societies and investment firms	**9,387.0**	7,997.1	**8,862.6**	7,572.4
Government and public sector	**76.7**	78.6	**–**	–
Corporate	**5,608.3**	4,528.6	**–**	–
Other Group companies	**–**	–	**9,987.2**	7,706.0
Other	**4,160.9**	4,399.2	**4,130.9**	3,953.6
Total	**57,255.5**	48,413.1	**57,450.1**	47,475.4

(ii) Interest rate repricing table

The following tables provide a summary of the interest rate repricing profile of the Group and Company assets and liabilities as at 31 December 2005. Assets and liabilities have been allocated to time bands by reference to the earlier of the next interest rate reset date and the contractual maturity date. Financial assets and liabilities with a floating rate are exposed to cash flow interest rate risk, and this risk is reflected predominantly in the time bands below twelve months. Financial assets and liabilities with a fixed rate are exposed to fair value interest rate risk, which is reflected predominantly in the time bands beyond twelve months. Financial assets and liabilities not directly exposed to interest rate risk will appear in the non-interest bearing time band. The table takes account of derivative financial interests whose effect is to alter the interest basis of Group assets and liabilities.

The trading book and non-interest bearing balances have been included in a separate column.

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

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

The comparative figures at 31 December 2004 are prior to the adoption of IAS 32 and so do not fall within its disclosure requirements. An interest rate repricing analysis for 31 December 2004 under UK GAAP is given in Note 51 on page 88.

(iii) Trading book

The following table sets out the change in the value of the trading book arising from a 1% change in market interest rates, for the year ended 31 December 2005 with all other variable remaining consistent.

	Group and Company	
	2005 £m	2004 £m
Highest exposure	**0.9**	0.8
Lowest exposure	**0.3**	–
Average exposure	**0.4**	0.3
Exposure as at 31 December	**0.4**	0.6

(iv) Liquidity maturity tables

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

Group **31 December 2005**	**Repayable on demand £m**	**Less than 3 months £m**	**3 months to 12 months £m**	**1 to 5 years £m**	**Over 5 years £m**	**Total £m**
Assets						
Cash and balances with central banks	**1,704.6**	**–**	**–**	**–**	**–**	**1,704.6**
Treasury bills and other eligible liabilities	**–**	**17.1**	**–**	**–**	**–**	**17.1**
Due from banks	**339.1**	**2,179.6**	**5.8**	**–**	**–**	**2,524.5**
Trading securities	**–**	**–**	**11.6**	**240.6**	**54.1**	**306.3**
Derivative financial instruments	**–**	**119.2**	**90.1**	**234.0**	**127.5**	**570.8**
Loans and advances to customers	**238.4**	**837.3**	**1,055.4**	**4,095.7**	**33,867.0**	**40,093.8**
Net investment in finance leases and hire purchase contracts	**0.1**	**93.0**	**185.5**	**551.3**	**1,316.4**	**2,146.3**
Investment securities:						
– available-for-sale	**0.2**	**874.5**	**1,374.7**	**5,291.3**	**2,277.1**	**9,817.8**
– held-to-maturity	**–**	**0.1**	**–**	**87.8**	**254.6**	**342.5**
– loans and receivables	**–**	**150.3**	**–**	**–**	**–**	**150.3**
– at fair value through profit or loss	**–**	**–**	**53.3**	**180.4**	**97.3**	**331.0**
Other assets	**227.9**	**125.4**	**80.3**	**305.2**	**238.2**	**977.0**
Total assets	**2,510.3**	**4,396.5**	**2,856.7**	**10,986.3**	**38,232.2**	**58,982.0**
Liabilities						
Due to other banks	**370.7**	**4,710.9**	**1,483.4**	**–**	**1.6**	**6,566.6**
Derivative financial instruments	**–**	**50.8**	**98.3**	**190.2**	**71.1**	**410.4**
Due to customers	***21,764.7***	***2,583.7***	***1,707.6***	***210.6***	***171.2***	***26,437.8***
Debt securities in issue	**0.7**	**7,633.9**	**4,687.2**	**8,191.4**	**892.1**	**21,405.3**
Other borrowed funds	**0.1**	**–**	**207.5**	**86.4**	**645.1**	**939.1**
Other liabilities	**345.8**	**98.0**	**103.7**	**62.9**	**400.7**	**1,011.1**
Total liabilities	**22,482.0**	**15,077.3**	**8,287.7**	**8,741.5**	**2,181.8**	**56,770.3**
Net liquidity gap	**(19,971.7)**	**(10,680.8)**	**(5,431.0)**	**2,244.8**	**36,050.4**	**2,211.7**

3 Risk management disclosures continued

Group 31 December 2004	Repayable on demand £m	Less than 3 months £m	3 months to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Assets						
Cash and balances with central banks	585.3	–	–	–	–	585.3
Due from banks	537.5	1,224.3	14.0	1.0	18.8	1,795.6
Loans and advances to customers	167.7	1,102.9	890.9	3,283.0	28,118.0	33,562.5
Net investment in finance leases and hire purchase contracts	17.1	34.1	153.5	326.5	1,514.6	2,045.8
Debt securities	–	828.9	1,832.5	5,512.1	2,350.1	10,523.6
Other assets	125.9	55.3	335.2	423.4	268.0	1,207.8
Total assets	1,433.5	3,245.5	3,226.1	9,546.0	32,269.5	49,720.6
Liabilities						
Due to other banks	249.9	2,892.7	1,507.0	–	1.6	4,651.2
Due to customers	19,742.5	2,374.1	2,281.5	192.3	158.0	24,748.4
Debt securities in issue	0.8	4,883.9	4,659.9	5,922.1	376.4	15,843.1
Non-equity tier 1 and other borrowed funds	–	–	–	275.0	834.9	1,109.9
Other liabilities	535.4	89.8	687.6	86.2	322.5	1,721.5
Total liabilities	20,528.6	10,240.5	9,136.0	6,475.6	1,693.4	48,074.1
Net liquidity gap	(19,095.1)	(6,995.0)	(5,909.9)	3,070.4	30,576.1	1,646.5

Company **31 December 2005**	**Repayable on demand £m**	**Less than 3 months £m**	**3 months to 12 months £m**	**1 to 5 years £m**	**Over 5 years £m**	**Total £m**
Assets						
Cash and balances with central banks	**1,221.9**	**–**	**–**	**–**	**–**	**1,221.9**
Treasury bills and other eligible liabilities	**–**	**17.1**	**–**	**–**	**–**	**17.1**
Due from banks	**194.8**	**3,664.0**	**266.3**	**13.8**	**205.3**	**4,344.2**
Trading securities	**–**	**–**	**11.8**	**240.6**	**54.1**	**306.5**
Derivative financial instruments	**–**	**119.7**	**90.6**	**252.4**	**193.8**	**656.5**
Loans and advances to customers	**3,978.1**	**2,839.1**	**608.6**	**965.8**	**32,055.5**	**40,447.1**
Investment securities:						
– available-for-sale	**0.1**	**874.5**	**1,365.7**	**5,290.8**	**2,263.1**	**9,794.2**
– held-to-maturity	**–**	**0.1**	**–**	**87.8**	**254.6**	**342.5**
– loans and receivables	**–**	**–**	**–**	**–**	**–**	**–**
– at fair value through profit or loss	**–**	**–**	**53.4**	**180.4**	**81.0**	**314.8**
Other assets	**171.4**	**5.8**	**(3.5)**	**870.7**	**95.2**	**1,139.6**
Total assets	**5,566.3**	**7,520.3**	**2,392.9**	**7,902.3**	**35,202.6**	**58,584.4**
Liabilities						
Due to other banks	**1,282.6**	**8,227.6**	**1,484.4**	**–**	**1.6**	**10,996.2**
Derivative financial instruments	**–**	**52.0**	**99.4**	**194.0**	**76.2**	**421.6**
Due to customers	**18,033.6**	**2,668.7**	**1,526.4**	**188.5**	**165.2**	**22,582.4**
Debt securities in issue	**–**	**7,617.9**	**4,687.1**	**8,187.7**	**833.2**	**21,325.9**
Other borrowed funds	**0.1**	**–**	**207.5**	**86.4**	**645.1**	**939.1**
Other liabilities	**503.7**	**11.4**	**17.9**	**25.9**	**251.2**	**810.1**
Total liabilities	**19,820.0**	**18,577.6**	**8,022.7**	**8,682.5**	**1,972.5**	**57,075.3**
Net liquidity gap	**(14,253.7)**	**(11,057.3)**	**(5,629.8)**	**(780.2)**	**33,230.1**	**1,509.1**

Company 31 December 2004	Repayable on demand £m	Less than 3 months £m	3 months to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Assets						
Cash and balances with central banks	100.3	–	–	–	–	100.3
Due from banks	436.2	1,409.6	19.0	–	209.2	2,074.0
Loans and advances to customers	3,488.4	3,082.8	272.8	886.4	27,009.3	34,739.7
Debt securities	–	828.9	1,364.8	5,280.2	2,337.7	9,811.6
Other assets	145.9	6.4	302.5	271.1	731.9	1,457.8
Total assets	4,170.8	5,327.7	1,959.1	6,437.7	30,288.1	48,183.4
Liabilities						
Due to other banks	684.8	5,201.9	1,507.0	–	1.6	7,395.3
Due to customers	16,551.5	2,357.1	2,147.0	177.3	158.4	21,391.3
Debt securities in issue	–	4,883.8	4,659.9	5,902.5	287.3	15,733.5
Non-equity tier 1 and other borrowed funds	–	–	–	275.0	834.9	1,109.9
Other liabilities	497.4	52.9	627.4	39.3	263.5	1,480.5
Total liabilities	17,733.7	12,495.7	8,941.3	6,394.1	1,545.7	47,110.5
Net liquidity gap	(13,562.9)	(7,168.0)	(6,982.2)	43.6	28,742.4	1,072.9

(v) Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values as at 31 December 2005 of those financial assets and liabilities not presented on the Group and Company balance sheets at their fair value.

	Group		Company	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Due from banks	2,524.5	2,524.5	4,344.2	4,344.2
Loans and advances to customers	40,093.8	40,212.0	40,447.1	40,509.9
Net investment in finance leases and hire purchase contracts	2,146.4	2,149.1	–	–
Investment securities: held-to-maturity	342.5	342.5	342.5	342.5
Investment securities: loans and receivables	150.3	150.3	–	–
Financial liabilities				
Due to other banks[1]	5,533.2	5,532.1	9,962.8	9,961.7
Due to customers[2]	25,616.9	25,618.6	21,761.5	21,763.1
Debt securities in issue[3]	14,865.2	14,871.9	14,785.8	14,792.5
Other borrowed funds	939.1	939.1	939.1	939.1

Note:

1. Excludes £1,033.4m designated as at fair value through profit or loss
2. Excludes £820.9m designated as at fair value through profit or loss
3. Excludes £6,540.1m designated as at fair value through profit or loss

Due to and from banks

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

Loans and advances to customers and due to customers

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

Net investment in finance leases and hire purchase contracts

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

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

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

The comparative figures at 31 December 2004 are prior to the adoption of IAS 32 and so do not fall within its disclosure requirements. Fair values for financial assets and liabilities that were listed, publicly traded or for which a liquid and active market existed, are disclosed in Note 51 on page 87.

4 Critical accounting estimates

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

Impairment provisions

The level of potential credit losses is uncertain and depends on a number of factors such as unemployment levels, interest rates, house price levels and other general economic conditions. The Group bases impairment provisions on estimates based on historical loss experience. Actual cash flows on financial assets may differ from management estimates, resulting in an increase or decrease in impairment charges and provisions.

Effective interest rate calculations

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

Retirement benefit obligations

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

5 Segmental reporting

The business is comprised of three sectors:

- Retail Banking

  This comprises the 'Core 4' products of mortgages, personal loans, current accounts and savings and the 'Partner 4' products of credit cards, life assurance, general insurance and long term investments.

- Wholesale Banking

  This comprises the four core business lines of money transmission, lending, business banking and treasury.

- Group Items

  This includes corporate overheads, and capital not allocated to business units.

5 Segmental reporting continued

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

Capital is allocated to the business sectors on the basis of 6.5% equity tier 1, 0.75% non-equity tier 1 and 2.25% subordinated debt. In 2004 capital was allocated on the basis of 7% equity tier 1 and 3.5% subordinated debt.

No geographical analysis is presented because substantially all of the Group's activities are in the UK. A more detailed breakdown of sector results is given within the unaudited Financial Review on pages 18 to 26.

Year ended 31 December 2005	Retail Banking £m	Wholesale Banking £m	Group Items £m	Group £m
Net interest income	1,162.7	(358.2)	(53.5)	751.0
Non-interest income	272.1	364.4	0.4	636.9
External revenues	1,434.8	6.2	(53.1)	1,387.9
Revenues from other segments	(547.8)	494.1	53.7	–
Total revenues	887.0	500.3	0.6	1,387.9
Segment result	438.5	132.0	(22.4)	548.1
Fair value accounting volatility				(1.0)
Operating profit				547.1
Profit on disposal of Group operations				–
Profit before tax				547.1
Income tax expense				(140.2)
Profit from ordinary activities after tax				406.9
Minority interest				(17.5)
Net profit				389.4
Segment assets	36,994.8	21,910.0	18.0	58,922.8
Unallocated assets				59.2
Total assets				58,982.0
Segment liabilities	20,946.3	34,413.2	956.2	56,315.7
Unallocated liabilities				454.6
Total liabilities				56,770.3
Other segment items:				
Capital expenditure	25.9	121.2	–	147.1
Depreciation & amortisation	1.4	82.9	20.9	105.2
Impairment charge	69.8	4.1	–	73.9

Year ended 31 December 2004	Retail Banking £m	Wholesale Banking £m	Group Items £m	Group £m
Net interest income	973.1	(218.7)	(63.1)	691.3
Non-interest income	323.8	361.1	4.1	689.0
External revenues	1,296.9	142.4	(59.0)	1,380.3
Revenues from other segments	(427.2)	360.4	66.8	–
Total revenues	869.7	502.8	7.8	1,380.3
Operating profit	422.1	134.2	(21.7)	534.6
Profit on disposal of Group operations	–	52.0	–	52.0
Profit before tax				586.6
Income tax expense				(161.2)
Profit from ordinary activities after tax				425.4
Minority interest				(2.1)
Net profit				423.3
Segment assets	31,354.1	18,203.9	162.6	49,720.6
Unallocated assets				–
Total assets				49,720.6
Segment liabilities	20,213.8	26,275.3	1,209.1	47,698.2
Unallocated liabilities				375.9
Total liabilities				48,074.1
Other segment items:				
Capital expenditure	25.5	117.3	–	142.8
Depreciation & amortisation	0.4	79.8	22.7	102.9
Impairment charge	53.7	5.4	–	59.1
Restructuring costs	9.0	–	–	9.0

This table is based upon statutory comparatives, and will differ to the proforma figures disclosed in the Financial Review.

