"1999's results were strong but it's the future that matters and that's about nothing less than achieving a transformation in this business."

Halifax Group plc Annual Report & Accounts 1999

HALIFAX

“Our diversified businesses now contribute 35% of Group profits – we are five years ahead of plan in achieving a 50% balance with our core retail business.”

Contents

Halifax at a glance

The Halifax reports through five business sectors: Retail Operations, Consumer Credit, Personal Lines Insurance, Long Term Savings & Protection, and Treasury & Wholesale Banking. Retail Operations includes the Mortgages, Liquid Savings and Retail Banking businesses.

Retail Operations

Mortgages
We are the UK's largest provider of housing finance with an estimated 19% of outstanding mortgages. We offer a wide range of products for customers including fixed, capped and discounted variable rate mortgages.

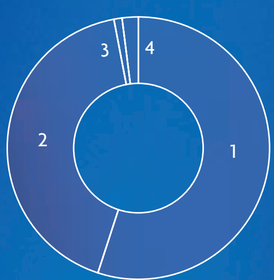
Liquid Savings
The Halifax is the market leader in UK savings with an estimated market share of 14%. Our products are designed to meet savers' requirements and can be accessed through our full range of distribution channels.

Retail Banking
We provide a range of transaction facilities, with cheque book and card-based accounts so that customers can choose a product to suit their needs.

Business Sector Profits	**£m**
Net interest income	1,979
Commissions, fees and other income	320
Operating expenses	(982)
Provisions	(52)
Profit before tax and exceptional items	1,265
1998 Profit before tax	1,226

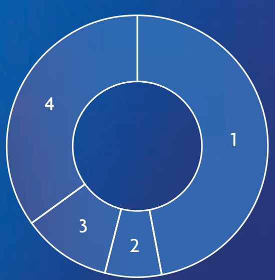
1999 Key Facts

Mortgage Sales £17.8bn



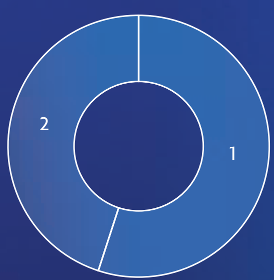
	%
1 Fixed and capped rate	55
2 Variable discount	42
3 Cashback	1
4 Other	2

Liquid Savings Balances £80.2bn



	%
1 'Gold' range	47
2 Fixed range	7
3 ISA & TESSA	11
4 Other	35

Retail Banking – Total Current Accounts 4.0m



	%
1 Halifax Current accounts	55
2 Cardcash accounts	45

Consumer Credit

We provide personal loans, both secured and unsecured, for a variety of uses. We reward the loyalty of our customers by offering discounts based on their existing relationships with us.

We also offer a choice of credit cards with different attributes and benefits to meet a growing range of customers.

Personal Lines Insurance

We arrange household, loan repayment, motor and travel insurance for our customers. We control all stages of the buying process, from product design through to claims handling and administration, but subcontract the management of underwriting risk to other companies.

Long Term Savings & Protection

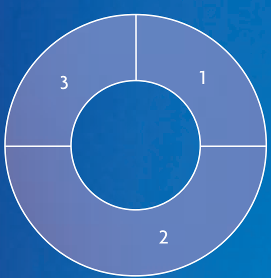
Bancassurance provides long term savings and protection products through our network of personal financial advisers and through telephone based delivery. Clerical Medical distributes through Independent Financial Advisers.

Treasury & Wholesale Banking

Treasury & Wholesale Banking supports the Group by managing liquidity, raising wholesale funds and contributing to the management of interest rate and currency risks. It also contributes to Group profitability through a range of financing and investment activities.

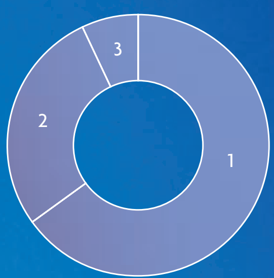
Consumer Credit £m	Personal Lines Insurance £m	Long Term Savings & Protection £m	Treasury & Wholesale Banking £m
174	–	4	235
29	226	257	9
(69)	(66)	(58)	(49)
(70)	–	–	(1)
64	160	203	194
41	148	160	135

Credit Balances £2.6bn



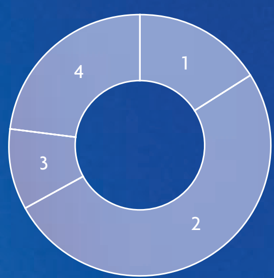
	%
1 Secured personal loans	25
2 Unsecured personal loans	50
3 Credit card balances	25

Number of Insurance Policies 2.5m



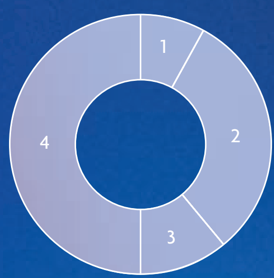
	%
1 Household	65
2 Loan Repayment	28
3 Other	7

Effective Premium Income £487m



	%
1 Clerical Medical Annual Premium	16
2 Clerical Medical Single Premium	51
3 Bancassurance Annual Premium	10
4 Bancassurance Single Premium	23

Treasury Instruments £38bn



	%
1 Treasury and other eligible bills	8
2 Loans	31
Debt Securities	
3 – public bodies	11
4 – other borrowers	50

We have to drive the performance of the existing business whilst investing in new channels.
We are transforming the Halifax by focusing on these priorities.

1

• Delivering outstanding sales performance
At the Halifax we believe customer service is about delivering total satisfaction to our customers wherever, whenever and however they touch our business. This approach is already producing sales growth.

2

• Staying ahead of the competition
Across our businesses we are constantly striving to beat the competition with our products and services as well as the way we deliver them. Our low cost base gives a definite competitive advantage.

3

• Diversification
With a customer base of more than 20m, there is considerable potential to extend the range of products purchased by our individual customers and reward long-standing relationships. Profits from diversified businesses now contribute 35% to Group Profits.

4

• Transforming the business
We are already committed to delivering total customer satisfaction today and in a rapidly changing business environment investment in new channels is meeting the needs of tomorrow's customers.

5

• Investing in the future
In today's intensely competitive marketplace no business can afford to stand still. At the Halifax we have the financial strength, the vision and the courage to prepare our business for the challenges of the future.

Dennis Stevenson Chairman

Chairman's Statement

"Record profits with rapid growth in our newer businesses."

I knew full well, when I took over as Chairman six months ago, that I was taking on the challenge of creating shareholder value in a mature market facing historically unprecedented competition. The main reason I accepted the job was a strong belief in the management team, in particular James Crosby, the Chief Executive, whom I have known for ten years.

I have not been disappointed. Our short term performance bears all the signs of a new management team producing the good and predictable results that we all want; record profits with rapid growth in our newer businesses delivering underlying earnings per share growth of over 12%. On the basis of these results the Board has been able to recommend a dividend of 24p, an increase of 19% over last year.

"We believe that consolidation is guilty until proved innocent."

"I am encouraged by the aggressive strategy we have adopted to increase shareholder value."

So far from being defensive, we see the new technologies as an opportunity to escape the restraints of a mature market. We are excited by the possibilities they create for taking the attack to the competition. And if in a modest way that means 'eating our own lunch' then so be it.

"........the pace of transformation we seek requires that we become venture capitalists in our own industry........"

Encouraging as are the short term results, I am even more encouraged by the aggressive – perhaps even contrarian – strategy that we have adopted to increase shareholder value.

First, the belief that consolidation is guilty until proved innocent; not that we would be so purist as to resist an opportunity to create shareholder value via a consolidating acquisition or merger, but the hard evidence is that they tend to remove value rather than to create it, and that the opportunity cost of diverting management from running the business is very high.

"The application of world class management to an industry not known for it........will always improve results."