6 Net interest income

	2005 £m	2004 £m
Interest receivable on debt securities:		
Income from listed investments	**316.7**	270.5
Income from unlisted investments	**47.6**	58.9
Other interest receivable	**2,211.8**	1,970.8
Total interest receivable	**2,576.1**	2,300.2
Interest payable:		
Forward exchange losses on foreign exchange derivatives	**(16.7)**	n/a
Other interest payable	**(1,808.4)**	(1,608.9)
Total interest payable	**(1,825.1)**	(1,608.9)
Total	**751.0**	691.3

7 Fair value accounting volatility

The fair value volatility accounting loss of £1.0m represents the net fair value loss on derivative instruments that are matching risk exposure on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items. The loss is primarily due to timing differences in income recognition between the derivative instruments and the economically hedged assets and liabilities.

8 Other operating income

	2005 £m	2004 £m
Income from operating leases	**98.9**	96.7
Excess on sale of credit cards to MBNA (i)	**33.6**	41.4
Dealing profits	**3.6**	2.2
Sale of a branch property	**–**	3.9
Other	**24.4**	41.4
Total	**160.5**	185.6

(i) On 1 August 2002 the Group sold its credit card accounts to MBNA for an excess of £230m over the outstanding asset balances. This is being recognised over the initial seven years of the partnership entered into with MBNA, in accordance with the terms of the agreements and licences. The amount of the excess recognised, in line with these agreements, is expected to be £27m in 2006, £20m in 2007 and £16m in 2008. The unrecognised amount is included within 'Accruals and deferred income' on the Consolidated Balance Sheet.

9 Administrative expenses

	2005 £m	2004 £m
Staff costs:		
Wages and salaries	**210.8**	208.8
Social security costs	**20.5**	20.1
Other pension costs	**23.4**	25.6
Total staff costs	**254.7**	254.5
Core administrative expenses and strategic investment	**406.0**	420.2
Exceptional costs arising from rationalisation of branch network	**–**	9.0
	406.0	429.2
Total	**660.7**	683.7

During the year the Company incurred £154.4m in wages and salaries costs, £14.9m in social security costs and £16.5m in other pension costs. The remuneration of the auditors, Deloitte & Touche LLP, is set out below:

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Audit services:				
– statutory services	**0.7**	0.5	**0.3**	0.2
– audit related regulatory services	**–**	0.1	**–**	–
Further assurance services:				
– non-regulatory reporting on internal controls	**–**	–	**–**	–
– accounting advice unrelated to audit	**0.3**	0.2	**0.1**	0.1
– due diligence work	**0.1**	–	**0.1**	–
Tax services – advisory	**0.3**	1.0	**0.3**	1.0
Other services	**0.1**	0.2	**–**	0.1
Total	**1.5**	2.0	**0.8**	1.4

The above analysis excludes VAT. The costs included within administrative expenses will include VAT.

10 Profit on disposal of Group operations

On 30 April 2004 the Group completed the sale of its merchant acquisition business to Nova Information Systems, a subsidiary of US Bancorp. Nova paid Alliance & Leicester Commercial Bank £83.5m for the business. This has resulted in a profit of £52.0m after deducting £31.5m, relating to the costs of exiting existing contracts, asset write-offs, provisions and transaction costs. The book value of assets and liabilities disposed of with the business was not significant.

11 Staff Numbers

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

	Full time		Part time		Full-time equivalent	
	2005	2004	2005	2004	2005	2004
Total	**5,925**	5,888	**2,572**	2,804	**7,296**	7,373

The Company had an average of 3,718 full time employees and 1,906 part time employees during 2005.

12 Impairment losses on loans and advances

	Mortgages £m	Personal loans and current accounts £m	Wholesale Banking £m	Total £m
Group				
At 1 January 2005	20.2	110.8	18.4	149.4
Charge for the year:				
(Decrease)/increase in provision	(3.5)	83.8	5.9	86.2
Recoveries of amounts previously written off	(0.9)	(9.6)	(1.8)	(12.3)
Total	(4.4)	74.2	4.1	73.9
Amounts written back/(off) in year	0.6	(51.0)	(6.8)	(57.2)
At 31 December 2005	**16.4**	**134.0**	**15.7**	**166.1**
Company				
At 1 January 2005	20.2	10.1	–	30.3
Charge for the year:				
(Decrease)/increase in provision	(3.5)	4.1	–	0.6
Recoveries of amounts previously written off	(0.9)	(0.5)	–	(1.4)
Total	(4.4)	3.6	–	(0.8)
Amounts written back/(off) in year	0.6	(4.8)	–	(4.2)
At 31 December 2005	**16.4**	**8.9**	**–**	**25.3**

The provisions are set against the following balances:

	Group 2005 £m	Company 2005 £m
Loans and advances to customers	**159.1**	**25.3**
Net investment in finance lease and hire purchase contracts	**7.0**	**–**
Total	**166.1**	**25.3**

13 Corporation tax expense

	2005 £m	2004 £m
Current tax		
Current year corporation tax expense	**75.0**	108.5
Adjustment to corporation tax in relation to prior years	**(18.7)**	(17.4)
Overseas tax	**2.1**	0.3
	58.4	91.4
Deferred tax		
Current year deferred tax expense	**77.5**	60.5
Adjustment to deferred tax in relation to prior years	**4.3**	9.3
	81.8	69.8
Total	**140.2**	161.2

The corporation tax expense for the year of £140.2m (2004: £161.2m) represents 25.6% of profit before tax (2004: 27.5%).

The underlying effective tax rate for 2005 was 26.5% (2004: 26.9%). The calculation of the 2005 underlying effective tax rate excludes a tax credit of £0.3m in respect of the £1.0m fair value accounting volatility loss and takes into consideration, as part of underlying profits, the appropriation of profit of £17.5m in respect of non-equity tier 1. The 2004 underlying effective tax rate excludes a charge of £17.3m in respect of the £52.0m profit on disposal of operations (sale of merchant acquiring business), shown in the income statement after operating profit and takes into consideration, as part of underlying profits, the coupon of £13.7m in respect of non-equity tier 1.

Further information about deferred tax is presented in Note 31 on page 72.

The Group expects to maintain an underlying effective tax rate below the statutory rate of corporation tax, but above that achieved in 2005, as it will continue to carry out its commercial activities and structure its business in a tax efficient manner.

The effective rate of tax for the year of 25.6% is lower than the standard rate of corporation tax in the UK of 30%, where the Group generates substantially all its profits. The differences are explained below:

	2005 £m	2004 £m
Profit before tax	**547.1**	586.6
Tax calculated at a tax rate of 30% (2004: 30%)	**164.1**	176.0
Effect of different tax rates in other countries	**(4.0)**	(4.3)
Non-taxable income and disallowable expenses	**(0.3)**	(2.4)
Tax relief in respect of non-equity tier 1	**(5.2)**	–
Adjustments to tax expense in respect of prior years	**(14.4)**	(8.1)
Corporation tax expense	**140.2**	161.2

14 Earnings per share

Basic earnings per ordinary share are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

Basic statutory earnings per ordinary share of 86.9p (2004: 92.6p) are calculated by dividing the Group profit attributable to ordinary shareholders of £389.4m (2004: £423.3m) by the weighted average number of ordinary shares in issue and ranking for dividend of 448.0m (2004: 457.2m).

Underlying basic earnings per ordinary share were 87.1p (2004: 85.0p). These are provided to disclose the trend in earnings excluding the distorting effect of non-operating items. They are based on the same number of ordinary shares and the core profit after tax for the year after excluding the non-operating exceptional gain on the sale of the merchant acquisition business and gains/losses from fair value accounting volatility under IAS 39, less the associated tax charges as shown below:

	2005 £m	2004 £m
Profit attributable to ordinary shareholders for the year as reported	**389.4**	423.3
Adjusted for:		
Exceptional gain arising from the sale of the merchant acquisition business	**–**	(52.0)
Less associated tax charge	**–**	17.3
(Gains)/losses from fair value accounting volatility	**1.0**	n/a
Less associated tax charge/(credit)	**(0.3)**	n/a
Core profit after tax for the year	**390.1**	388.6

The diluted earnings per ordinary share of 86.5p (2004: 92.1p) are based on the total dilutive potential shares, as detailed below, and the Group profit attributable to ordinary shareholders. The total dilutive potential shares are the weighted average number of ordinary shares together with all weighted average dilutive financial instruments or rights that may entitle the holder to ordinary shares.

The total number of shares in issue at 31 December 2005 was 449m (2004: 446m)

	2005 £m	2004 £m
Weighted average number of ordinary shares in issue	**448.0**	457.2
Weighted average diluted options outstanding	**2.2**	2.2
Total	**450.2**	459.4

Underlying diluted earnings per ordinary share of 86.7p (2004: 84.6p) are based on core profit after tax and total dilutive potential shares, as set out above.

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

£231.5m (2004: £347.6m) of the Group profit attributable to ordinary shareholders has been dealt with in the accounts of Alliance & Leicester plc. As permitted by Section 230 of the Companies Act 1985, the Income Statement for Alliance & Leicester plc has not been presented separately.

16 Cash and balances with central banks

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Cash in hand	**532.4**	*536.0*	**51.8**	52.3
Balances with central banks other than mandatory reserve deposits	**0.4**	0.3	**-**	-
Mandatory reserve deposits with central banks	**1,171.8**	49.0	**1,170.1**	48.0
Included in cash and cash equivalents	**1,704.6**	585.3	**1,221.9**	100.3

Included within Mandatory reserve deposits with central banks is a deposit of £51.8m (2004: £49.0m) with the Bank of England that is not available for use by the Group.

The Bank of England has agreed that the Group may collateralise exposures arising from the Notes Circulation Scheme with cash collateral by maintaining a cash deposit with the Bank of England. This amounted to £1,120m at 31 December 2005 (2004: £nil).

17 Due from banks

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Amounts due from subsidiary undertakings	**-**	-	**2,041.8**	440.1
Items in course of collection from other banks	**211.5**	116.4	**-**	-
Placements with other banks	**2,313.0**	1,679.3	**2,302.4**	1,634.0
Less: allowance for losses on amounts due from banks	**-**	(0.1)	**-**	(0.1)
Total	**2,524.5**	1,795.6	**4,344.2**	2,074.0

18 Derivative financial instruments

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

	Group 2005 Contract or underlying principal amount £m	Group 2005 Fair values Assets £m	Group 2005 Fair values Liabilities £m	Company 2005 Contract or underlying principal amount £m	Company 2005 Fair values Assets £m	Company 2005 Fair values Liabilities £m
Derivatives not hedge accounted:						
Foreign exchange derivatives:						
Currency forwards	2,899.4	53.1	(0.4)	2,922.3	53.4	(1.1)
Cross currency swaps	4,302.0	132.5	(136.4)	4,302.0	132.5	(136.4)
Total	*7,201.4*	*185.6*	*(136.8)*	*7,224.3*	*185.9*	*(137.5)*
Interest rate derivatives:						
Interest rate swaps	35,750.9	22.7	(42.1)	48,508.8	108.0	(120.7)
Forward rate agreements	1,571.2	0.2	(0.2)	1,571.2	0.2	(0.2)
Caps, collars and floors	6.4	-	-	12.8	-	-
Futures	254.5	-	-	254.5	-	-
Total	37,583.0	22.9	(42.3)	50,347.3	108.2	(120.9)
Embedded derivatives	-	-	-	-	-	-
Total derivative assets/(liabilities) not hedge accounted	**44,784.4**	**208.5**	**(179.1)**	**57,571.6**	**294.1**	**(258.4)**
Derivatives held for hedging						
Derivatives designated as fair value hedges:						
Cross currency swaps	35.3	-	(0.7)	35.3	-	(0.7)
Interest rate swaps	18,202.4	88.7	(106.9)	10,679.6	68.0	(35.5)
Total	18,237.7	88.7	(107.6)	10,714.9	68.0	(36.2)
Derivatives designated as cash flow hedges:						
Cross currency swaps	-	-	-	-	-	-
Interest rate swaps	8,369.1	49.7	(7.4)	9,480.1	53.0	(8.2)
Total	8,369.1	49.7	(7.4)	9,480.1	53.0	(8.2)
Total derivative assets/(liabilities) held for hedging	**26,606.8**	**138.4**	**(115.0)**	**20,195.0**	**121.0**	**(44.4)**
Total derivative assets/(liabilities)	**71,391.2**	**346.9**	**(294.1)**	**77,766.6**	**415.1**	**(302.8)**
Accrued interest	-	*223.9*	*(116.3)*	-	*241.4*	*(118.8)*
Total	**71,391.2**	**570.8**	**(410.4)**	**77,766.6**	**656.5**	**(421.6)**

The table below analyses the Group's derivatives portfolio by type of contract and maturity and shows the contract amount and the replacement cost. Contract amount indicates the amount 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 the counterparty default. No account is taken of any offsetting position with the same counterparty.