Second, the application of world class management to an industry that is not known for it in the belief that however mature a sector, superior management will always improve results; hence the appointment of Andy Hornby at the age of 32 to lead all Halifax's retail activities, the move of Mike Ellis to Chief Operating Officer and above all the transformation of our reward systems so that all our colleagues' earnings are far more highly geared to results.

Third, the pace of transformation we seek requires that we become venture capitalists in our own industry; hence the investment in INTELLIGENT FINANCE – an ambitious attempt on the part of Jim Spowart and his team to take our market by storm at scale with products that rely not on cost per se but on superior performance created by the functionality of the new technology. That has been followed by esure, the recently announced general insurance internet business headed up by Peter Wood.

The Halifax has come a long way in a short space of time since Jon Foulds and Mike Blackburn undertook the massive task of merging with the Leeds and conversion to plc. Mike Blackburn was the inspiration behind much that we have achieved; and was helped all the way by Gren Folwell. They have all retired this year and will be sadly missed. So also will two Non-Executive Directors, Nigel Colne and Prue Leith.

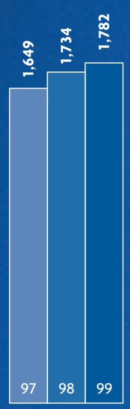
We are fortunate in our new Non-Executive Directors. Philip Yea (45), the former Finance Director of Diageo plc, now with the private equity firm Investcorp, joins us with a substantial background in finance and consumer marketing. Charles Dunstone (35), the founder of Carphone Warehouse, and Coline McConville (35), Chief Operating Officer at Clear Channel International, bring not only youth and business success but experience in precisely the areas of technology and media which we most need.

As I write my first Chairman's Statement, our share price along with the rest of the sector has been in sharp decline, not a situation we welcome since our fundamental aim is to increase shareholder value. I hope that all my fellow shareholders will be cheered by the fact that I have personally invested some £500,000 in Halifax shares not as a sentimental gesture of support but because I intend to ensure that we increase their value dramatically!

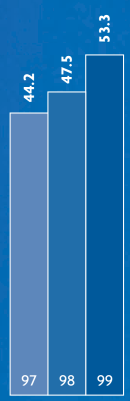
Corporate Highlights

Underlying earnings per share of 53.3p	up 12%
Full year dividend of 24p per share	up 19%
Profit before tax from diversified businesses of £621m	up 28%
Capital returned to shareholders	£1.5bn

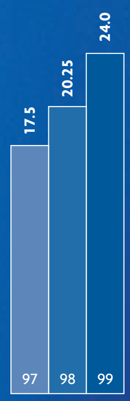
Underlying Profit Before Tax (£m)



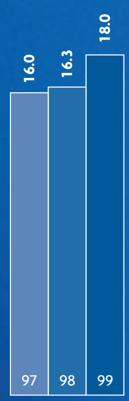
Underlying Earnings Per Share (p)



Dividends Per Share (p)



Return on Equity (%)



Chief Executive's Statement

James Crosby Chief Executive

> "1999's results were strong but it's the future that matters and that's about nothing less than achieving a transformation in this business and its prospects."

In a world of ever more intense competition and unprecedented technological advances, we have set ourselves two challenges. Firstly, through the application of superior management, to deliver significant year-on-year improvements in the performance of this business. Secondly, to demonstrate the vision and determination to invest heavily and of course successfully in using the new technologies to build a position of market leadership in the new channels. And the message from 1999's results is that we start from a very strong base.

All our businesses performed well. Indeed, it was profits growth in our traditional mortgage and savings businesses that underpinned the Group's performance. This reflected balance sheet growth coupled with an encouragingly robust performance on margins. Moreover, Birmingham Midshires made an encouraging first time

"The enduring power of the Halifax brand was best illustrated by the remarkable fact that in 1999, 32% of UK savers' first time investments in cash ISAs were captured by the Halifax."

contribution with profits which exceeded expectations. Sales of mortgages rose by 25% and a greater focus on customer retention meant that net mortgage lending doubled to £2.4bn, a market share of 6%. But the enduring power of the Halifax brand was best illustrated by our sale of one million ISAs; more particularly the remarkable fact that in 1999, 32% of UK savers' first time investments in cash ISAs were captured by the Halifax, a success which played a key part in retaining our 14% share of the nation's liquid savings; easily the market leading position.

"The robust performance of our traditional business in no way diminishes our determination to deliver strong growth in the profits generated by our diversified businesses."

The robust performance of our traditional business in no way diminishes our determination to deliver strong growth in the profits generated by our diversified businesses. And in every one of these businesses 1999 was a record year. In aggregate they produced £621m profit for our shareholders, 28% greater than in the previous year.

At the time of our conversion to a public company, less than three years ago, we set ourselves the target of achieving a 50/50 balance in our profits by the year 2007. The progress we have made since, and most of all in 1999 when the diversified businesses' contribution leapt from 28% to 35%, has now led us to set an altogether tougher target. We must now achieve that balance by 2002.

Like any retailer, strong sales growth comes both from acquiring new customers and by deepening the relationship we have with all customers. Last year we set ourselves the ambitious goal of gaining five million new customer relationships amongst our target segments over five years, and with over 900,000 such customers in 1999 we are well on track. And the fact that existing customers are also acquiring additional products from the Halifax is best illustrated by the sales growth that is driving progress in our diversified businesses. Necessarily, of course, this has called for genuine responses to customer needs and real product innovation; for example, in unsecured lending, where a specific offer we made to existing Halifax customers helped sales advance 42%, or in mortgage repayment insurance where a unique and innovative product helped to push sales on by 35%. But the truth is that sales growth was strong in almost all lines of business that lie behind the diversified businesses.

Introducers and intermediaries are a key source of business to the Group and here too sales grew strongly. In this channel, the strength of our mortgage franchise was underlined by a 29% growth in sales and a number of important industry awards including Money Marketing's "Best Residential Mortgage Loan Provider".

And as the UK's largest life office dedicated to intermediaries, once again Clerical Medical showed strong growth in sales. Since acquisition this business has now doubled both sales and profits. In fact, 1999 showed that it is performing outstandingly well by any measure; most notably through its success in securing the coveted Five Star Award for Service from IFAs and a particularly strong year for investment performance with all key funds delighting clients with top quartile returns.

Given such performance and the strength of its balance sheet, Clerical Medical is well positioned to take advantage of the undoubted growth potential of the market for Long Term Savings products. And Clerical Medical is committed to making the investment necessary to enable it to compete aggressively in stakeholder pensions where it will spearhead the Group's stated ambition to be one of the market leaders.

Halifax's position as one of only six banks in the world rated "A" for Financial Strength by Moody's, together with the sheer size of our retail balance sheet, creates significant advantage for our Treasury experts. And 1999 was an outstanding year for profits growth, stemmed primarily from traditional money market activities and the effective management of the interest rate risks arising from our mortgage and savings products. But we also made significant progress in investing in the future of our structured finance business which completed a number of important transactions. Everywhere in Treasury we are benefiting from having recruited so many first-rate professionals in recent years.

The implementation of the Group's capital management programme called for significant debt issuance throughout the year and in December Halifax became the first UK financial group to issue innovative tier 1 preferred securities; capital raised with the express purpose of investing in the continued rapid growth of Clerical Medical's business.

"........underlying costs showed zero growth........even then, we did not compromise on the need to invest heavily in the future of this business."

At the start of the year we set ourselves the target of containing the underlying growth in costs (i.e. excluding acquisitions) to 3%. In the event, a range of initiatives ensured that underlying costs showed zero growth, a performance which reflected an across-the-board improvement of 6% in operating efficiency. Even then, we did not compromise on the need to invest heavily in the future of this business.

Our investment in Direct and Online activities will grow very substantially in 2000. Otherwise, however, and for the second year running, target costs will show zero growth as our commitment to ever greater operating efficiency intensifies.