	Group 2004		Company 2004	
Non-trading derivatives:	Contract or underlying principal amount £m	Replacement cost £m	Contract or underlying principal amount £m	Replacement cost £m
Used to manage foreign exchange risk				
Exchange rate contracts:				
Forward foreign exchange	950.4	2.0	973.2	2.3
Cross currency swaps	2,102.6	25.9	2,102.6	25.9
Total	3,053.0	27.9	3,075.8	28.2
With OECD financial institutions	3,053.0	27.9	3,075.8	28.2
With non-financial institutions	–	–	–	–
Total	3,053.0	27.9	3,075.8	28.2
Within 1 year	1,760.3	23.9	1,762.1	23.9
Between 1-5 years	1,265.9	2.7	1,265.9	2.7
In more than five years	26.8	1.3	47.8	1.6
Total	3,053.0	27.9	3,075.8	28.2
Used to manage interest rate risk				
Interest rate contracts:				
Interest rate swaps	49,605.8	335.0	55,909.6	390.9
Caps, collars and floors	106.4	–	112.8	–
Futures	–	–	–	–
Forward rate agreements	1,696.5	0.1	1,696.5	0.1
Total	51,408.7	335.1	57,718.9	391.0
With OECD financial institutions	51,408.7	335.1	57,718.9	391.0
With non-financial institutions	–	–	–	–
Total	51,408.7	335.1	57,718.9	391.0
Within 1 year	24,349.9	172.0	25,255.7	177.3
Between 1-5 years	21,447.8	86.8	25,151.8	98.8
In more than five years	5,611.0	76.3	7,311.4	114.9
Total	51,408.7	335.1	57,718.9	391.0

19 Loans and advances to customers

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Advances secured on residential properties	**33,147.9**	28,067.4	**33,090.1**	27,975.1
Other secured advances	**2,579.8**	1,668.2	**89.8**	228.7
Unsecured loans	**4,525.2**	3,987.5	**71.3**	59.0
Amounts due from subsidiary undertakings	**–**	–	**7,221.2**	6,526.9
Less: allowance for losses on loans and advances to customers	**(159.1)**	(160.6)	**(25.3)**	(50.0)
Total	**40,093.8**	33,562.5	**40,447.1**	34,739.7

These balances include £3.2m in respect of bankruptcy remote special purpose vehicles (SPVs). The SPVs, owned by charitable trusts, are funded by Asset Backed Commercial Paper and invest in 'AAA' rated assets. In addition to these loans the Group provides liquidity facilities to the SPVs, amounting to £1,132m at 31 December 2005. The SPVs are not consolidated into the Group accounts on the basis that the SPVs are not controlled by the Group and the benefits the Group receives from the SPVs are restricted to interest and fees relating directly to the loans and liquidity facilities provided.

20 Net investment in finance lease and hire purchase contracts

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

Group	2005 £m	2004 £m
Gross investment in finance leases and hire purchase contracts, receivable:		
Within 1 year	**341.2**	327.8
Between 1-5 years	**743.0**	523.8
In more than 5 years	**2,235.5**	2,427.6
	3,319.7	3,279.2
Unearned future finance income on finance leases and hire purchase contracts	**(1,173.4)**	(1,233.4)
Net investment in finance leases and hire purchase contracts	**2,146.3**	2,045.8

Group	2005 £m	2004 £m
The net investment in finance leases and hire purchase contracts may be analysed as follows:		
Within 1 year	**278.6**	204.7
Between 1-5 years	**551.3**	326.5
In more than 5 years	**1,316.4**	1,514.6
Total	**2,146.3**	2,045.8

Included in the carrying value of Net investment in finance leases and hire purchase contracts is £45.9m (2004: £37.3m) residual value at the end of the current lease terms, which will be recovered through re-letting or sale.

21 Debt securities

	Group 2004 Book Value £m	Group 2004 Market Value £m	Company 2004 Book Value £m	Company 2004 Market Value £m
Investment securities				
Issued by public bodies:				
Government securities	9.8	9.8	–	–
Other public sector securities	–	–	–	–
	9.8	9.8	–	–
Issued by other issuers:				
Bank and building society certificates of deposit	648.2	648.7	648.2	648.7
Other debt securities	9,612.3	9,624.9	8,910.1	8,922.9
	10,260.5	10,273.6	9,558.3	9,571.6
Total investment securities	**10,270.3**	**10,283.4**	**9,558.3**	**9,571.6**
Other debt securities	**253.3**	**253.3**	**253.3**	**253.3**
Total debt securities	**10,523.6**	**10,536.7**	**9,811.6**	**9,824.9**
Analysed by listing status:				
Listed in the UK	3,329.2	3,331.5	3,319.4	3,321.7
Listed or registered elsewhere	5,191.0	5,196.0	4,928.1	4,934.2
Unlisted	2,003.4	2,009.2	1,564.1	1,569.0
Total	**10,523.6**	**10,536.7**	**9,811.6**	**9,824.9**

22 Investment securities

	Group 2005 £m	Company 2005 £m
Securities available-for-sale		
Investment securities – at fair value:		
– Listed	7,924.6	7,901.0
– Unlisted	1,893.2	1,893.2
Total	**9,817.8**	**9,794.2**
Securities held-to-maturity		
Investment securities – at amortised cost:		
– Listed	–	–
– Unlisted	342.5	342.5
Total	**342.5**	**342.5**
Securities-loans and receivables		
Investment securities – at amortised cost:		
– Listed	–	–
– Unlisted	150.3	–
Total	**150.3**	**–**
Securities at fair value through profit or loss:		
– Listed	251.0	251.0
– Unlisted	80.0	63.8
Total	**331.0**	**314.8**
Total investment securities	**10,641.6**	**10,451.5**

The movement in investment securities may be summarised as follows:

Group	Available-for-sale £m	Held-to-maturity £m	Loans and receivables £m	At fair value through profit or loss £m	Total £m
At 1 January 2005	9,211.6	246.7	425.9	473.4	10,357.6
Exchange differences on monetary assets	*76.6*	*28.8*	*–*	*(12.5)*	*92.9*
Additions	5,139.8	65.6	150.3	33.5	5,389.2
Disposals (sale and redemption)	(4,608.9)	–	(425.9)	(158.2)	(5,193.0)
Gains/(losses) from changes in fair value	0.1	–	–	(2.7)	(2.6)
Movement in accruals	(7.6)	1.3	–	(2.4)	(8.7)
Amortisation of discounts and premiums	6.2	0.1	–	(0.1)	6.2
At 31 December 2005	**9,817.8**	**342.5**	**150.3**	**331.0**	**10,641.6**

Company	Available-for-sale £m	Held-to-maturity £m	Loans and receivables £m	At fair value through profit or loss £m	Total £m
At 1 January 2005	8,924.6	246.7	–	473.4	9,644.7
Exchange differences on monetary assets	*77.0*	*28.8*	*–*	*(12.5)*	*93.3*
Additions	5,139.9	65.6	–	18.7	5,224.2
Disposals (sale and redemption)	(4,340.8)	–	–	(157.9)	(4,498.7)
Gains/(losses) from changes in fair value	0.1	–	–	(4.2)	(4.1)
Movement in accruals	(7.7)	1.3	–	(2.6)	(9.0)
Amortisation of discounts and premiums	1.1	0.1	–	(0.1)	1.1
At 31 December 2005	**9,794.2**	**342.5**	**–**	**314.8**	**10,451.5**

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

Financial assets and liabilities are designated as at fair value through profit or loss when this results in more relevant information because it significantly reduces a measurement inconsistency that would otherwise arise from measuring assets or liabilities on different bases or recognising the gains and losses on them on different bases. The 'Fair Value Option' is used by the Group where Treasury assets or liabilities would otherwise be measured at amortised cost, the associated derivatives used to economically hedge the risk are held at fair value, and it is not practical to apply hedge accounting.The Group has also designated certain financial instruments containing embedded derivatives at fair value through profit or loss. At 1 January 2005 assets of £466.1m and liabilities of £551.6m were designated at fair value through profit or loss.

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

	Group £m	Company £m
Financial assets designated as at fair value through profit or loss:		
Carrying value at 31 December 2005	**331.0**	**314.8**
Net losses in the year	**(3.2)**	**(4.6)**
Financial liabilities designated as at fair value through profit or loss:		
Carrying value at 31 December 2005	**(8,394.4)**	**(8,394.4)**
Net gains in the year	**1.7**	**1.7**
Change in fair value in the year not attributable to changes in market risk#	**0.2**	**0.2**
Difference between carrying value and contractual liability at maturity date	**(1.7)**	**(1.7)**

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

24 Shares in Group undertakings

Cost and net book value	Company £m
At 1 January 2005	**739.1**
Additions	**–**
Disposals	**(14.8)**
At 31 December 2005	**724.3**
Credit institutions	**75.6**
Other	**648.7**
Total	**724.3**

The principal operating subsidiary undertakings of Alliance & Leicester plc at 31 December 2005 are listed below. These subsidiary undertakings, which all have 31 December year-ends, are incorporated and all operate in Great Britain, except Alliance & Leicester International Limited which is incorporated and operates in the Isle of Man.

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

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

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

25 Intangible fixed assets

Group	Goodwill £m	Software development cost £m	Total £m
Cost			
At 1 January 2005	4.8	5.5	10.3
Additions	–	12.2	12.2
At 31 December 2005	**4.8**	**17.7**	**22.5**
Amortisation			
At 1 January 2005	1.8	–	1.8
Charge for the year	–	2.1	2.1
At 31 December 2005	**1.8**	**2.1**	**3.9**
Net book value			
At 31 December 2005	**3.0**	**15.6**	**18.6**
At 31 December 2004	*3.0*	*5.5*	*8.5*

Company	Software development cost & total £m
Cost	
At 1 January 2005	2.6
Additions	6.9
At 31 December 2005	**9.5**
Amortisation	
At 1 January 2005	–
Charge for the year	1.2
At 31 December 2005	**1.2**
Net book value	
At 31 December 2005	**8.3**
At 31 December 2004	2.6

In 2004, there were £5.5m additions for the Group and £2.6m for the Company.

26 Property, plant and equipment

Group	Freehold land and buildings £m	Leasehold buildings: 50 or more years unexpired £m	Leasehold buildings: Under 50 years unexpired £m	Equipment, fixtures and vehicles £m	Total £m
Cost					
At 1 January 2005	284.6	12.9	50.8	414.8	763.1
Additions	6.4	0.2	2.4	17.2	26.2
Disposals	(4.3)	(1.5)	(3.2)	(4.9)	(13.9)
At 31 December 2005	**286.7**	**11.6**	**50.0**	**427.1**	**775.4**
Depreciation and amortisation					
At 1 January 2005	120.0	5.5	39.0	326.1	490.6
Charge for the year	6.0	0.2	2.2	24.8	33.2
Disposals	(2.7)	(0.1)	(3.2)	(4.8)	(10.8)
At 31 December 2005	**123.3**	**5.6**	**38.0**	**346.1**	**513.0**
Net book value					
At 31 December 2005	**163.4**	**6.0**	**12.0**	**81.0**	**262.4**
At 31 December 2004	164.6	7.4	11.8	88.7	272.5

The cost of freehold land and buildings held under finance leases was £91.9m (2004: £106.8m). The related cumulative depreciation of £30.7m (2004: £30.7m) includes £1.6m charged during the year (2004: £1.6m).

The cost of leaseholds over 50 years unexpired held under finance leases was £1.7m (2004: £1.7m). The related cumulative depreciation *of £0.9m (2004: £0.8m) includes £0.1m charged during the year (2004: £nil).*

The cost of equipment, fixtures and vehicles held under finance leases was £25.7m (2004: £25.7m). The related cumulative depreciation of £16.0m (2004: £13.2m) includes £2.8m charged during the year (2004: £2.9m).

In 2004 there were £30.0m of additions and £15.2m of disposals.

26 Property, plant and equipment continued

Company	Freehold land and buildings £m	Leasehold buildings: 50 or more years unexpired £m	Leasehold buildings: Under 50 years unexpired £m	Equipment, fixtures and vehicles £m	Total £m
Cost					
At 1 January 2005	114.7	10.6	50.2	312.4	487.9
Additions	1.5	1.4	1.7	14.8	19.4
Disposals	(4.3)	(1.5)	(3.2)	(4.8)	(13.8)
At 31 December 2005	**111.9**	**10.5**	**48.7**	**322.4**	**493.5**
Depreciation and amortisation					
At 1 January 2005	52.4	4.2	38.5	230.5	325.6
Charge for the year	1.9	0.5	2.0	22.6	27.0
Disposals	(2.7)	(0.1)	(3.2)	(4.8)	(10.8)
At 31 December 2005	**51.6**	**4.6**	**37.3**	**248.3**	**341.8**
Net book value					
At 31 December 2005	**60.3**	**5.9**	**11.4**	**74.1**	**151.7**
At 31 December 2004	62.3	6.4	11.7	81.9	162.3

The cost of equipment, fixtures and vehicles held under finance leases was £25.7m (2004: £25.7m). The related cumulative depreciation of £16.0m (2004: £13.2m) includes £2.8m charged during the year (2004: £2.9m).

In 2004 there were £22.5m of additions and £14.7m of disposals.

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

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Within 1 year	**0.3**	0.3	**0.2**	0.3
Between 1-5 years	**5.7**	1.7	**1.8**	1.8
In more than five years	**8.9**	13.4	**8.9**	8.2
Total	**14.9**	15.4	**10.9**	10.3

27 Operating lease assets

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

Group	Total £m
Cost	
At 1 January 2005	557.4
Additions	108.7
Disposals	*(107.2)*
At 31 December 2005	**558.9**
Depreciation	
At 1 January 2005	190.3
Charge for the year	74.0
Disposals	(69.8)
At 31 December 2005	**194.5**
Net book value	
At 31 December 2005	**364.4**
At 31 December 2004	367.1

In 2004 there were £107.3m of additions and £75.8m of disposals.

The Company has operating lease assets of £nil (2004: £13.4m) of land, which are not depreciated.

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

	Group 2005 £m	Group 2004 £m
Within 1 year	**80.7**	73.4
Between 1-5 years	**155.0**	145.3
In more than five years	**50.7**	39.3
Total	**286.4**	258.0

28 Other assets

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Amounts due from subsidiary undertakings	–	–	141.9	104.9
Trade debtors	155.7	73.6	–	–
Other	62.9	20.3	1.9	0.2
Total	218.6	93.9	143.8	105.1

29 Due to other banks

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Amounts due to subsidiary undertakings	–	–	4,677.4	2,948.9
Items in course of collection	246.2	199.4	–	–
Deposits from other banks	6,320.4	4,451.8	6,318.8	4,446.4
Total	6,566.6	4,651.2	10,996.2	7,395.3

30 Other liabilities

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Trade creditors	16.2	26.4	8.2	15.0
Other taxation	33.6	42.3	33.5	39.3
Finance leases	71.0	75.1	10.1	16.6
Other	208.9	212.1	391.1	341.5
Total	329.7	355.9	442.9	412.4
Amounts include:				
Due to subsidiary undertakings	–	–	280.8	249.3

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

The maturity of net obligations under finance leases are as follows:

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Within 1 year	34.4	11.4	4.7	10.9
Between 1-5 years	10.9	21.4	5.4	5.7
In more than five years	25.7	42.3	–	–
Total	71.0	75.1	10.1	16.6

Future minimum lease payments are:

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Within 1 year	36.8	6.4	5.1	8.2
Between 1-5 years	18.3	26.7	5.6	11.1
In more than five years	31.1	54.5	–	–
Total	86.2	87.6	10.7	19.3

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

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Leases which expire:				
Within 1 year	32.6	–	–	–
Between 1-5 years	1.2	0.3	0.2	0.3
In more than five years	0.7	0.8	0.7	0.8
Total	34.5	1.1	0.9	1.1

During 2005 £3.7m was incurred as a finance lease interest charge (2004: £5.5m).

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

31 Deferred taxation

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% (2004: 30%).

The movement on the deferred tax account is as follows:

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
At 1 January	**163.7**	107.5	**(64.8)**	(94.8)
Adoption of IAS 32 and IAS 39	**33.4**	–	**41.6**	–
Income statement charge	**81.8**	69.8	**11.9**	31.5
Charge to equity	**(4.8)**	(1.5)	**(3.9)**	(1.5)
Deferred tax on disposals	**(14.3)**	(12.1)	**–**	–
At 31 December	**259.8**	163.7	**(15.2)**	(64.8)
Deferred tax liabilities/(assets):				
Accelerated tax depreciation	**318.0**	270.2	**8.2**	8.7
Pensions and other post retirement benefits	**(59.5)**	(66.8)	**(48.3)**	(51.2)
Provisions for loan impairment and other provisions	**(32.1)**	(34.4)	**(18.2)**	(20.8)
Other temporary differences	**33.4**	(5.3)	**43.1**	(1.5)
Deferred tax liabilities/(assets)	**259.8**	163.7	**(15.2)**	(64.8)

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

Accelerated tax depreciation	**67.5**	56.4	**(0.5)**	1.1
Pensions and other post retirement benefits	**16.1**	19.4	**9.8**	25.8
Provisions for loan impairment and other provisions	**(7.0)**	(2.1)	**0.1**	1.1
Other temporary differences	**0.9**	(13.2)	**0.5**	1.0
	77.5	60.5	**9.9**	29.0
Adjustment to deferred tax in relation to prior years	**4.3**	9.3	**2.0**	2.5
Deferred tax charge	**81.8**	69.8	**11.9**	31.5

Deferred tax liabilities have not been established for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries, as such amounts are permanently reinvested. Such unremitted earnings total £115.9m at 31 December 2005.

32 Other borrowed funds

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Dated loan capital	**885.0**	816.6	**885.0**	816.6
Total subordinated liabilities	**885.0**	816.6	**885.0**	816.6
Accrued Interest	**17.6**	n/a	**17.6**	n/a
Fair value hedging adjustments	**40.2**	n/a	**40.2**	n/a
Less: unamortised issue costs	**(3.7)**	(3.9)	**(3.7)**	(3.9)
Total	**939.1**	812.7	**939.1**	812.7
Maturing by 2006	**200.0**	200.0	**200.0**	200.0
Maturing by 2008	**75.0**	75.0	**75.0**	75.0
Maturing by 2010	**–**	188.7	**–**	188.7
Maturing by 2013	**51.4**	52.9	**51.4**	52.9
Maturing by 2015	**87.2**	–	**87.2**	–
Maturing by 2017	**102.8**	–	**102.8**	–
Maturing by 2017	**68.6**	–	**68.6**	–
Maturing by 2023	**150.0**	150.0	**150.0**	150.0
Maturing by 2031	**150.0**	150.0	**150.0**	150.0
Total loan capital	**885.0**	816.6	**885.0**	816.6

The interest rate liabilities of 8.75% on the £200m Notes due 2006, 9.75% on the £75m Notes due 2008, 5.25% on the £150m Notes due 2023 and 5.875% on the £150m Notes due 2031 have each been swapped into floating rate, with rates of up to 1.36% above 6-month sterling LIBOR.

The Subordinated Notes due 2006, 2008, 2023 and 2031 are denominated in UK Sterling. The Subordinated Notes due 2010 and 2015 are denominated in US Dollars. The Subordinated Notes due 2010 were redeemed on 2 March 2005. The Subordinated Notes due 2013 and 2017 are denominated in Euros.

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

	Terms £m	Group and Company £m
Subordinated Notes due 2006	Fixed interest rate of 8.75%	200.0
Subordinated Notes due 2017	Floating rate	102.8
Subordinated Notes due 2023	Fixed interest rate of 5.25%	150.0
Subordinated Notes due 2031	Fixed interest rate of 5.875%	150.0

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

All the Notes may be redeemed at the option of the Group, at the outstanding principal amount plus accrued interest, in the event of certain changes in UK taxation. The Group may also purchase the Notes in the open market. The 2008 Notes can be redeemed at the option of the Group, at the higher of their principal amount and the price at which the gross redemption yield on the Notes is equal to the gross redemption yield on 9% Treasury Stock 2008. The 2013 Notes can be redeemed at the option of the Group at the outstanding principal amount plus accrued interest not before November 2008. The 2015 Notes can be redeemed at the option of the Group at the outstanding principal amount plus accrued interest not before September 2010. The £102.8m 2017 Notes can be redeemed at the option of the Group at the outstanding principal amount plus accrued interest not before August 2012. The £68.6m 2017 Notes can be redeemed at the option of the Group at the outstanding principal amount plus accrued interest not before October 2012. The 2023 Notes can be redeemed at the option of the Group at the outstanding principal amount plus accrued interest not before March 2018. For all the Notes, no such purchase or redemption may be made without the consent of the Financial Services Authority.

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

33 Retirement benefit obligations

Amounts recognised in the balance sheet:

	Group and Company	
	2005 £m	2004 £m
Funded defined benefit pension scheme	**(74.3)**	(58.9)
Unfunded defined benefit pension scheme	**(9.6)**	(8.0)
Post-retirement medical benefits	***(23.0)***	*(20.8)*
Total	**(106.9)**	(87.7)

Pension schemes

The Alliance & Leicester Pension Scheme (the Scheme) comprises funded defined benefit sections which became closed to new entrants on 31 March 1998. New employees joining the Group on or after 1 April 1998 were eligible to join a defined contribution section of the Scheme. The principal scheme is an exempt approved pension scheme under which retirement and death benefits are provided for Group employees. The funds of the Scheme are administered by trustees independently of the finances of the participating employers. In addition, benefits are provided by the Company on an unfunded unapproved basis to a number of senior staff recruited since June 1989 whose benefits would otherwise be restricted by the Finance Act 1989 earnings cap.

The Group has adopted the revised IAS 19, published in December 2004. Actuarial gains and losses are recognised immediately in full, through the Statement of Recognised Income and Expense.

Scheme assets are stated at their market value at 31 December 2005. Scheme liabilities are based on the most recent actuarial valuation at 31 March 2004 and updated by an independent qualified actuary to assess the liabilities as at 31 December 2005.

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

The amounts recognised in the balance sheet are determined as follows:

	Group and Company	
	2005 £m	2004 £m
Present value of funded obligations	**(1,304.7)**	(1,119.2)
Fair value of Scheme assets	**1,230.4**	1,060.3
	(74.3)	(58.9)
Present value of unfunded obligations	**(9.6)**	(8.0)
Liability in the balance sheet	**(83.9)**	(66.9)

33 Retirement benefit obligations continued

The amounts recognised in the income statement are as follows:

	Group	
	2005 £m	2004 £m
Current service cost	**18.1**	18.0
Interest cost	**60.8**	56.0
Expected return on Scheme assets	**(64.2)**	(52.4)
Past service cost	**(1.9)**	–
Total cost – defined benefit Scheme	**12.8**	21.6
Defined contribution Scheme – contributions by employer	**5.5**	4.9
Total cost	**18.3**	26.5

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

	Group and Company	
	2005 £m	2004 £m
At 1 January	**1,127.2**	1,035.9
Current service cost	**18.1**	18.0
Interest cost	**60.8**	56.0
Past service cost	**(1.9)**	–
Actuarial loss	**129.7**	36.0
Benefits paid	**(19.6)**	(18.7)
At 31 December	**1,314.3**	1,127.2

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

Changes in the fair value of Scheme assets are as follows:

	Group and Company	
	2005 £m	2004 £m
At 1 January	**1,060.3**	849.0
Expected return	**64.2**	52.4
Actuarial gain	**107.9**	29.6
Contributions by employer	**17.4**	148.0
Benefits paid	**(19.4)**	(18.7)
At 31 December	**1,230.4**	1,060.3
Actual return on Scheme assets	**172.1**	82.0

The Group expects to contribute 21.8% of pensionable salary to its defined benefit Scheme in 2006.

The principal actuarial assumptions used were as follows:

Valuation method	Projected unit
Inflation assumption	2.75%
Salaries rate of increase (p.a.)	4.5%
Pensions rate of increase (p.a.)	2.75%
Discount rate used to determine 2005 net pension cost	5.4%
Discount rate used to determine benefit obligations at 31 December 2005	4.9%
Expected return on Scheme equities	7.5%
Expected return on Scheme bonds	5.0%

The major categories of Scheme assets are as follows:

	Group	
	2005 £m	2004 £m
Equities	**644.2**	517.2
Bonds	**580.0**	425.0
Net current assets	**6.2**	118.1
Total	**1,230.4**	1,060.3

Net current assets at 31 December 2004 included a one-off contribution of £114m that was awaiting investment at that date.

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

	Group	
	2005 £m	2004 £m
Defined benefit obligations	**(1,314.3)**	(1,127.2)
Scheme assets	**1,230.4**	1,060.3
Deficit	**(83.9)**	(66.9)
Experience losses on Scheme liabilities	**(129.7)**	(36.0)
Experience gains on Scheme assets	**107.9**	29.6

Post-retirement medical benefits

The Group provides post-retirement medical benefits to certain pensioners and active employees. The liability has been assessed by an independent qualified actuary as at 31 December 2005, using the projected unit method. The principal actuarial assumptions used in the valuation were a discount rate of 4.9% and medical benefit cost inflation of 7.3% for 1 year, reducing to 4.5% over 4 years and remaining at 4.5% thereafter.

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

	Group and Company	
	2005 £m	2004 £m
At 1 January	**20.8**	20.6
Charge to profit or loss in the year	**1.7**	1.4
Other movements	**–**	(0.5)
Actuarial loss/(gain)	**0.5**	(0.7)
At 31 December	**23.0**	20.8

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

	2005 £m	2004 £m
Effect on liability of 1% increase in cost trend	**4.4**	3.8
Effect on liability of 1% decrease in cost trend	**(3.5)**	(3.0)
Effect on service cost of 1% increase in cost trend	**0.3**	0.3
Effect on service cost of 1% decrease in cost trend	**(0.2)**	(0.2)

34 Contingent liabilities and commitments

Litigation

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

Capital commitments

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Future capital expenditure:				
Contracted for but not provided in the accounts	**–**	–	**–**	–

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

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Contingent liabilities:				
Guarantees, liquidity facilities and irrevocable letters of credit	**336.5**	154.3	**184.1**	25.0
Commitments:				
Irrevocable undrawn loan facilities	**220.7**	612.4	**65.8**	56.5

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

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 guarantees and gives commitments in respect of some of its subsidiary undertakings.

34 Contingent liabilities and commitments continued

Operating lease commitments

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

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Leases which expire:				
Within 1 year	**0.2**	0.2	**6.8**	6.7
Between 1-5 years	**8.5**	9.1	**33.3**	34.5
In more than five years	**87.9**	93.1	**132.6**	143.7
Total	**96.6**	102.4	**172.7**	184.9

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

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Within 1 year	**0.4**	0.3	**0.3**	0.3
Between 1-5 years	**2.9**	1.5	**2.1**	0.9
In more than five years	**3.1**	5.0	**0.9**	2.7
Total	**6.4**	6.8	**3.3**	3.9

During the year, the Group incurred £11.1m operating lease rental charges (2004: £12.1m).

Assets pledged as collateral security

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

	Group and Company	
	2005 £m	2004 £m
Investment securities	**1,572.0**	716.1

35 Minority interests: Non equity tier 1

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

The coupon is 5.827% per annum until 22 March 2016. Thereafter the coupon steps up to a rate, reset every five years, of 2.13% per annum above the gross redemption yield on a UK Government Treasury Security. The tier 1 securities are redeemable at the option of Alliance & Leicester plc on 22 March 2016 or on each coupon payment date thereafter.

The carrying value of £297.2m at 31 December 2004 under UK GAAP excluded accrued interest.

	Group and Company
	2005 £m
At 1 January	**310.6**
Profit attributable to minority interest	**17.5**
Coupon paid	**(17.5)**
At 31 December	**310.6**

36 Minority interests: other

The non-equity minority interest comprises 10,000 (December 2004: 10,000) non-cumulative irredeemable senior preference shares of £1 each in Alliance & Leicester Finance Company Limited. These entitle holders to a fixed non-cumulative dividend of £67 per annum from March 2006. The shares do not entitle the holders to any rights against other Group companies.

In accordance with IAS 32 this is now classified within Debt securities in issue in 2005.

37 Share capital

Group and Company	2005 Number m	2005 Amount £m	2004 Number m	2004 Amount £m
Authorised share capital:				
Ordinary shares of 50p each	**776.0**	**388.0**	776.0	388.0
Issued, allotted and fully paid	**448.9**	**224.4**	446.3	223.2

The number of ordinary shares in issue at 31 December 2005 reflects the adjustment for the cancellation of shares following the share buyback. During the year, the Group repurchased 575,000 shares with a nominal value of £0.3m, at a cost of £5.0m. This has been charged against profit and loss account reserves.

Share capital

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
At 1 January	**223.2**	231.1	**223.2**	231.1
New shares issued:				
Share incentive plan (SIP) Partnership shares	**0.1**	0.1	**0.1**	0.1
Alliance & Leicester Executive Share Option Plan	**0.6**	0.5	**0.6**	0.5
Alliance & Leicester ShareSave scheme	**0.7**	0.2	**0.7**	0.2
Deferred Bonus Scheme	**0.1**	0.1	**0.1**	0.1
Share buybacks	**(0.3)**	(8.8)	**(0.3)**	(8.8)
At 31 December	**224.4**	223.2	**224.4**	223.2

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 10 February 2006.