Improved business performance has not been achieved at the expense of business quality. Indeed, key measures in our secured lending business showed improvement. In particular, the number of mortgages in arrears fell significantly and indeed our performance on arrears continued to outstrip that of the industry as a whole. Our Consumer Credit business saw necessary but real improvements in front-end quality control as well as performance on collections. Nonetheless, this area still saw very significant growth in provisions; albeit primarily a reflection of a 27% growth in outstanding loans coupled with a more prudent provisioning policy. This is one area where we are particularly keen to see improved performance in 2000.

"Our commitment to creating growth through new channels for the benefit of our customers and shareholders is second to none but here too the application of superior and proven management is the key to success."

Our commitment to creating growth through new channels for the benefit of our customers and shareholders is second to none but here too the application of superior and proven management is the key to success. And here our twin track strategy is unique. Firstly, we are in the midst of a rapid expansion of products and services designed specifically for Halifax customers and made available to them through Halifax Direct and Halifax Online. Secondly, we are establishing a series of distinctly branded new channels which we will use to win over competitors' customers, often in the process undermining the economics of many of their traditional business lines. Whether Halifax branded or not, our new channel products and services will in time be accessible via the Internet, digital TV or mobile phone; the customer will decide.

"INTELLIGENT FINANCE relies on the uniqueness of its products and services together with the very high quality of fulfilment it will deliver. We have the management team to deliver both."

The 100,000 customers attracted to Halifax Direct's new Online Banking and Share dealing services in just four months demonstrate the sheer scale of the opportunity open to the Halifax in these new channels. Indeed, we have already moved to extend the product range to include Web Saver, a new online savings account with ATM access. This will be followed later in the year with online credit card and insurance products for personal customers as well as online products for corporate connections, for the first time realising the potential of E-Commerce to facilitate business-to-business transactions.

Only a few months ago we announced plans to launch Greenfield.co; as it was then known. We are now in the final phase of development before its launch in the summer of this year. Distinctly branded, this business will offer its customers direct and online services supported by ATM access. Right from launch, it will offer a full range of products; current accounts, savings, mortgages, personal loans and credit cards. Uniquely, these will be presented to the customer in ways that genuinely exploit the potential of the online channel, a proposition which is directly reflected in the business's new brand; INTELLIGENT FINANCE. Our confidence in INTELLIGENT FINANCE is reflected in the scale of our commitment; the required investment will reach £100m and our plans call for 1,100 staff and over £1bn of capital backing. Jim Spowart who joined us to head up INTELLIGENT FINANCE has an unparalleled track record of success in financial services start-ups. Almost overnight he has assembled a very experienced team. INTELLIGENT FINANCE relies on the uniqueness of its products and services together with the very high quality of fulfilment it will deliver. We have the management team to deliver both. We will therefore not need to rely on pricing that defies commercial logic.

The UK is already the most sophisticated market in the world for the direct offer of personal lines products and there can be little doubt that demand here for online insurance services is set to grow very rapidly. Here too, we have chosen to establish a new business, whose brand esure is the first internet generic insurance brand in the UK. Peter Wood has an outstanding track record and we expect esure to achieve critical mass very quickly and ultimately to become one of the largest and best performing motor insurers.

"Peter Wood has an outstanding track record and we expect esure.........to become one of the largest and best performing motor insurers."

New technology gives us the opportunity to develop new products and services for the advantage of our customers and shareholders. Just as the advent of electric power did not lead to world domination by electricity utilities, nor will today's garage internet start-ups become industry leaders. However, we do not underestimate the challenge to each and every one of the established order to convert the opportunity to a new era of market leadership. We have the commitment, the determination and the proven capability to grasp the opportunity. We face the future with great confidence and a sense of real excitement.

Business Review

Business Sector Analysis

The analysis of results by business sector is shown below together with that for 1998 by way of comparison.

Business Sector Profit and Loss Account for the Year Ended 31 December 1999

	Retail Operations £m	Consumer Credit £m	Personal Lines Insurance £m	Long Term Savings & Protection £m	Treasury & Wholesale Banking £m	Group Items £m	Total £m
Net Interest income	1,979	174	–	4	235	62	2,454
Commissions, fees and other income	320	30	226	257	2	15	850
Total income	**2,299**	**204**	**226**	**261**	**237**	**77**	**3,304**
Operating expenses	(982)	(69)	(66)	(58)	(49)	(166)	(1,390)
Share of operating profit in joint ventures	–	(1)	–	–	7	–	6
Goodwill amortisation	–	–	–	–	–	(15)	(15)
Provisions	(52)	(70)	–	–	(1)	(19)	(142)
Profit before tax and exceptional items	**1,265**	**64**	**160**	**203**	**194**	**(123)**	**1,763**

Business Sector Profit and Loss Account for the Year Ended 31 December 1998

	Retail Operations £m	Consumer Credit £m	Personal Lines Insurance £m	Long Term Savings & Protection £m	Treasury & Wholesale Banking £m	Group Items £m	Total £m
Net Interest income	1,887	122	–	7	168	182	2,366
Commissions, fees and other income	320	20	215	210	4	23	792
Total income	**2,207**	**142**	**215**	**217**	**172**	**205**	**3,158**
Operating expenses	(920)	(66)	(67)	(57)	(37)	(181)	(1,328)
Provisions	(61)	(35)	–	–	–	(29)	(125)
Profit before tax	**1,226**	**41**	**148**	**160**	**135**	**(5)**	**1,705**

In order to analyse net interest income by business sector, internal funds transfer pricing is applied to the average funding or liquidity gap in each sector. Interest rates used for transfer pricing have been determined to reduce interest rate risk in retail areas. The level of central funding takes account of the capital utilised by each business sector, calculated on the basis of regulatory requirements.

Costs have been assigned to each business sector based on resources consumed.

The analysis of results by business sector has been revised to reflect changes to capital credits and cost allocations. Full details are given on page 80.

Delivering outstanding sales performance

At the Halifax we believe customer service is about delivering total satisfaction to our customers wherever, whenever and however they touch our business. This approach is already producing sales growth.

- **In 1999 we introduced a new, more customer-focused management structure into the retail network while at the same time integrating the management of our retail and estate agency outlets.**
- **We also introduced a specialist Mortgage Advisory Service during the year with more than 1,500 qualified staff focusing exclusively on our customers' mortgage needs.**
- **The sophisticated Halifax Customer Database allows precision-targeting of products and supports front-line staff by providing an instant and up-to-date view of a customer's complete relationship with the Halifax through our Customer Management System.**
- **Opening new channels for business is part of service delivery and this year we responded quickly to consumer demand for internet-based services with the launch of Halifax Online in October 1999.**

Total customer satisfaction demands a complete service package. That means world-class products and services that offer real value. It means a choice of delivery channels to suit the differing needs of our customers. And it means making good use of the latest technology to drive down costs and improve our responsiveness.

Above all, however, our ability to consistently deliver outstanding service depends on our staff. Today the Halifax has 37,000 well-trained and highly motivated staff who do just that.

Staff training and development is a major investment area for the Halifax and increased emphasis on the customer has been built into all our training activities. During 1999 we improved our 'Delivering Customer Focus' programme for our Retail Network Staff and also introduced the programme into our corporate sites.

We are also developing a stronger performance culture where rewards are increasingly linked to how well our staff service our customers. From this year staff will have the opportunity to earn performance-related bonuses, some of which can be paid in shares.

Improved service and a better understanding of individual customers have been our focus and we are confident they will generate improved sales as we move forward.

The latest technology gives our staff up-to-the-minute information at their fingertips.