	%
Alliance & Leicester ShareSafe Limited	12.08
M&G Investment Management Limited	6.07
Schroder Investment Management Limited	5.53
Legal & General Investment Management Limited	3.46
Morley Fund Management Limited (UK)	3.02

38 Share-based payments

During the year ended 31 December 2005, the Group had seven share-based payment arrangements. These are described below, with further details given in the Directors' Remuneration Report on pages 36 and 37.

(i) ShareSave Scheme

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

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

Eligible employees are awarded free shares each year, based on a percentage of their salary. There are no performance criteria.

(iii) Share Incentive Plan – partnership shares

This Scheme is open to all employees. Participants may elect to save up to £125 per month under a six month savings contract. The savings are converted into shares, based on the lower price at the start and end of the six month period. There are no performance criteria.

(iv) Executive and Senior Manager Share Options

Executive Options are normally granted twice a year, after the final results and the interim results announcements. The number of shares over which options are granted is based on a multiple of the participant's salary. The exercise of options is subject to a performance condition based on Earnings Per Share (EPS) growth. For options granted in 2003-2005, the performance condition is that the percentage growth in EPS must exceed the percentage growth in the Retail Price Index by at least 9% over the specified three year period. Options are exercisable for up to seven years from the vesting date.

(v) Executive Deferred Bonus Scheme

For the 2003 and 2004 bonus schemes executive directors were required to defer 25% of their bonus into shares and were entitled to defer up to 100%. The deferred bonus may be matched by the Company depending on the Company's relative Total Shareholder Return (TSR) performance over a three year period against a group of its retail banking peers, to a maximum of 300% of the deferred amount for upper quartile performance. The rights to shares cannot normally be exercised for three years and lapse if not exercised within seven years.

38 Share-based payments continued

(vi) Executive Performance Share Plan

For 2005 the Deferred Bonus Scheme was replaced with the Performance Share Plan for executive directors. The annual award is normally shares to the value of 125% of salary. The performance period is three years with no re-testing. The vesting of 50% of the award depends on the performance of the Company's TSR relative to a peer group of retail banks. The vesting of the other 50% of the award depends on the percentage growth in EPS, with vesting starting when adjusted EPS growth exceeds inflation by 3% per annum, and full vesting when adjusted EPS exceeds inflation by 8% per annum.

(vii) Senior Manager Deferred Bonus Scheme

Senior Managers can defer up to 25% of their annual bonus into shares. The amount of shares to be received are based on double the amount of bonus deferred, based on the market value of the Company's shares at the time. This amount is then matched on a one for one basis. The vesting of the options, normally three years later, is not subject to performance conditions.

	ShareSave	Share Options	Executive Deferred (Note i)	Executive Performance	Senior Manager Deferred (Note ii)
2004					
Outstanding at 1 January	4,087,469	5,275,775	124,302	–	131,314
Granted	1,264,076	2,099,786	51,074	–	80,496
Lapsed	(268,770)	(391,561)	(1,735)	–	–
Exercised	(536,727)	(1,018,325)	(12,525)	–	(30,866)
Outstanding at 31 December	4,546,048	5,965,675	161,116	–	180,944
Exercisable at 31 December	52,882	965,829	41,340	–	27,334
Weighted average exercise price in 2004	565p	719p	n/a	n/a	n/a
Range of exercise prices for options outstanding at 31 December 2004	364.4p-689p	510p-900.5p	n/a	n/a	n/a
Weighted average remaining contractual life	2.1 years	1.3 years	1.1 years	n/a	1.4 years
Weighted average fair value of options awarded in 2004	166p	97p	677p (Note iii)	n/a	2,033p (Note iii)
2005					
Outstanding at 1 January	4,546,048	5,965,675	161,116	–	180,944
Granted	1,144,123	2,138,970	42,298	234,817	64,526
Lapsed	(446,517)	(511,613)	–	–	(6,399)
Exercised	(1,481,757)	(1,332,267)	(20,792)	–	(26,414)
Outstanding at 31 December	**3,761,897**	**6,260,765**	**182,622**	**234,817**	**212,657**
Exercisable at 31 December	104,472	702,469	36,675	–	7,702
Weighted average exercise price in 2005	482p	780p	n/a	n/a	n/a
Range of exercise prices for options outstanding at 31 December 2005	364.4p-705p	510p-900.5p	n/a	n/a	n/a
Weighted average remaining contractual life	2.4 years	1.3 years	0.9 years	2.6 years	1.1 years
Weighted average fair value of options awarded in 2005	106p	49p	654p (Note iii)	505p	2001p (Note iii)

Notes

(i) The figures in the table relate to the number of deferred options only

(ii) The figures in the table relate to the level of bonus deferred i.e. excluding the matching element

(iii) The option value includes the deferred share and the fair value of the matched element, less the cash bonus foregone

202,596 SIP free shares were allocated during the year with a market value of 876.5p per share (2004: 470,714 shares with a market value of 870p per share).

51,271 SIP partnership shares were issued in January 2005 at a price of 845.5p per share and 61,538 shares in July 2005 at a price of 884.5p per share. 46,204 SIP partnership shares were issued in January 2004 at a price of 830p per share and 57,074 shares in July 2004 at a price of 815p per share. The fair value of these awards was between 26p and 52p per share.

The estimated fair values are calculated by applying a binomial option pricing model. The assumptions used in the model are as follows:

Input	Assumption
Share price	Price at date of grant
Exercise price	Per scheme rules
Expected volatility	11-12%
Option life	Per scheme rules
Expected dividends	Based on historic dividend yield
Risk-free interest rate	4.5%-4.9%

Levels of early exercises and lapses are estimated using historical averages.

The charge to profit and loss arising from share based payments in the year was £6.9m (2004: £7.7m).

39 Other reserves and profit and loss account

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Share premium	**85.1**	66.7	**85.1**	66.7
Capital redemption reserve	**73.0**	72.7	**73.0**	72.7
Reserve for share-based payments	**13.8**	6.7	**13.8**	6.7
Available-for-sale reserve	**5.8**	n/a	**5.8**	n/a
Cash flow hedging reserve	**22.5**	n/a	**27.0**	n/a

Share premium

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
At 1 January	**66.7**	54.7	**66.7**	54.7
Issue of shares under option	**18.4**	12.0	**18.4**	12.0
At 31 December	**85.1**	66.7	**85.1**	66.7

Capital redemption reserve

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
At 1 January	**72.7**	63.8	**72.7**	63.8
Repurchase of share capital	**0.3**	8.9	**0.3**	8.9
At 31 December	**73.0**	72.7	**73.0**	72.7

Reserve for share-based payments

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
At 1 January	**6.7**	3.3	**6.7**	3.3
Share option costs charged to profit in year	**5.1**	3.4	**5.1**	3.4
Deferred tax	**2.0**	–	**2.0**	–
At 31 December	**13.8**	6.7	**13.8**	6.7

Available-for-sale reserve

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
At 1 January	**5.7**	n/a	**5.7**	n/a
Net gains from changes in fair value	**0.1**	n/a	**0.1**	n/a
Losses transferred to net profit due to impairment	**–**	n/a	**–**	n/a
Net losses transferred to net profit on disposal	**–**	n/a	**–**	n/a
Deferred tax	**–**	n/a	**–**	n/a
Current tax	**–**	n/a	**–**	n/a
At 31 December	**5.8**	n/a	**5.8**	n/a

Cash flow hedging reserve

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
At 1 January	**14.0**	n/a	**16.4**	n/a
Gains from changes in fair value	**12.5**	n/a	**15.2**	n/a
Transferred to net profit	**(0.3)**	n/a	**–**	n/a
Deferred tax	**(3.7)**	n/a	**(4.6)**	n/a
At 31 December	**22.5**	n/a	**27.0**	n/a

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

39 Other reserves and profit and loss account continued

Movements in the profit and loss account were as follows:

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
At 31 December	**1,272.4**	1,213.5	**703.6**	720.4
Impact of adoption of IAS 32 and IAS 39 (Notes 45 and 49)	**56.3**	n/a	**75.9**	n/a
At 1 January	**1,328.7**	1,213.5	**779.5**	720.4
Net profit for year	**389.4**	423.3	**231.5**	347.6
Final dividend for 2003	**–**	(136.6)	**–**	(136.6)
Interim dividend for 2004	**–**	(71.4)	**–**	(71.4)
Final dividend for 2004	**(145.6)**	–	**(145.6)**	–
Interim dividend for 2005	**(75.1)**	–	**(75.1)**	–
Actuarial loss on retirement benefit obligations	**(22.3)**	(5.1)	**(22.3)**	(5.1)
Deferred tax on actuarial loss on retirement benefit obligations	**6.5**	1.5	**6.5**	1.5
Repurchase of share capital	***(5.0)***	*(152.8)*	***(5.0)***	*(152.8)*
Other	**(0.1)**	–	**(0.1)**	–
At 31 December	**1,476.5**	1,272.4	**769.4**	703.6

40 Dividends per share

During the year an interim dividend in respect of 2005 was paid out of 16.8p per ordinary share (2004: 15.7p per ordinary share) amounting to £75.1m (2004: £71.4m).

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

At the meeting on 2 May 2006 a final dividend in respect of 2005 of 34.7p per ordinary share (2004: 32.6p per ordinary share), amounting to an estimated total of £155.8m (2004: £145.6m), is to be proposed.

The financial statements for the year ended 31 December 2005 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2006.

41 Cash and cash equivalents

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

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Cash and balances with central banks (Note 16)	**1,704.6**	585.3	**1,221.9**	100.3
Due from banks	**339.1**	421.1	**121.6**	436.3
Total	**2,043.7**	1,006.4	**1,343.5**	536.6

42 Related party transactions

Group

The Group enters into transactions in the ordinary course of business, with directors of the Company and persons connected with the directors of the Company, on normal commercial terms. At 31 December 2005 the directors and connected persons held deposits with the Group of £1,691,361 (2004: £1,641,218) and loans amounting to £1,017,762 (2004: £800,748), including £1,017,762 (2004: £799,861) secured on residential properties.

Company

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

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

	2005 £m	2004 £m
Interest received from subsidiaries	**355.7**	285.4
Interest paid to subsidiaries	**(208.4)**	(137.5)

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

At 31 December 2005, the Company was owed £9,404.9m (2004: £7,071.8m) by other Group undertakings and owed £5,935.6m (2004: £3,749.3m) to Group undertakings. The Company had derivative assets of £85.7m and derivative liabilities of £11.3m with Group undertakings at 31 December 2005. It is not practicable to analyse the high volume of funding transactions between the Company and other Group undertakings.

Directors' emoluments

	2005 £m	2004 £m
Short-term benefits	**4.0**	3.1
Post-employment benefits	**0.6**	0.5
Share-based payments	**1.1**	0.6
Total	**5.7**	4.2

Directors' emoluments include those emoluments received by directors from the Company and its associated bodies. Gains on share options exercised under the long-term incentive scheme in the year were £0.7m (2004: £0.3m) whilst gains on other share options exercised in the year were £0.5m (2004: £0.1m). A detailed analysis of directors' emoluments and share options is given on pages 38 to 41 in the Directors' Remuneration Report.

Four directors are members of the defined benefit section of the Alliance & Leicester Pension Scheme (2004: 5). The Group's transactions with the Scheme are described in Note 33.

43 Post balance sheet event

On 25 January 2006 the Group announced a voluntary redundancy scheme as part of a continuing drive to improve efficiency of its back office operations. Redundancy costs of between £20m and £25m are expected to be incurred in 2006.

44 Reconciliation of Group Balance Sheet at 1 January 2004 (Date of transition to IFRS)

		Effects of transition to IFRS			
	UK GAAP 31.12.03 £m	Balance sheet reclassification (Note i) £m	Other effects of IFRS £m	IFRS 1.1.04 £m	Notes
Assets					
Cash and balances with central banks	494.0	43.1	(0.2)	536.9	
Treasury bills and other eligible bills	117.0	–	–	117.0	
Due from banks	3,186.7	81.9	3.6	3,272.2	(ii)
Items in the course of collection from other banks	125.0	(125.0)	–	–	
Loans and advances to customers:	29,798.9	2.7	125.5	29,927.1	(ii)
Securitised advances	130.0	(130.0)	–	–	
Less: non-recourse finance	(127.3)	127.3	–	–	
	29,801.6	–	125.5	29,927.1	
Net investment in finance leases and hire purchase contracts	1,975.8	–	(41.2)	1,934.6	(iii)
Debt securities	11,491.5	–	(0.1)	11,491.4	
Intangible fixed assets	3.0	–	–	3.0	
Property, plant and equipment	280.9	–	1.4	282.3	
Operating lease assets	374.7	–	(18.7)	356.0	(iv)
Other assets	171.5	–	–	171.5	
Prepayments and accrued income	402.7	–	(139.2)	263.5	(v)
Total assets	48,424.4	–	(68.9)	48,355.5	
Liabilities					
Due to other banks	5,040.2	76.8	–	5,117.0	
Items in the course of transmission to other banks	214.9	(214.9)	–	–	
Due to customers	24,239.2	–	(6.8)	24,232.4	(ii)
Debt securities in issue	14,853.7	–	128.1	14,981.8	(ii)
Other liabilities	466.7	(57.7)	(135.3)	273.7	(vi)
Current tax liabilities	–	57.7	–	57.7	
Accruals and deferred income	859.8	138.1	(1.2)	996.7	
Deferred tax liabilities	–	220.0	(112.5)	107.5	(vii)
Provisions for liabilities and charges	240.9	(240.9)	–	–	
Other borrowed funds	812.1	–	–	812.1	
Retirement benefit obligations	–	20.9	186.6	207.5	(viii)
Total liabilities	46,727.5	–	58.9	46,786.4	
Minority interests – non-equity	2.7	–	–	2.7	
Called up share capital	231.1	–	–	231.1	
Share premium account	54.7	–	–	54.7	
Capital redemption reserve	63.8	–	–	63.8	
Reserve for share-based payments	–	–	3.3	3.3	(ix)
Profit and loss account	1,344.6	–	(131.1)	1,213.5	(x)
Total ordinary shareholders' equity	1,694.2	–	(127.8)	1,566.4	
Total equity and liabilities	48,424.4	–	(68.9)	48,355.5	

44 Reconciliation of Group Balance Sheet at 1 January 2004 (Date of transition to IFRS) continued

Notes

i IFRS results in a number of reclassifications between balance sheet categories. For clarity, the reclassifications are shown in a separate column to the other IFRS impacts which increase or decrease net assets.