Working with customers to find the right solution

When Joan found her dream home in the Kent countryside she needed to find the right mortgage quickly to secure the purchase. So she made an appointment to see one of our specialist Mortgage Advisers. The Halifax offers a wide range of mortgage products and our experienced staff aim to help customers decide which one is right for them. For Joan that turned out to be a mix and match solution which combined a fixed rate for the first £20,000 of her loan and a discounted rate for the remainder. Having discussed all the options in detail Joan was comfortable that she had made the right decision and we were able to give her a final decision on her mortgage application in just 15 minutes.

Retail Operations	1999 £m	1998 £m
Net interest income	**1,979**	1,887
Commissions, fees and other income	**320**	320
	2,299	2,207
Operating expenses	**(982)**	(920)
Provisions	**(52)**	(61)
Profit before tax	**1,265**	1,226

Retail Operations represents the traditional core of the business, embracing Mortgages, Liquid Savings and Retail Banking. Profit before tax for this sector was £1,265m, an increase of 3% on the previous year, a result that again demonstrates the underlying strength of the core Halifax franchise. Underlying profits (excluding Birmingham Midshires) also increased in the second half by 4% fuelled by asset driven income growth, effective cost control and significant asset quality improvements.

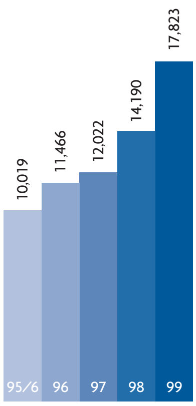
Margins were particularly robust. Before taking account of Birmingham Midshires, the Retail Operations spread and margin were just 2 and 3 basis points respectively lower than a year ago. Birmingham Midshires has operated with a lower margin than the rest of the Halifax Group. Its inclusion for 8 months necessarily distorts the comparison of margins. Even including Birmingham Midshires, the spread and margin declined by just 7 and 8 basis points respectively.

Margins	1999 £m	1999* £m	1998 £m
Net interest income	**1,878**	1,979	1,887
Average balances:			
Interest earning assets	**81,531**	87,816	81,129
Interest bearing liabilities	**77,522**	81,985	77,586
Average rates:	**%**	%	%
Gross yield on interest earning assets	**6.69**	6.68	7.95
Cost of interest bearing liabilities	**4.62**	4.66	5.86
Interest spread	**2.07**	2.02	2.09
Net interest margin	**2.30**	2.25	2.33

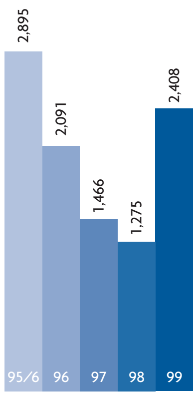
*Includes Birmingham Midshires

Our staff are constantly at hand to offer customers help and advice.

Gross Mortgage Lending (£m)



Net Mortgage Lending (£m)



Mortgages

In a market that has shown significant growth, Halifax new mortgage sales were a record £17.8bn (1998: £14.2bn). The estimated Group share of gross mortgage lending was 16% in 1999 (1998: 16%). Greater focus on retention meant that net mortgage lending doubled the 1998 result, growing to £2.4bn, an estimated market share of 6%. Taken together, the Halifax net lending and acquisition of Birmingham Midshires mortgage assets resulted in a growth in balances of £9.6bn, up over 11%. The year ended with a pipeline of mortgages of £2.2bn, well ahead of the position at 1998 (£1.9bn), and the largest year end figure for ten years.

The pace of growth in retail mortgage sales increased rapidly, up £1.6bn to £8.8bn. The growth in telephone sales was particularly strong, accounting for 7% of such sales in 1999 (1998: 2%). The Halifax continued to perform well in intermediary channels where sales grew by 29% and our position as number one lender in the UK was recognised by Money Marketing as 'Best Residential Mortgage Loan Provider' and by Financial Adviser as 'Provider of the Year – Gold Mortgage Award'.

Continued development of a broad range of mortgage products to meet the needs of a wide variety of customers, underpinned by strong local presence and quality service, helped the Halifax maintain its position as the UK's largest mortgage lender. And in 1999 we became the first major lender to introduce fixed rate mortgages without repayment fees. We also responded to customers' needs by introducing our Extra Choice mortgage – ideal for customers looking for a fully flexible mortgage, offering options such as repayment holidays.

1999 saw further investment in electronic delivery channels. Halifax customers and intermediaries can now browse our full range of mortgage products online, obtain quotations on individual products, apply for a Mortgage Promise or even make a full mortgage application. We are well positioned to take advantage of this channel as customer and business usage increases.

Investment in customer retention continued during 1999 with the development of Mortgage Rewards – a range of products for existing mortgage customers that rewards them for the business they do with the Halifax. Sales to existing mortgage customers exceeded £3bn in 1999 and we plan to increase this level of business in 2000. The Extra Choice mortgage – a mortgage with flexible features developed during 1999 – sits at the heart of the Mortgage Rewards range. Extra Choice will be further developed during 2000 with the addition of a daily interest facility.

All measures of loan performance strengthened. The quality of new lending remained excellent and indeed improved. Business above 90% loan-to-value ratio accounted for just 16% of loans (1998: 21%). The number of properties in possession fell by 33% to only 1,694. The number of accounts 3 months or more in arrears fell to 1.52% from 1.88% of the book, while the number of accounts more than 12 months in arrears fell to 0.19% from 0.22% (1998 figures have been restated to include Birmingham Midshires). Once again, Halifax's performance on arrears outstripped the industry averages as measured by the Council of Mortgage Lenders.

Staying ahead of the competition

Across our businesses we are constantly striving to beat the competition with our products and services as well as the way we deliver them. Our low cost base gives a definite competitive advantage.

- **In 1999 Clerical Medical, the Halifax brand for Independent Financial Advisers (IFAs), won the Financial Adviser magazine 5-star award – the highest level – for service to IFAs in both the Life and Pensions, and Investment categories.**
- **The instant success of the Halifax internet banking and sharedealing services reflects their ease of use and the improved functionality both systems offer over our competitors.**
- **Unlike many alternatives in the market, our innovative mortgage loan repayments insurance product launched in 1999 has minimal exclusions and has contributed to an increase in sales of repayment products of nearly 35%.**
- **We secured an incredible 32% share of the cash ISA market following the launch of our ISA range. ISAs represent a gateway product through which we can introduce customers to other products and services.**

The Halifax is the UK's largest liquid savings and mortgage provider. We have established this market-leading position by offering value-for-money products, with the features and benefits that answer our customers' specific needs, and backing them with an unrivalled service proposition.

We apply the same approach right across our businesses. For example, in retail banking our tailored accounts mean we can offer banking service across all sections of the UK population including the under 18s, who cannot be offered credit facilities. In 1999 total numbers of Current Accounts rose to 4m.

The quality of financial advice offered by our staff is another important source of competitive advantage. Customers can get a complete financial health check at any Halifax branch and 1999 saw the first full year of our dedicated telephone advice service from Halifax Financial Services (HFS).

Clerical Medical, our brand for Independent Financial Advisers (IFAs) has now doubled both sales and profits since its acquisition by Halifax. Its Customer Relationship Management Programme, through which staff develop in-depth knowledge of IFA customers and establish mutually beneficial relationships, is an integral part of its plan for continued growth and further improvements in financial, sales and operating performance.

Delivering good advice means listening to our customers.

In partnership with IFAs

Steve is a Customer Relationship Manager for six of Clerical Medical's larger IFA accounts. As such, he is responsible for helping to implement Clerical Medical's new Customer Relationship Management programme which aims to develop a partnership approach with IFAs. That means frequent face-to-face contact with all his IFA accounts and the development of tailored value-added services. And it's paying off. Following the introduction of Customer Relationship Management at the beginning of 1999 – backed by Clerical Medical's strong product range and excellent investment performance – our market share with some IFAs has increased by as much as 30% and, for a growing number, we are now among their largest product providers.