ii IFRS requires the consolidation of mortgage securitisation vehicles, compared to 'linked presentation' under UK GAAP. This results in the inclusion of securitised advances in 'Loans and advances to customers', comprising most of the increase to that category. Non-recourse finance, shown as a deduction from 'Loans and advances to customers' under UK GAAP, is included in 'Debt securities in issue' under IFRS and comprises the vast majority of the adjustment to that category. 'Due from other banks' increases due to the consolidation of bank deposits in the securitisation vehicle. 'Due to customers' decreases as loans made by the securitisation vehicle to the Group are now eliminated on consolidation.

iii IAS 17 requires the use of the pre-tax actuarial method of income recognition compared to the post-tax basis in UK GAAP. IAS 17 results in interest being recognised later than under UK GAAP. Consequently there is a reduction in the carrying value of 'Net investment in finance leases and hire purchase contracts' on first-time IFRS adoption.

iv IAS 16 and IAS 17 requires the use of straight line depreciation, compared to an annuity basis in UK GAAP. Depreciation is recognised earlier under IFRS, reducing the carrying value of 'Operating lease assets'.

v Under UK GAAP, there is a SSAP 24 prepayment in relation to the defined benefit pension scheme. Under IAS 19 the basis of accounting for pension schemes is fundamentally different, and the prepayment is no longer applicable.

vi IAS 10 requires that dividends are not accrued until they are approved. The reduction in 'Other liabilities' is mainly due to not accruing the final dividend, which was only approved by shareholders at the AGM in May 2004.

vii The reduction in 'Deferred tax liabilities' reflects the tax impacts arising from changes to assets and liabilities on adopting IFRS for the first time.

viii IAS 19 requires that retirement benefit obligations in the defined benefit pension Scheme are included in the Group balance sheet. The Group has elected to recognise actuarial gains and losses in full immediately as permitted by the revision to IAS 19 published in December 2004. The increase of £186.6m reflects the difference between the Scheme assets (on a bid price basis) and the Scheme liabilities at 1 January 2004.

ix IFRS 2 requires that the fair value of share option awards is expensed to the income statement, with a corresponding amount recorded in the 'Reserve for share-based payments'.

x On first-time IFRS adoption, all movements in equity from UK GAAP to IFRS are posted directly to Profit and loss account reserves. The reduction of £131.1m reflects the sum of the impacts to assets and liabilities at 1 January 2004.

45 Reconciliation of Group Balance Sheet at 1 January 2005 (Implementation of IAS 32 and IAS 39)

		Effects of transition to IFRS			
	IFRS 1.1.05 (excl. IAS 32 and IAS 39) £m	Balance sheet reclassification (Note i) £m	Other effects of implementing IAS 32 and IAS 39 £m	IFRS 1.1.05 (incl. IAS 32 and IAS 39) £m	Notes
Assets					
Cash and balances with central banks	585.3	–	–	585.3	
Due from banks	1,795.6	2.7	–	1,798.3	
Trading securities	–	254.0	–	254.0	
Derivative financial instruments	–	270.2	108.5	378.7	(ii)
Loans and advances to customers	33,562.5	14.8	163.3	33,740.6	(iii)
Net investment in finance leases and hire purchase contracts	2,045.8	–	0.6	2,046.4	
Debt securities	10,523.6	(10,523.5)	(0.1)	–	(iv)
Investment securities:					
- available-for-sale	–	9,199.8	11.8	9,211.6	(v)
- held-to-maturity	–	246.7	–	246.7	(vi)
- loans and receivables	–	425.9	–	425.9	(vi)
- at fair value through profit or loss	–	466.2	7.2	473.4	(vii)
Intangible fixed assets	8.5	–	–	8.5	
Property, plant and equipment	272.5	–	–	272.5	
Operating lease assets	367.1	–	–	367.1	
Fair value macro hedge	–	–	12.8	12.8	(viii)
Other assets	93.9	–	–	93.9	
Prepayments and accrued income	465.8	(274.3)	(23.4)	168.1	(ix)
Total assets	49,720.6	82.5	280.7	50,083.8	

		Effects of transition to IFRS			
	IFRS 1.1.05 (excl. IAS 32 and IAS 39) £m	Balance sheet reclassification (Note i) £m	Other effects of implementing IAS 32 and IAS 39 £m	IFRS 1.1.05 (incl. IAS 32 and IAS 39) £m	Notes
Liabilities					
Due to other banks	4,651.2	34.6	(0.1)	4,685.7	
Derivative financial instruments	–	658.1	116.7	774.8	(ii)
Due to customers	24,748.4	306.1	48.0	25,102.5	(x)
Debt securities in issue	15,843.1	(220.9)	7.1	15,629.3	(xi)
Other liabilities	355.9	–	9.8	365.7	
Current tax liabilities	82.2	–	–	82.2	
Accruals and deferred income	1,032.0	(721.8)	(6.2)	304.0	(xii)
Deferred tax liabilities	163.7	–	33.4	197.1	(xiii)
Other borrowed funds	812.7	17.6	(3.8)	826.5	(xv)
Non-equity tier 1	297.2	(297.0)	(0.2)	–	
Retirement benefit obligations	87.7	–	–	87.7	
Total liabilities	48,074.1	(223.3)	204.7	48,055.5	
Minority Interests:					
Non-equity tier 1	–	310.6	–	310.6	(xv)
Other	4.8	(4.8)	–	–	(xvi)
	4.8	305.8	–	310.6	
Called up share capital	223.2	–	–	223.2	
Share premium account	66.7	–	–	66.7	
Capital redemption reserve	72.7	–	–	72.7	
Reserve for share-based payments	6.7	–	–	6.7	
Available-for-sale reserve	–	–	5.7	5.7	
Cash flow hedging reserve	–	–	14.0	14.0	
Profit and loss account	1,272.4	–	56.3	1,328.7	
Total ordinary shareholders' equity	1,641.7	–	76.0	1,717.7	(xvii)
Total equity and liabilities	49,720.6	82.5	280.7	50,083.8	

The IFRS position at 1 January 2005 (including IAS 32 and IAS 39) differs from that disclosed in the IFRS transition report of 27 May 2005 for the following items:
a) the adoption of the IAS 39 fair value option, which has increased liabilities by £8.9m, with a corresponding impact on profit and loss reserves.
b) the reclassification of non-equity tier 1 from liabilities to minority interests, and the reversal of a £2.3m fair value hedging adjustment on the instrument.
c) the re-recognition of all financial liabilities at their full contractual amount. Previously the Group utilised the transitional provisions in IFRS 1 that only required financial liabilities de-recognised after 1 January 2004 to be re-recognised. The impact of this is to increase liabilities at 1 January 2005 by £40.7m, which after tax reduces net assets by £28.5m.

Notes
i IAS 32 and IAS 39 result in a number of reclassifications between balance sheet categories. For clarity, the reclassifications are shown in a separate column to the other IAS 32 and IAS 39 impacts which increase or decrease net assets.
ii IAS 39 requires that all derivatives are measured at fair value on the balance sheet, compared to cost under UK GAAP.
iii The EIR rules in IAS 39 require that discounts and incentives, and most fees and commissions receivable and payable, are spread over the average life of the loan. Under UK GAAP, the Group's policy was to take these items to profit or loss as incurred, except for mortgage products where the customer had an obligation over a period of time to return the incentive if they redeemed the mortgage, and the early redemption fee was closely linked to the incentive cost. The impact of the EIR rules is an increase in 'Loans and advances to customers' of £142m. There is a further increase of £21m, resulting from a reduction in impairment provisions under IAS 39, which require more observable evidence of impairment before a provision is made.
iv 'Debt securities' have been reclassified to 'Investment Securities', split between 'Available-for-sale', 'Held-to-maturity', 'Loans and receivables' and 'At fair value through profit or loss', and 'Trading securities'.
v IAS 39 requires that 'Available-for-sale' financial assets are measured at fair value on the balance sheet, compared to cost under UK GAAP.
vi 'Held-to-maturity' and 'Loans and receivables' are accounted for under the IAS 39 EIR rules.
vii Certain investment securities have been designated by the Group as 'At fair value through profit or loss'. These securities are shown at fair value on the balance sheet, with subsequent changes in fair value recognised in the income statement.
viii IAS 39 permits macro-hedging of financial assets and liabilities. The resulting fair value adjustment to the underlying assets and liabilities is not allocated to individual assets and liabilities.
ix Under UK GAAP £23.3m of deferred mortgage incentives were included in 'prepayments and accrued income'. These are eliminated under IAS 39 as these incentives are accounted for as part of the EIR rules.
x The increase in amounts due to customers results from the requirement in IAS 39 to record financial liabilities at their contractual value.
xi Some debt securities in issue are fair value hedged, as permitted by IAS 39 and the Group has elected to designate some debt securities at fair value through profit or loss. The movement reflects fair value adjustments.
xii Under UK GAAP income was being deferred on a swap transaction. Under IFRS the income is recognised earlier and not deferred.
xiii The increase in 'Deferred tax liabilities' reflects the tax impacts arising from changes to assets and liabilities on adopting IAS 32 and IAS 39 for the first time.
xiv The movement in 'Other borrowed funds' reflects the retranslation of foreign currency subordinated loans and fair value hedging adjustments.
xv In accordance with IAS 32, this instrument has been reclassified within Minority interests.
xvi *In accordance with IAS 32, this instrument has been reclassified to Debt securities in issue.*
xvii On adoption of IAS 32 and IAS 39, all movements in equity are posted directly to reserves. The increase of £76.0m reflects the sum of the impacts to assets and liabilities at 1 January 2005.

46 Reconciliation of Profit for the Year Ended 31 December 2004

	UK GAAP Year ended 31.12.04 £m	Effect of transition to IFRS (excl. IAS 32 and IAS 39) £m	IFRS Year ended 31.12.04 £m	Note
Interest receivable and similar income	2,311.0	(10.8)	2,300.2	
Interest expense and similar charges	(1,601.9)	(7.0)	(1,608.9)	
Net interest income	709.1	(17.8)	691.3	(i)
Fee and commission income	572.2	(1.8)	570.4	
Fee and commission expense	(66.8)	(0.2)	(67.0)	
Other operating income	186.1	(0.5)	185.6	
Total non-interest income	691.5	(2.5)	689.0	
Operating income	1,400.6	(20.3)	1,380.3	
Administrative expenses:				
Core administrative expenses and strategic investment costs	(674.8)	0.1	(674.7)	
Exceptional costs arising from the rationalisation of the branch network	(9.0)	–	(9.0)	
Total administrative expenses	(683.8)	0.1	(683.7)	
Depreciation:				
On fixed assets excluding operating lease assets	(30.9)	0.8	(30.1)	
On operating lease assets	(70.5)	(2.3)	(72.8)	
	(101.4)	(1.5)	(102.9)	
Total costs	**(785.2)**	**(1.4)**	**(786.6)**	
Impairment losses on loans and advances	(59.1)	–	(59.1)	
Operating profit	556.3	(21.7)	534.6	
Profit on disposal of Group operations	52.0	–	52.0	
Profit before tax	608.3	(21.7)	586.6	
Tax	(168.1)	6.9	(161.2)	
Profit after tax	440.2	(14.8)	425.4	
Minority interests – non-equity	(2.1)	–	(2.1)	
Profit attributable to the ordinary shareholders of Alliance & Leicester plc	438.1	(14.8)	423.3	

Note

(i) The reduction in net interest income is due to the pre-tax actuarial method of income recognition under IAS 17, compared to the post-tax basis in UK GAAP. This changes the income recognition profile on finance lease assets, and the funding cost profile on finance lease liabilities.

47 Reconciliation of 31 December 2004 UK GAAP Shareholders' equity to 31 December 2004 IFRS Shareholders' equity

	£m
Reserves at 31 December 2004 (UK GAAP)	1,775.8
Reduction in profit and loss account reserves at 1 January 2004 on adoption of IFRS (See Note 44)	(131.1)
Reserve for share-based payments at 1 January 2004 on adoption of IFRS (See Note 44)	3.3
Reduction in profit after tax for 2004 on adoption of IFRS (See Note 46)	(14.8)
2003 final dividend recognised in 2004 under IFRS	*(136.6)*
2004 final dividend recognised in 2005 under IFRS	145.6
Increase in reserve for share-based payments during 2004	3.4
Actuarial losses on retirement benefit obligations	(5.1)
Tax on items taken directly in equity	1.5
Other	(0.3)
Reserves at 31 December 2004 (IFRS)	**1,641.7**

48 Reconciliation of Company Balance Sheet at 1 January 2004 (Date of transition to IFRS)

	UK GAAP 31.12.03 £m	Effects of transition to IFRS: Balance sheet reclassification (Note i) £m	Effects of transition to IFRS: Other effects of IFRS £m	IFRS 1.1.04 £m	Notes
Assets					
Cash and balances with central banks	57.7	26.4	–	84.1	
Treasury bills and other eligible bills	117.0	–	–	117.0	
Due from banks	3,292.6	(26.4)	–	3,266.2	
Loans and advances to customers:	31,232.2	–	–	31,232.2	
Securitised advances	130.0	–	(130.0)	–	(ii)
Less: non-recourse finance	(127.3)	–	127.3	–	(ii)
	31,234.9	–	(2.7)	31,232.2	
Debt securities	10,354.4	–	–	10,354.4	
Shares in Group undertakings	709.1	–	–	709.1	
Property, plant and equipment	170.5	–	–	170.5	
Operating lease assets	–	–	13.4	13.4	(iv)
Deferred tax assets	–	12.3	82.5	94.8	(vii)
Other assets	246.7	(12.3)	(100.1)	134.3	(ii,iii)
Prepayments and accrued income	365.7	–	(91.3)	274.4	(v)
Total assets	46,548.6	–	(98.2)	46,450.4	
Liabilities					
Due to other banks	7,480.8	–	–	7,480.8	
Due to customers	20,853.5	–	–	20,853.5	
Debt securities in issue	14,828.9	–	–	14,828.9	
Other liabilities	556.0	(17.6)	(134.9)	403.5	(vi)
Current tax liabilities	–	17.6	–	17.6	
Accruals and deferred income	765.2	–	8.0	773.2	(ix)
Provisions for liabilities and charges	20.9	(20.9)	–	–	
Other borrowed funds	812.1	–	–	812.1	
Retirement benefit obligations	–	20.9	186.6	207.5	(viii)
Total liabilities	45,317.4	–	59.7	45,377.1	
Called up share capital	231.1	–	–	231.1	
Share premium account	54.7	–	–	54.7	
Capital redemption reserve	63.8	–	–	63.8	
Reserve for share-based payments	–	–	3.3	3.3	(ix)
Profit and loss account	881.6	–	(161.2)	720.4	(x)
Total ordinary shareholders' equity	1,231.2	–	(157.9)	1,073.3	
Total equity and liabilities	46,548.6	–	(98.2)	46,450.4	

Notes

i IFRS results in a number of reclassifications between balance sheet categories. For clarity, the reclassifications are shown in a separate column to the other IFRS impacts which increase or decrease net assets.

ii IFRS requires the consolidation of mortgage securitisation vehicles, compared to 'linked presentation' under UK GAAP.

iii IAS 10 requires that dividends are not accrued until they are approved. The reduction in 'Other assets' is mainly due to not having a dividend debtor for dividends due from Group undertakings.

iv Under IAS 17 land leases are now normally treated as operating lease assets.

v Under UK GAAP, there is a SSAP 24 prepayment in relation to the defined benefit pension scheme. Under IAS 19 the basis of accounting for pension schemes is fundamentally different, and the prepayment is no longer applicable.

vi IAS 10 *requires that dividends are not accrued until they are approved. The reduction in 'Other liabilities' is mainly due to not accruing the final dividend,* which was only approved by shareholders at the AGM in May 2004.

vii The increase in 'Deferred tax assets' reflects the tax impacts arising from changes to assets and liabilities on adopting IFRS for the first time.

viii IAS 19 requires that retirement benefit obligations in the defined benefit pension scheme are included in the Company balance sheet. The Company has elected to recognise actuarial gains and losses in full immediately as permitted by the revision to IAS 19 published in December 2004. The increase of £186.6m *reflects the difference between the scheme assets (on a bid price basis) and the scheme liabilities at 1 January 2004.*

ix IFRS 2 requires that the fair value of share option awards is expensed to the income statement, with a corresponding amount recorded in the 'Reserve for share-based payments'.

x On first-time IFRS adoption, all movements in equity from UK GAAP to IFRS are posted directly to Profit and loss account reserves. The reduction of £161.2m reflects the sum of the impacts to assets and liabilities at 1 January 2004.

49 Reconciliation of Company Balance Sheet at 1 January 2005 (Implementation of IAS 32 and IAS 39)

	IFRS 1.1.05 (excl. IAS 32 and IAS 39) £m	Effects of transition to IFRS: Balance sheet reclassification (Note i) £m	Effects of transition to IFRS: Other effects of implementing IAS 32 and IAS 39 £m	IFRS 1.1.05 (incl. IAS 32 and IAS 39) £m	Notes
Assets					
Cash and balances with central banks	100.3	–	–	100.3	
Due from banks	2,074.0	4.4	0.1	2,078.5	
Trading securities	–	254.0	–	254.0	
Derivative financial instruments	–	285.6	149.7	435.3	(ii)
Loans and advances to customers	34,739.7	42.4	177.3	34,959.4	(iii)
Debt securities	9,811.6	(9,811.6)	–	–	(iv)
Investment securities:					
– available-for-sale	–	8,912.8	11.8	8,924.6	(v)
– held-to-maturity	–	246.7	–	246.7	(vi)
– loans and receivables	–	–	–	–	(vi)
– at fair value through profit or loss	–	466.2	7.2	473.4	(vii)
Shares in Group undertakings	739.1	–	–	739.1	
Intangible fixed assets	2.6	–	–	2.6	
Property, plant and equipment	162.3	–	–	162.3	
Operating lease assets	13.4	–	–	13.4	
Deferred tax assets	64.8	–	(41.6)	23.2	(xiii)
Other assets	105.1	–	–	105.1	
Prepayments and accrued income	370.5	(317.6)	(23.3)	29.6	(ix)
Total assets	48,183.4	82.9	281.2	48,547.5	
Liabilities					
Due to other banks	7,395.3	39.8	–	7,435.1	
Derivative financial instruments	–	661.8	133.5	795.3	(ii)
Due to customers	21,391.3	272.6	43.8	21,707.7	(x)
Debt securities in issue	15,733.5	(229.6)	3.7	15,507.6	(xi)
Fair value macro hedge	–	–	1.2	1.2	(viii)
Other liabilities	412.4	3.9	8.5	424.8	
Current tax liabilities	10.6	–	–	10.6	
Accruals and deferred income	969.8	(696.8)	(3.5)	269.5	(xii)
Deferred tax liabilities	–	–	–	–	
Other borrowed funds	812.7	17.6	(3.8)	826.5	(xiv)
Non-equity tier 1	297.2	(297.0)	(0.2)	–	(xv)
Retirement benefit obligations	87.7	–	–	87.7	
Total liabilities	47,110.5	(227.7)	183.2	47,066.0	
Minority interests – non equity tier 1 security	–	310.6	–	310.6	(xv)
Called up share capital	223.2	–	–	223.2	
Share premium account	66.7	–	–	66.7	
Capital redemption reserve	72.7	–	–	72.7	
Reserve for share-based payments	6.7	–	–	6.7	
Available-for-sale reserve	–	–	5.7	5.7	
Cash flow hedging reserve	–	–	16.4	16.4	
Profit and loss account	703.6	–	75.9	779.5	
Total ordinary shareholders' equity	1,072.9	–	98.0	1,170.9	(xvi)
Total equity and liabilities	48,183.4	82.9	281.2	48,547.5	

Notes

i IAS 32 and IAS 39 result in a number of reclassifications between balance sheet categories. For clarity, the reclassifications are shown in a separate column to the other IAS 32 and IAS 39 impacts which increase or decrease net assets.

ii IAS 39 requires that all derivatives are measured at fair value on the balance sheet, compared to cost under UK GAAP.

iii The EIR rules in IAS 39 require that discounts and incentives, and most fees and commissions receivable and payable, are spread over the average life of the loan. Under UK GAAP, the Company's policy was to take these items to profit or loss as incurred, except for mortgage products where the customer had an obligation over a period of time to return the incentive if they redeemed the mortgage, and the early redemption fee was closely linked to the incentive cost. The impact of the EIR rules is an increase in 'Loans and advances to customers' of £157m. There is a further increase of £21m, resulting from a reduction in impairment provisions under IAS 39, which require more observable evidence of impairment before a provision is made.

iv 'Debt securities' have been reclassified to 'Investment Securities', split between 'Available-for-sale', 'Held-to-maturity', 'Loans and receivables' and 'At fair value through profit or loss', and 'Trading securities'.

v IAS 39 requires that 'Available-for-sale' financial assets are measured at fair value on the balance sheet, compared to cost under UK GAAP.

vi 'Held-to-maturity' and 'Loans and receivables' are accounted for under the IAS 39 EIR rules.

vii Certain investment securities have been designated by the Company as 'At fair value through profit or loss'. These securities are shown at fair value on the balance sheet, with subsequent changes in fair value recognised in the income statement.

viii IAS 39 permits macro-hedging of financial assets and liabilities. The resulting fair value adjustment to the underlying assets and liabilities is not allocated to individual assets and liabilities.

ix Under UK GAAP £23.3m of deferred mortgage incentives were included in 'prepayments and accrued income'. These are eliminated under IAS 39 as these incentives are accounted for as part of the EIR rules.

x The increase in amounts due to customers results from the requirement in IAS 39 to record financial liabilities at their contractual value.

xi Some debt securities in issue are fair value hedged, as permitted by IAS 39 and the Company has elected to designate some debt securities at fair value through profit or loss. The movement reflects fair value adjustments.

xii Under UK GAAP income was being deferred on a swap transaction. Under IFRS the income is recognised earlier and not deferred.

xiii The decrease in 'Deferred tax assets' reflects the tax impacts arising from changes to assets and liabilities on adopting IAS 32 and IAS 39 for the first time.

xiv The movement in 'Other borrowed funds' reflects the retranslation of foreign currency subordinated loans and fair value hedging adjustments.

xv In accordance with IAS 32, this instrument has been reclassified within Minority interests.

xvi On adoption of IAS 32 and IAS 39, all movements in equity are posted directly to reserves. The increase of £98.0m reflects the sum of the impacts to assets and liabilities at 1 January 2005.

50 Restatement of Consolidated Cash Flow Statement on adoption of IFRS

The presentation of the cash flow statement as specified by IAS 7 differs from UK GAAP requirements. A number of items have been reclassified, but there is no impact on cash flows. There is no change to the level of Cash and cash equivalents at either the start or end of the year.

51 FRS 13 comparatives for 2004

Information on 2005 risk management is given in Notes 2 and 3. Comparatives have not been disclosed for some of these disclosures made under IAS 32. The information below is based on the UK GAAP requirements within FRS 13. The figures differ from the 2004 balance sheet as they have been prepared under UK GAAP.

The information 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 2004 Carrying value £m	Group 2004 Fair value £m
Primary non-trading financial instruments:		
Assets		
Cash and balances at central banks	536.3	536.5
Debt securities	10,270.3	10,283.4
Liabilities		
Debt securities in issue	(15,747.3)	(15,961.4)
Subordinated liabilities	(812.7)	(992.7)
Off balance sheet and similar instruments	46.3‡	(390.9)‡
Other	–	1.0

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.

‡ These figures represent accrued interest at the year end.

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.

51 FRS 13 comparatives for 2004 continued

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

	Gains £m	Losses £m	Group 2004 Total net gains/(losses) £m
Unrecognised gains/(losses) on hedges at 1 January 2004	194.5	(591.3)	(396.8)
(Gains)/losses arising in previous years that were recognised in the year	(22.5)	178.9	156.4
Gains/(losses) arising before 1 January 2004 that were not recognised in the year	172.0	(412.4)	(240.4)
Gains/(losses) arising in the year that were not recognised in the year	(1.6)	(195.2)	(196.8)
Unrecognised gains/(losses) on hedges at 31 December 2004	170.4	(607.6)	(437.2)
Of which:			
Gains/(losses) expected to be recognised in the next year	55.4	(241.8)	(186.4)
Gains/(losses) expected to be recognised after the next financial year	115.0	(365.8)	(250.8)

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

The following table provides a summary of the interest rate repricing profile of the Group's assets and liabilities as at 31 December 2004. Assets and liabilities have been allocated to time bands by reference to the earlier of the next interest rate reset date and the contractual maturity date. The table takes account of derivative financial interests whose effect is to alter the interest basis of Group assets and liabilities.

The trading book and non-interest bearing balances have been included in a separate column.

	1 month to 3 months £m	3 months to 6 months £m	6 months to 12 months £m	1 to 5 years £m	Over 5 years £m	Non-interest bearing/ trading book £m	Group Total £m
Assets							
Loans and advances to banks	1,729	10	9	–	–	513	2,261
Loans and advances to customers	21,975	1,468	3,849	7,567	738	(18)	35,579
Debt securities	9,158	353	190	249	258	316	10,524
Other assets	70	20	37	166	26	1,284	1,603
Total assets	32,932	1,851	4,085	7,982	1,022	2,095	49,967
Liabilities							
Deposits by banks	3,011	773	762	–	–	3	4,549
Customer accounts	19,102	889	1,406	183	67	3,108	24,755
Debt securities in issue	11,655	2,145	908	963	75	1	15,747
Other liabilities	79	2	–	–	–	1,949	2,030
Subordinated liabilities	–	–	–	275	842	(7)	1,110
Shareholders' funds	–	–	–	–	–	1,776	1,776
Total liabilities	33,847	3,809	3,076	1,421	984	6,830	49,967
Off-balance sheet items	(1,851)	4,875	(1,103)	(2,987)	1,066	–	–
Interest rate sensitivity gap	**(2,766)**	**2,917**	**(94)**	**3,574**	**1,104**	**(4,735)**	**–**
Cumulative gap at 31 December 2004	**(2,766)**	**151**	**57**	**3,631**	**4,735**	**–**	**–**

Supplementary Information

1. Business Volumes and Market Shares

Retail banking

		Year ended 31.12.05	Year ended 31.12.04
Residential Mortgages			
Gross lending	£bn	**11.1**	8.7
Net lending	*£bn*	**4.9**	2.5
Mortgage balances	£bn	**33.1**	28.2
Savings			
Personal customer deposit balances	£bn	**20.6**	19.9
Current Accounts			
New accounts opened	'000	**254**	228
Total number of active accounts	m	**1.52**	1.44
Personal Unsecured Loans			
Gross advances	£bn	**2.5**	2.3
Balances	£bn	**3.5**	3.1
Residential Mortgages (Note 1)			
Share of gross lending	%	**3.8**	3.0
Share of net lending	%	**5.4**	2.4
Share of mortgage balances	%	**3.4**	3.2
Savings (Notes 2 and 3)			
Share of new business	%	**4.4**	3.8
Share of household liquid assets	%	**2.2**	2.3
Current Accounts (Note 2)			
Share of new accounts opened	%	**4.1**	3.9
Share of total number of accounts	%	**2.9**	2.8
Personal Unsecured Loans (Note 4)			
Share of gross advances	%	**6.7**	6.1
Share of balances	%	**5.2**	4.8

Notes: Market shares calculated using the following sources:

(Note 1) Bank of England.
(Note 2) Estimate based on CACI data.
(Note 3) UK Household Liquid Assets – ONS Financial statistics series NNMQ – X.
(Note 4) Estimate based on Major British Banking Group personal loans data.