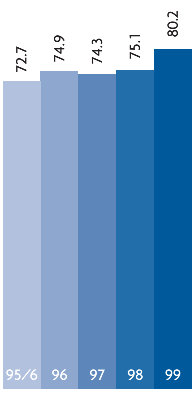
Mortgage Arrears

	Cases (000s)	Total Mortgages (%)	1999 CML average (%)
3-6 months	**22.1**	**0.88**	**0.88**
6-12 months	**11.5**	**0.45**	**0.52**
Over 12 months	**4.8**	**0.19**	**0.27**
Total	**38.4**	**1.52**	**1.67**

Source of market information – Council of Mortgage Lenders (CML)

Liquid Savings

Retail Deposit Balances (£bn)



In 1999 we made real progress in our savings strategy based on offering customers value for the relationship they have with the Halifax. We are committed to rewarding our customers for the way they do business with us and our savings accounts pay interest at levels relative to balances, activity and the cost of maintaining the type of account.

In a market seeing strong competition, Halifax total liquid savings balances increased by £5.1bn to £80.2bn, representing 14% of the total UK Household Sector Liquid Assets, strengthening our market leading position.

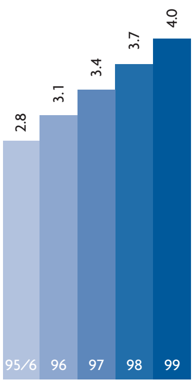
1999 saw three major product initiatives as part of this – the introduction of our Cash ISA, the launch of Halifax Saver Reward and the removal of Solid Gold. Halifax ISA Saver has been a remarkable success. By offering a simple product through our High Street network we have achieved a market leading position in a key gateway product with almost 800,000 accounts, representing a market share in balances of 32% of the Cash ISA market. In the first 9 months we sold almost twice as many Cash ISAs as we did TESSAs in their first year of existence.

The June launch of Halifax Saver Reward was a major step forward in giving customers the choice of how to run their savings and to influence the return that they receive. The account combines instant access to funds with flexibility and is positioned more as a savings than a spending account. Balances in Halifax Saver Reward grew to £8.5bn by the end of the year. As the Solid Gold account no longer provided the most appropriate solution to its customers' changing needs, it was withdrawn. Most former Solid Gold customers are now enjoying a better return on their Halifax savings, or better access if that is their preference.

The Halifax interest rate guarantees, which now protect Instant Saver, Saver Reward, ISA Saver and TESSA2 all give customers confidence that they are receiving competitive returns. As part of our Savings Promise, we have sent around 4 million mailings to customers telling them about our current range of savings products and highlighting opportunities for customers to improve their returns with the Halifax.

Our wide range of cards offers customers quick and convenient ways to access their money.

Number of Current Accounts (m)

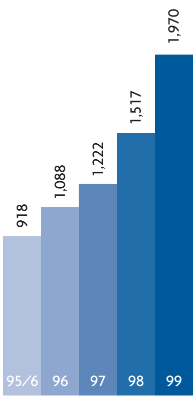


Retail Banking

During 1999, we continued to target high quality, regularly funded primary accounts, with a key focus on direct distribution. Over 1.1m Halifax Current Account holders are now registered for the Halifax Direct telephone banking service. In October, Halifax Online was launched, providing internet access to the Halifax Current Account. This has proved very popular attracting almost 80,000 customers in only 4 months. Total numbers of Halifax Current Accounts rose to 2.2m at the end of the year, a rise of over 6%.

We also launched a tailored account for customers who require a simple product for everyday needs. This offers a cheque book and Solo card. Solo gives online authorisation and point of sale payment with thousands of retailers throughout the UK, within the balance available in the customer's account. 265,000 Cardcash accounts were opened in the year with the total number rising to 1.8m at the end of 1999, 5% more than at the previous year end. The Solo facility and Cardcash account offer banking services across all sections of the UK population, particularly important given the Government's determination to reduce social exclusion in financial services.

Personal Loan Balances (£m)



Consumer Credit

	1999 £m	1998 £m
Net interest income	**174**	122
Commissions, fees and other income	**30**	20
	204	142
Operating expenses	**(69)**	(66)
Share of operating profit in joint ventures	**(1)**	–
Provisions	**(70)**	(35)
Profit before tax	**64**	41

Consumer Credit covers the secured and unsecured personal loans and credit card businesses. Profit before tax leapt 56% to £64m. The twin objectives for this area continue to be growth in business levels while improving the quality of loans written. Net interest income growth, up 43% to £174m, resulted from the significant growth in balances but despite the rapid growth in all product sales, operating expense growth was held below 5%.

The credit quality of loans written and arrears management performance have previously been targeted for significant improvement. These issues are being gripped and we are seeing encouraging indications of performance improvement and future growth in provisions is expected to track lending balances more closely.

Total sales of unsecured personal loans rose by almost 42% to £1.2bn during the year, with unsecured loan balances rising by 28% to £1.3bn, outstripping market growth of 20%. Our success was built on cross-selling by offering our customers competitive rates based on relationship pricing.

Sales of secured personal loans increased by 23% to £329m during the year with balances rising by 34% to £646m. Investment in image and workflow technology to improve customer service levels, combined with attractive, flexible products, means that we are confident of further strong growth in this area.

The number of credit cards in issue increased by 15% to over 1.2m, and sales of new cards increased by 10%, with balances up 19% to £653m. These increases were achieved by offering a wide range of cards with extensive appeal.

Diversification

With a customer base of more than 20m, there is considerable potential to extend the range of products purchased by our individual customers and reward longstanding relationships. Profits from diversified businesses now contribute 35% to Group profits.

- **During 1999 we introduced Mortgage Rewards, a range of products for existing mortgage customers that rewards them for the business they do with us.**
- **We saw a substantial increase in unsecured loan business following the introduction of initiatives to reward loyalty with low interest rates. More Halifax customers now have a personal loan with the Halifax than with any other bank or building society.**
- **The Halifax offers a wide range of insurance products including loan repayment, motor and travel.**

Existing Halifax customers offer enormous sales potential for the Group as a whole and, with our comprehensive product range, we are in a strong position to become the complete financial services provider for a growing number of consumers.

During 1999 we therefore continued to invest in customer retention with the development of loyalty incentives across our product range. Benefits take the form of attractive discounts on other products, and straightforward rewards such as holiday discounts and loyalty bonuses on long-term investments. We are promoting the message that the more our customers do business with us, the more they will benefit.

But loyalty incentives cannot work unless we have the right products and our offering in each business area is constantly under review to ensure it delivers the value, flexibility and ease of access our customers demand.

At the Halifax customer satisfaction equals job satisfaction.

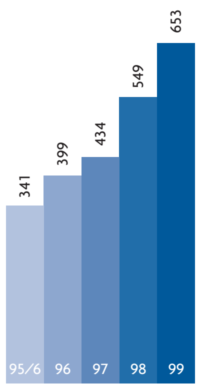
Our extensive range of products offers customers additional benefits

Jackie and Sue from Manchester both saved for this first-time ski-ing holiday in the French Alps with a Halifax Monthly Saver Account. This account offers high interest, plus a bonus, and the opportunity to make one withdrawal a year without loss of either benefit. So it's a great way to save for a one-off expense like a winter holiday. They were also able to obtain their travel insurance and travellers cheques through the Halifax. And because we value the existing relationships we have with our customers, as regular Halifax savers, both women were also able to take advantage of a 10% discount on their well-earned break – just one of our loyalty rewards.

While the standard Halifax Visa card is aimed primarily at those obtaining a credit card for the first time, we have continued to market the Halifax Gold MasterCard and the Visa Balance Card by direct mail to selected customers. Visa Balance offers a lower interest rate but with no interest free period and is aimed at those who intend to borrow on their card. The Gold Card offers a range of added benefits and an attractive interest rate on outstanding balances and does not incur an annual fee.

The additional steps taken to improve the quality of the credit card book by significantly improving productivity within our Collections area are having a positive impact. We have also seen a clear improvement in the quality of accounts opened.

Credit Card Balances (£m)



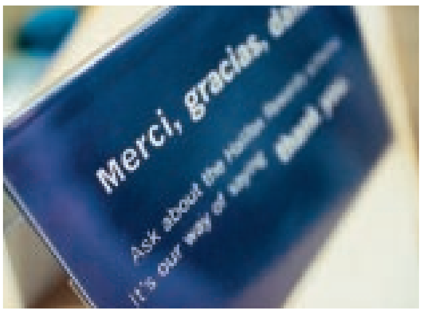
Halifax Cetelem Credit Ltd

Halifax Cetelem Credit Ltd, our 50/50 joint venture with Paris-based Cetelem SA, was launched in September, located in Wallington, Surrey, initially employing around 50 people and is operating on schedule. This business will meet the credit requirements of some applicants for Halifax personal loans, but its main aim is to be a major player in the UK point of sale retail credit market within 3 years.

Personal Lines Insurance	1999 £m	1998 £m
Commissions, fees and other income	**226**	215
Operating expenses	**(66)**	(67)
Profit before tax	**160**	148

Income has increased to £226m reflecting the introduction of innovative products and despite the impact of highly competitive pricing. Operating expenses have been reduced to £66m. As a result profit before tax increased by 8% to £160m.

New rating structures for household insurance have improved business retention and coupled with the launch of a new direct service enabled sales of new policies to increase by over 20%. The introduction of a unique mortgage repayment insurance product prompted a 35% increase in sales of repayment insurance products. Motor insurance enjoyed another year of strong growth, with sales ahead by 34%. Such sales success led to an increase of 11% in total personal lines policies in-force, reaching almost 2.5m. Every line of business showed growth in the in-force book; household up 6%, repayment insurance up 15%, motor up 77% and travel up 39%.



Just one of the many ways
we like to say 'thank you'.

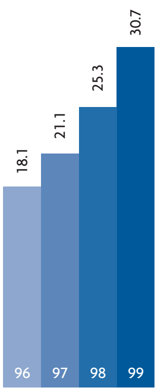
Long Term Savings & Protection

	1999 £m	1998 £m
Net interest income	**4**	7
Commissions, fees and other income	**257**	210
	261	217
Operating expenses	**(58)**	(57)
Profit before tax	**203**	160

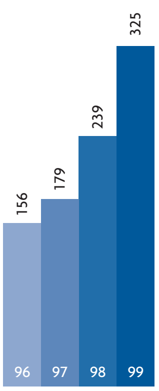
The profit before tax includes the contribution of Clerical Medical and Bancassurance as follows:

	1999 £m	1998 £m
Clerical Medical	**121**	100
Bancassurance	**82**	60
Total	**203**	160

Group Funds Under Management (£bn)



CM Effective Premiums (£m)



Clerical Medical

1999 was a year of further substantial improvement in financial, sales and operating performance for Clerical Medical. Despite intense competition and pressure on margins, tight cost control coupled with strong sales enabled Clerical Medical to produce profits 21% higher than in 1998.

Overall, sales grew by 36%. In the UK, retail sales through Independent Financial Advisers grew by 32% in terms of equivalent annualised premiums, life business was up 54%, group pensions rose by 36%, and growth of 2% was achieved in the difficult individual pensions market. UK sales of offshore products grew by 34%. In spite of the planned withdrawal during the year from Africa and the Middle East, overseas sales rose by 50% to £76m equivalent annual premium. 71% of international sales were from Europe, with a new branch in Maastricht and an insurance subsidiary in Luxembourg now established to underpin further European growth.

Clerical Medical won the coveted five star award in the annual Financial Adviser service awards, continuing the rapid improvement from just two stars in 1996. Service is now a recognised strength, contributing to the strong sales growth during the year. Clerical Medical has continued to invest heavily in technology, recognising the profound effect it will have on its market. And, whilst demand for face-to-face advice from sophisticated and corporate clients will continue to grow, e-commerce will become increasingly important for the relationship between Clerical Medical and IFAs. Investment in technology will also be key to reducing costs to a level where stakeholder pensions will be written profitably. All Clerical Medical's key retail and wholesale funds produced top quartile investment performances.

Clerical Medical remains financially very strong with Standard & Poor's reaffirming its 'AA' rating during 1999. In the second half of the year, Clerical Medical raised £147m of undated subordinated debt, with Halifax injecting £500m of new share capital to support future growth.

Excellent investment performance, a strong balance sheet and a reputation for high quality service all point to strong growth prospects.

Transforming the business

We are already committed to delivering total customer satisfaction today and in a rapidly changing business environment investment in new channels is meeting the needs of tomorrow's customers.

- **The huge success of Halifax Direct, with calls up almost 50% in 1999 over the previous year, underlines the importance of offering a choice of delivery mechanisms which reflect our customers' particular needs. We announced a further £50m of investment for Halifax Direct last year.**
- **Halifax customers and intermediaries can now browse the full range of Halifax mortgage products, obtain quotations on individual products, apply for a Mortgage Promise or even make a full mortgage application online.**
- **Investment in our growing Treasury & Wholesale Banking operation has improved the balance sheet as well as facilitating the development of highly competitive retail products. In 1999 the Halifax made its euro debut with our first subordinated issue in the capital markets outside sterling.**
- **The successful launch of Halifax Online in 1999 is the start of a much larger and increasingly interactive internet presence.**

Distribution capability is set to be a major, if not the major, source of competitive advantage for financial service providers in the 21st century.

We now have the right size retail network to meet the needs of consumers who require a branch service. We also have large call centre capability, with plans to double capacity by 2003, and a rapidly expanding online business – during 1999 we invested in providing electronic access to a growing number of products.

Together these separate delivery channels offer increased customer choice while at the same time exerting a positive pressure on our cost base. This in turn enables the Halifax to market increasingly competitively priced products.

We believe we are developing the right staff, the right products and the right delivery channels to meet the challenges of the future. However, we are also aware that the business environment is constantly evolving as new technology comes on stream and consumers' requirements shift. It's an ongoing process but with fully upgradeable technology and a workforce that is dedicated to responding to customers' needs, we have the agility to take advantage of every new opportunity.

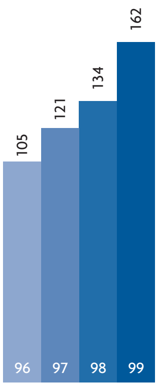
Customers receive the same high standards of service however they choose to contact us.

Staying in tune with customers' changing needs

Gill and her husband have a Halifax mortgage, and manage their family finances through a regularly funded Halifax Current Account and a Halifax Premium Savings Direct account. But with two small children time is at a premium and it's not always possible for Gill to make it to her local branch. Halifax Direct is the perfect solution. It allows Gill to keep track of the family finances by telephone – including account transfers and bill payments – any time of the day or night from the comfort of her own home, and even when she's on the move with her mobile. It's not just our products and services that reflect our customers' lifestyles. We're in the business of providing the delivery mechanisms that suit them as well.

Bancassurance

Bancassurance Effective Premiums (£m)



Bancassurance sales grew by 21% while profits leapt by 37%. Substantial success was achieved in the final Personal Equity Plan (PEP) campaign. Following the launch of the equity Individual Savings Accounts (ISAs) we ended the year with over 200,000 plans. Even so, particularly in the first half, sales were constrained by difficulty in retaining highly trained advisers in an increasingly competitive labour market. However, throughout the year we achieved higher productivity and latterly the retention rate for financial advisers has improved. 1999 saw the first full year of our dedicated telephone advice service. With the ability to provide advice to customers in the comfort of their own homes it has been highly popular with just under 40% of mortgage customers choosing to use this service.