Commercial banking

		Year ended 31.12.05	Year ended 31.12.04
Money Transmission			
Sales of cash to financial institutions	£bn	**65.6**	53.4
Cash handled	£bn	**64.0**	58.8
Lending			
Balances	£bn	**5.5**	4.6
Business Banking			
New accounts opened	'000	**24.3**	16.4
Total number of active accounts	'000	**67.0**	55.1

2. Residential Mortgage Arrears

At 31 December 2005:

Arrears as a % of mortgage balance	No. of cases in arrears	No. of cases in arrears as % of total mortgages	Book value of mortgages in arrears £m	Book value of mortgages in arrears as % of total book	Value of arrears £'000	CML average % of mortgages in arrears
2.5 – 10%	**2,436**	**0.52**	**91.7**	**0.27**	**4,068**	**0.75**
10%+	**528**	**0.11**	**12.5**	**0.04**	**2,934**	**0.14**
Repossession stock	**26**	**0.01**	**1.7**	**0.01**	**183**	**0.04**
Total	**2,990**	**0.64**	**105.9**	**0.32**	**7,185**	**0.93**

At 31 December 2004:

Arrears as a % of mortgage balance	No. of cases in arrears	No. of cases in arrears as % of total mortgages	Book value of mortgages in arrears £m	Book value of mortgages in arrears as % of total book	Value of arrears £'000	CML average % of mortgages in arrears
2.5 – 10%	2,485	0.55	87.9	0.31	3,888	0.65
10%+	527	0.12	12.8	0.04	2,932	0.12
Repossession stock	36	0.01	1.5	0.01	159	0.02
Total	3,048	0.68	102.2	0.36	6,979	0.79

3. Residential Lending by Type of Borrower (by value)

	Year ended 31.12.05	Year ended 31.12.04
Borrower type:	**%**	%
First time buyer	**28**	15
Next time buyer	**25**	20
Remortgage	**41**	58
Further advances	**6**	7
	100	100

4. Commercial Lending Book

The total commercial lending book, net of provisions and intercompany lending, as at 31 December 2005 was £5.5bn and is included in the following balance sheet headings:

	As at 31.12.05 £m	As at 31.12.04 £m
Loans and advances to banks	**–**	12
Loans and advances to customers:		
Secured commercial loans	**2,182**	1,436
Unsecured commercial loans	**842**	765
Net investment in finance leases and hire purchase contracts	**2,146**	2,046
Operating lease assets	**364**	367
	5,534	4,626

5. Reconciliation of IFRS Statutory Results to IFRS Proforma Results for the Year Ended 31 December 2004

	Notes	IFRS (excl. IAS 32 and IAS 39) Year ended 31.12.04 £m	Effect of Proforma IAS 32 and IAS 39 adjustments £m	IFRS Proforma Year ended 31.12.04 £m
Interest receivable and similar income	1,2	2,300.2	(26.1)	2,274.1
Interest expense and similar charges	2	(1,608.9)	71.2	(1,537.7)
Net interest income		691.3	45.1	736.4
Fee and commission income	3	570.4	(58.4)	512.0
Fee and commission expense	4	(67.0)	23.2	(43.8)
Gains/(losses) from fair value accounting volatility		n/a	n/a	n/a
Other operating income	5	185.6	(16.6)	169.0
Total non-interest income		689.0	(51.8)	637.2
Operating income		1,380.3	(6.7)	1,373.6
Administrative expenses:				
Core administrative expenses and strategic investment costs		(674.7)	–	(674.7)
Exceptional costs arising from the rationalisation of the branch network		(9.0)	–	(9.0)
Total administrative expenses		(683.7)	–	(683.7)
Depreciation:				
On fixed assets excluding operating lease assets		(30.1)	–	(30.1)
On operating lease assets		(72.8)	–	(72.8)
		(102.9)	–	(102.9)
Total costs		(786.6)	–	(786.6)
Impairment losses on loans	6	(59.1)	12.6	(46.5)
Operating profit		534.6	5.9	540.5
Profit on disposal of Group operations		52.0	–	52.0
Profit on ordinary activities before tax		586.6	5.9	592.5
Tax on profit on ordinary activities		(161.2)	2.3	(158.9)
Profit on ordinary activities after tax		425.4	8.2	433.6
Minority interests – non-equity	7	(2.1)	(11.6)	(13.7)
Profit attributable to the ordinary shareholders of Alliance & Leicester plc		423.3	(3.4)	419.9

Notes

1. Interest receivable increased by £38m due to the IAS 39 Effective Interest Rate (EIR) rules, which require that interest discounts, cashbacks and fees should be recognised on a level yield basis over the loan life, through net interest income. The main impacts are on residential mortgages and commercial loans.
2. The proforma results differ from those published in our restatement of results on an IFRS basis, issued on 27 May 2005. Interest expense and similar charges has reduced by £14m, with an increase in profit attributable to minority interests of £14m (see Note 7 below). This change results from the change in accounting treatment for non-equity tier 1 as disclosed in our pre-close statement on 2 December 2005. In addition, interest receivable and interest payable have both been reduced by £64m due to a reclassification arising during the implementation of IFRS, with no overall impact on net interest income. Interest payable also increased by £7m due to other IAS 39 adjustments.
3. Where fees charged on loans are integral to the loan yield, they are reclassified to net interest income, in accordance with the IAS 39 EIR rules.
4. Fees paid as a result of originating loans are reclassified from fees payable to net interest income, in accordance with the IAS 39 EIR rules.
5. The reduction in other operating income results from the requirement to record financial liabilities at their contractual value.
6. IAS 39 requires a different basis to UK GAAP for calculating impairment charges. Within the reduction is £4m in respect of residential mortgages. The residential mortgage loss charge under UK GAAP for 2004 was affected by the termination of the Group's offshore captive insurance subsidiary which increased the charge by £8m. Under IFRS the termination would not have affected the charge. This is partly offset by a general provision release of £4m under UK GAAP which would not have existed under IFRS. The impairment charge for personal loans and current accounts is £10m lower, and the charge for Wholesale Banking is £1m higher, under IFRS.
7. The £14m minority interest in the proforma results relates to the coupon accrued on the non-equity tier 1, issued in March 2004.

Consolidated Income Statement 5 Year Summary

For the year ended 31 December	2005 IFRS £m	2004 IFRS proforma £m	2003 UK GAAP £m	2002 UK GAAP £m	2001 UK GAAP £m
Interest receivable and similar income	**2,576.1**	2,274.1	1,869.3	1,840.5	2,154.0
Interest expense and similar charges	**(1,825.1)**	(1,537.7)	(1,131.4)	(1,083.1)	(1,386.2)
Net interest income	**751.0**	736.4	737.9	757.4	767.8
Fee and commission income	**508.8**	512.0	563.0	530.0	497.7
Fee and commission expense	**(32.4)**	(43.8)	(112.4)	(109.3)	(109.4)
Gains/(losses) from fair value accounting volatility	**(1.0)**	n/a	n/a	n/a	n/a
Other operating income	**160.5**	169.0	184.6	163.1	119.8
Total non-interest income	**635.9**	637.2	635.2	583.8	508.1
Operating income	**1,386.9**	1,373.6	1,373.1	1,341.2	1,275.9
Administrative expenses:					
Core administrative expenses and strategic investment costs	**(660.7)**	(674.7)	(696.1)	(707.7)	(731.2)
Exceptional costs arising from the rationalisation of the branch network	**-**	(9.0)	-	-	-
Total administrative expenses	**(660.7)**	(683.7)	(696.1)	(707.7)	(731.2)
Depreciation and amortisation:					
On fixed assets excluding operating lease assets	**(31.2)**	(30.1)	(35.4)	(33.7)	(36.9)
On operating lease assets	**(74.0)**	(72.8)	(56.2)	(61.6)	(48.0)
	(105.2)	(102.9)	(91.6)	(95.3)	(84.9)
Total costs	**(765.9)**	(786.6)	(787.7)	(803.0)	(816.1)
Impairment losses on loans and advances	**(73.9)**	(46.5)	(60.7)	(69.9)	(63.4)
Operating profit	**547.1**	540.5	524.7	468.3	396.4
Profit on disposal of Group operations	**-**	52.0	-	-	-
Profit on ordinary activities before tax	**547.1**	592.5	524.7	468.3	396.4
Tax on profit on ordinary activities	**(140.2)**	(158.9)	(145.5)	(128.0)	(112.0)
Profit on ordinary activities after tax	**406.9**	433.6	379.2	340.3	284.4
Profit attributable to minority interests:					
Non-equity tier 1	**17.5**	13.7	n/a	n/a	n/a
Other minority interests	**-**	-	1.2	0.7	0.3
Profit attributable to the ordinary shareholders' of Alliance & Leicester plc	**389.4**	419.9	378.0	339.6	284.1
Earnings per share					
Basic earnings per ordinary share	**86.9p**	91.8p	79.0p	68.0p	56.4p
Diluted earnings per ordinary share	**86.5p**	91.4p	78.5p	67.4p	56.0p

The 2004 results are presented on an IFRS proforma basis as described on page 90. The results for 2001-2003 are on a UK GAAP basis and not directly comparable with the 2004 and 2005 results. An explanation of the differences between IFRS and UK GAAP is set out in Notes 44-49 on pages 81 to 87.

Consolidated Balance Sheet 5 Year Summary

	2005 IFRS £m	1 January 2005 IFRS £m	2003 UK GAAP £m	2002 UK GAAP £m	2001 UK GAAP £m
Assets					
Cash and balances with central banks	**1,704.6**	585.3	494.0	298.1	219.1
Treasury bills and other eligible bills	**17.1**	–	117.0	239.4	279.6
Due from banks	**2,524.5**	1,798.3	3,186.7	813.1	1,719.8
Items in the course of collection from other banks	**–**	–	125.0	147.1	171.5
Trading securities	**306.3**	254.0	–	–	–
Derivative financial instruments	**570.8**	378.7	–	–	–
Loans and advances to customers:	**40,093.8**	33,740.6	29,798.9	27,296.9	25,863.9
Securitised advances	**n/a**	n/a	130.0	163.2	204.5
Less: non-recourse finance	**n/a**	n/a	(127.3)	(159.3)	(199.6)
	40,093.8	33,740.6	29,801.6	27,300.8	25,868.8
Net investment in finance leases and hire purchase contracts	**2,146.3**	2,046.4	1,975.8	1,591.0	1,512.8
Debt securities	**n/a**	n/a	11,491.5	9,501.5	8,210.5
Investment securities					
– available-for-sale	**9,817.8**	9,211.6	n/a	n/a	n/a
– held-to-maturity	**342.5**	246.7	n/a	n/a	n/a
– loans and receivables	**150.3**	425.9	n/a	n/a	n/a
– at fair value through profit or loss	**331.0**	473.4	n/a	n/a	n/a
Intangible fixed assets	**18.6**	8.5	3.0	3.5	2.8
Property, plant and equipment	**262.4**	272.5	280.9	304.5	302.0
Operating lease assets	**364.4**	367.1	374.7	369.0	340.3
Fair value macro hedge	**59.8**	12.8	n/a	n/a	n/a
Other assets	**218.6**	93.9	171.5	355.0	219.2
Prepayments and accrued income	**53.2**	168.1	402.7	325.6	281.0
Long term assurance business attributable to shareholders	**–**	–	–	–	82.8
	58,982.0	50,083.8	48,424.4	41,248.6	39,210.2
Long term assurance assets attributable to policyholders	**–**	–	–	–	230.3
Total assets	**58,982.0**	50,083.8	48,424.4	41,248.6	39,440.5
Liabilities					
Due to other banks	**6,566.6**	4,685.7	5,040.2	2,701.6	1,991.2
Items in the course of transmission to other banks	**–**	–	214.9	289.7	231.0
Derivative financial instruments	**410.4**	774.8	–	–	–
Due to customers	**26,437.8**	25,102.5	24,239.2	22,360.1	22,099.8
Debt securities in issue	**21,405.3**	15,629.3	14,853.7	12,103.8	11,053.9
Other liabilities	**329.7**	365.7	466.7	564.1	548.4
Current tax liabilities	**52.9**	82.2	–	–	–
Accruals and deferred income	**261.8**	304.0	859.8	715.4	735.5
Deferred tax liabilities	**259.8**	197.1	–	–	–
Provisions for liabilities and charges	**–**	–	240.9	182.7	181.4
Other borrowed funds	**939.1**	826.5	812.1	609.9	609.5
Retirement benefit obligations	**106.9**	87.7	n/a	n/a	n/a
Total liabilities	**56,770.3**	48,055.5	46,727.5	39,527.3	37,450.7
Minority interests:					
Non-equity tier 1	**310.6**	310.6	n/a	n/a	n/a
Other	**–**	–	2.7	1.5	0.8
	310.6	310.6	2.7	1.5	0.8
Called up share capital	**224.4**	223.2	231.1	242.0	252.5
Share premium account	**85.1**	66.7	54.7	38.5	25.1
Capital redemption reserve	**73.0**	72.7	63.8	51.5	40.1
Reserve for share-based payments	**13.8**	6.7	n/a	n/a	n/a
Available-for-sale reserve	**5.8**	5.7	n/a	n/a	n/a
Cash flow hedging reserve	**22.5**	14.0	n/a	n/a	n/a
Profit and loss account	**1,476.5**	1,328.7	1,344.6	1,387.8	1,441.0
Total ordinary shareholders' equity	**1,901.1**	1,717.7	1,694.2	1,719.8	1,758.7
	58,982.0	50,083.8	48,424.4	41,248.6	39,210.2
Long term assurance liabilities to policyholders	**–**	–	–	–	230.3
Total equity and liabilities	**58,982.0**	50,083.8	48,424.4	41,248.6	39,440.5

Shareholder Information

Shareholder analysis as at 31 December 2005

	No. of holders*	Percentage of total holders	No. of shares	Percentage of ordinary share capital
Shareholding range:				
1 – 250	551,578	89.82	133,043,221	29.64
251 – 500	46,772	7.62	21,899,810	4.88
501 – 10,000	15,030	2.45	18,904,628	4.21
10,001 – 50,000	309	0.05	7,489,414	1.67
50,001 – 100,000	114	0.02	8,404,369	1.87
100,001 and over	275	0.04	259,141,089	57.73
	614,078	100.00	448,882,531	100.00

Classification of shareholders

Personal holders **	175.6m	39.1
Institutional holders	273.2m	60.9

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

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

Financial Calendar

Ex dividend date for final dividend	Wednesday 5 April 2006
Record date for final dividend	Friday 7 April 2006
Annual General Meeting	Tuesday 2 May 2006
Payment date for final dividend	Monday 8 May 2006
Provisional date for interim results to be announced	Friday 28 July 2006
Provisional ex dividend date for interim dividend	Wednesday 6 September 2006
Provisional record date for interim dividend	Friday 8 September 2006
Provisional payment date for interim dividend	Monday 9 October 2006
Provisional date for preliminary results 2006 to be announced	Wednesday 21 February 2007

Dividends

Interim dividend 2004	15.7p
Final dividend 2004	32.6p
Interim dividend 2005	16.8p
Proposed final dividend 2005	34.7p

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Published by Black Sun plc 020 7736 0011