Treasury & Wholesale Banking

	1999 £m	1998 £m
Net interest income	**235**	168
Commissions, fees and other income	**2**	4
	237	172
Operating expenses	**(49)**	(37)
Share of operating profit in joint ventures	**7**	–
Provisions	**(1)**	–
Profit before tax	**194**	135

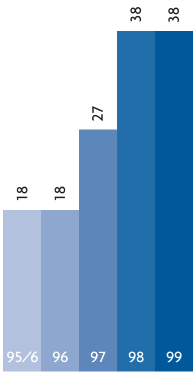
Halifax's treasury function was renamed Treasury & Wholesale Banking during 1999 to better reflect the broader range of the Division's activities within the wholesale markets.

Net interest income increased by 40% to £235m, reflecting significant improvements in banking book performance in terms of both asset growth and returns. Planned investment in infrastructure and people led to an increase in operating expenses from £37m to £49m. As a result, profit before tax increased by 44% to £194m.

Trading conditions in the world's main money and bond markets remained volatile over the year. The pace of recovery from 1998's emerging markets crisis caught financial markets by surprise. The stronger than expected recovery in global growth and the ensuing shift in interest rate expectations led to a rise in money and bond market yields throughout much of 1999. The resilience of growth prompted rises in interest rates during the second half of the year in the United Kingdom, the United States and the newly formed euro area as the focus of policy makers' attention moved away from the threat of global recession to the perceived threat of inflation.

Our extensive product range offers customers choice and flexibility.

Treasury Instruments (£bn)



The Division continues to maintain a high quality credit portfolio and has further strengthened staffing and procedures to ensure effective review of steadily increased exposures. In respect of all these areas, our priority remains that of ensuring that the development of risk management and infrastructure consistently meets the needs of our developing business.

During the year Halifax maintained its prominent position in sterling money markets whilst expanding the range of currencies and products. In particular, the development of the business was focused on establishing a substantially larger presence in the euro and further diversification in the sale and repurchase markets; together with meeting the increasingly sophisticated and growing needs of the Group and the lending businesses within the Division.

One of the key roles fulfilled by Treasury & Wholesale Banking is the management of the market risk generated from the Group's retail activities and to facilitate retail product development, for example the penalty-free fixed rate mortgage product launched last summer. The business has also contributed to new lending by way of providing tailored hedging solutions to other Group businesses.

Debt issuance during 1999 led to a very active year for Halifax in the capital markets, including a number of landmark bank capital transactions. In March, the bank launched its first subordinated debt issue outside the sterling market, also marking its debut in euros. A 10-year deal for euro 650m was well received by the European investor base, and was followed soon after with a 10 year (callable after 5 years) US dollar 500m floating rate note. In December, Halifax became the first UK financial group to issue innovative tier 1 qualifying preferred securities via two perpetual issues: sterling 245m (callable after 32 years) and euro 415m (callable after 12 years). The bank also continued to be a frequent issuer of medium-term debt through a number of public issues in sterling and Swiss francs and privately placed issuance under its euro 10bn euronote programme.

Structured Finance continued its growth during 1999. Asset Finance had an active year, securing new business in excess of £1.2bn. Housing Finance commitments now exceed £2bn which includes the transfer of ownership of housing stock to Registered Social Landlords. Project Finance structures and arranges finance for UK PFI/PPP projects. Commercial Property business provides loans to active large scale investors in retail and industrial office property.

The development of the Division will continue throughout 2000 with profitability, return on capital and risk management remaining of highest priority.

Investing in the future

In today's intensely competitive marketplace no business can afford to stand still. At the Halifax we have the financial strength, the vision and the courage to prepare our business for the challenges of the future.

- **The launch of esure, a new internet led insurance venture demonstrates our commitment to the future of the Halifax. The venture brings together the significant resources at Halifax's disposal and its great many customer relationships, with a proven management team.**
- **During 1999 the Halifax became an Internet Service Provider in partnership with BT and Microsoft Network (MSN). Customers can collect a free CD which provides full internet access from any Halifax branch.**
- **We are committed to substantial further investment in e-commerce solutions such as our dedicated web site for intermediary customers which provides rapid online quotations and applications.**
- **The Halifax announced that it is to build a second major call centre in Belfast which will create 1,500 new full-time jobs by the end of 2003.**

Without doubt, the single biggest and most exciting development for the Halifax in 1999 was the announcement of a completely new stand-alone bank from the Halifax which will be launched in summer 2000.

INTELLIGENT FINANCE – which will offer a unique approach to product and service delivery – is set to redefine the state of the art in our industry. Customers will be able to access the bank by phone, over the internet – including mobile phone-linked internet capability – and even by digital TV.

A wide range of products and services specifically tailored to meet the needs of the target customer, including current accounts, mortgages, savings, personal loans and credit cards, will all be available through INTELLIGENT FINANCE.

The Halifax is investing £100m in the products and technology needed to launch this new business which will also be backed by £1bn of equity capital. INTELLIGENT FINANCE will employ some 1,100 people across two sites in Scotland and we expect to see a significant return on our investment within three years.

With its distinctive brand, products and delivery, plus the highly competitive pricing made possible by a low cost base, INTELLIGENT FINANCE is designed to attract those customers who want a completely fresh approach to banking but who still value the strength and security of the Halifax.

Either online or in branch we can offer well-informed advice on all aspects of personal finance.

Facing the future with confidence

Sunil runs his own software company a role which takes him all over Europe on business. Given his demanding schedule he wants to be able to run his personal finances quickly and easily – anytime, anywhere and in a way that suits him and his location. That means by phone – terrestrial or mobile – via the internet on his laptop or even from his digital tv when he's at home with the children. The launch of INTELLIGENT FINANCE in summer 2000 will allow him to do just that. All over the country people like Sunil will benefit from the £100m start-up investment in our new stand-alone direct bank which will offer current accounts, savings and mortgages, personal loans and credit cards.

Group Items

	1999 £m	1998 £m
Net interest income	**62**	182
Commissions, fees and other income	**15**	23
	77	205
Operating expenses	**(166)**	(181)
Goodwill amortisation	**(15)**	–
Provisions for pensions review	**(19)**	(29)
(Loss) before tax	**(123)**	(5)

Group Items comprises net interest income derived from surplus free capital, costs of central support units not allocated to business sectors and the results of certain business activities. Net interest income fell by £120m reflecting the impact of capital repatriation, our investments in Birmingham Midshires and Lex Vehicle Leasing and a volume related increase in capital allocated to the Group's businesses. Operating expenses were 8% lower at £166m. The goodwill amortisation charge relates to the Birmingham Midshires acquisition. The pensions review provision was increased by £19m to reflect an extension of the review by the Financial Services Authority and the increased cost of compensation arising from revised assumptions incorporating lower interest rates and improved longevity.

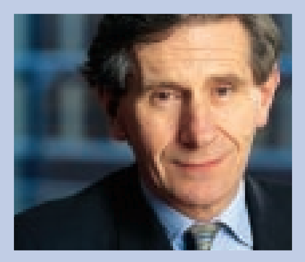
Share Dealing

Halifax Share Dealing (HSDL) provides a non-advisory service for retail investors covering UK equities, Investment Trusts, Unit Trusts and Gilts. Investments are held electronically and the service is very competitively priced. A self select ISA is also offered enabling customers to shelter their investments from tax.

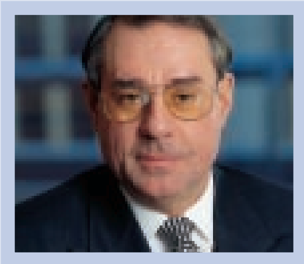
HSDL launched an online dealing service in October 1999. This has proved very popular and more than 35% of daily trades are now executed in this way. Since October, a dramatic increase in retail interest in the stock market generally has been experienced in the UK and we have seen our market share increase.

The 'personal touch' can make all the difference.

Board of Directors









Lord Stevenson[3]
Chairman
54, joined the Board in May 1999 and became Chairman in July 1999. Lord Stevenson's other main business activities are as Chairman of Pearson plc and AerFi Group plc. He is also a non-executive director of Manpower Inc., J Rothschild Assurance Holdings plc, Lazard Partners, St James's Place Capital plc and The Economist Newspapers Ltd. He is one of the two outside members of the Takeover Panel appointed by the Governor of the Bank of England to represent industry.

James Crosby[3]
Chief Executive
43, joined the Halifax in February 1994 as Managing Director of Halifax Life and was appointed to the Board in December 1996. He succeeded Mike Blackburn as Chief Executive on 1 January 1999. Before joining the Halifax and following 10 years in fund management, he was variously responsible for finance, marketing, corporate development and IT at Scottish Amicable Life Assurance Society and was, until joining the Halifax, a director of J Rothschild Assurance.

Mike Ellis
Chief Operating Officer
48, joined the Halifax in 1987 as Treasurer and became Managing Director, Treasury and Overseas Operations in August 1995. He became Banking and Savings Director in 1996 and Retail Financial Services Director in January 1999 before being appointed Chief Operating Officer on 1 October 1999. Before joining the Halifax he held several senior appointments in the local government sector.

Roger Boyes
Group Finance Director
55, joined the Board in August 1995. Before this he was chief executive of The Leeds having joined as finance director in May 1990. Before joining The Leeds he was group finance director of Fenner plc from 1986, having previously been finance director of Linpac Containers International Ltd.

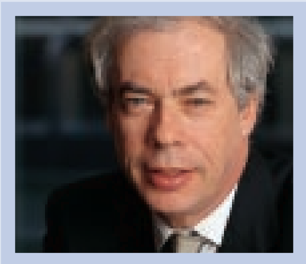
Andy Hornby
Chief Executive, Halifax Retail
33, joined the Halifax in November 1999, having most recently been managing director of George, ASDA's clothing business. He worked for the Boston Consulting Group and Blue Circle before joining ASDA in 1996. He has an MBA from Harvard where he graduated top of his class.

John Lee
Personnel and Communications Director
55, joined the Halifax in 1993 as General Manager, Personnel and was appointed to the Board in 1994. Prior to joining the Halifax he worked for ICI where he held senior appointments in personnel, marketing, planning and international roles. John is a fellow of the Institute of Personnel and Development and a director and trustee of the Brathay Foundation and a trustee of Common Purpose.

John Wood[1]
Non-Executive Director
Vice Chairman
64, was appointed to the Board in 1986 and became Vice Chairman in 1991. He was chairman of Clerical Medical Investment Group Ltd from January 1997 until February 2000. He was formerly chairman of McCorquodale plc and the Hargreaves Group plc, and a director of Barclays Bank Trust Company Ltd from 1997 until February 2000. He is a non-executive director of Bibby Line Group Ltd.

Lord Chadlington[1, 2]
Non-Executive Director
57, was appointed to the Board in 1994. He is chairman of International Public Relations plc. He has been chairman of the Royal Opera House, Covent Garden and a member of the Arts Council for England.

Roy Chapman[2]
Non-Executive Director
63, was appointed to the Board in 1994. He was senior partner of Arthur Andersen UK from 1989 until his retirement in 1993. He is non-executive chairman of the Post Office Pension Fund and the AEA Technology Pension Fund. He is a non-executive director of Eurotunnel plc, where he is chairman of the remuneration committee.



Tony Coleby[2]
Non-Executive Director
64, was appointed to the Board in 1994. He retired as an executive director of the Bank of England in February 1994. Between 1986 and 1990 he was chief monetary adviser to the governor; he was executive director, monetary policy and operations between 1990 and 1994.

Charles Dunstone
Non-Executive Director
35, was appointed to the Board in February 2000. He is the managing director of The Carphone Warehouse, Europe's largest independent retailer of mobile communications, which he founded in 1989. In 1999, the company scooped three major awards in the fields of retail and customer service, including the Retail Week Customer Satisfaction Excellence Award. The company has recently begun investing a $50 million fund in new wireless technology and internet opportunities.

Duncan Ferguson[1, 3]
Non-Executive Director
57, was appointed to the Board in 1994. He is the senior partner of Bacon & Woodrow, which he joined as a partner in 1988 and chairman of their international network Woodrow Milliman. He previously worked for Eagle Star as general manager international division where he was responsible for life assurance and investment business outside the UK.

John Kay
Non-Executive Director
51, was appointed to the Board in 1991. An economist, he has been research director and director of the Institute for Fiscal Studies and professor at the London Business School and the University of Oxford. He was the first director of the Said Business School of the University of Oxford. He is a director of London Economics (Holdings) Ltd and a non-executive director of several investment companies.

John Leighfield[1, 3]
Non-Executive Director
61, was appointed a director in April 1999 immediately after being chairman of Birmingham Midshires Building Society. He is former chairman and chief executive of AT&T ISTEL, and is currently chairman of RM plc and Synstar plc. He is a non-executive director of IMPACT Programme Ltd, Magdalen College School, Oxford and of the JNT Association.

Coline McConville
Non-Executive Director
35, was appointed to the Board in February 2000. She is chief operating officer of Clear Channel's international division, spanning 28 countries in Europe and Asia. Clear Channel is a leading global media company, specialising in radio and outdoor advertising, listed on the NYSE. Before Clear Channel, she was with management consultants McKinsey in London, and LEK in Munich. An Australian, she has degrees in law and an MBA from Harvard (Baker Scholar).

Louis Sherwood[2]
Non-Executive Director
58, joined the Board in January 1997 and is chairman of Clerical Medical Investment Group Ltd and The First Ireland Investment Company Ltd. He is a non-executive director of ASW Holdings PLC, EBC Group plc and Wessex Water Services Ltd.

Philip Yea
Non-Executive Director
45, joined the Board of Halifax in October 1999. He was formerly finance director of Guinness PLC and subsequently Diageo plc before joining Investcorp in 1999. He is a non-executive director of Manchester United PLC.

[1] Member of Remuneration and Senior Succession Committee.
[2] Member of Group Audit Committee.
[3] Member of Nominations Committee.

Financial Review

Presentation of Results

Accounting policies are presented on pages 49 to 51. There have been no changes to the accounting policies previously applied by Halifax plc in 1998. The Group has chosen to adopt Financial Reporting Standard 15 'Tangible Fixed Assets' early.

On 1 June 1999 Halifax underwent a corporate restructuring and Halifax Group plc became the new ultimate holding company. Halifax Group plc holds all the ordinary share capital of Halifax plc, which remains the authorised bank of the Group. The new structure provides opportunities to manage the Group's businesses more efficiently. This restructuring was accounted for using merger accounting principles and the consolidated results of Halifax Group plc are presented as if it had always been the parent undertaking of the Group. Further details of the accounting treatment are presented on page 49.

The network integration and corporate restructuring undertaken in 1999 and the pensions review provisions have a significant impact on the Group statutory results. The network integration resulted in goodwill, which had previously been written off directly to reserves, being charged to the profit and loss account. This had no impact on total shareholders' funds. Therefore, in order to assist in the comparability of results and performance measures, an underlying profit is presented below.

Underlying profit before tax is up 3%, however, income foregone as a direct result of capital repatriation amounted to approximately £90m in 1999; 5% of profits.

Underlying Profit Before Tax

	1999 £m	1998 £m
Net interest income	**2,454**	2,366
Fees, commissions, and other income	**850**	792
Operating income	**3,304**	3,158
Administration expenses	**(1,245)**	(1,180)
Depreciation	**(145)**	(148)
Goodwill amortisation	**(15)**	–
Provisions for bad and doubtful debts	**(123)**	(96)
Share of operating profit in joint ventures	**6**	–
Underlying profit before tax	**1,782**	1,734
Provisions for pensions review	**(19)**	(29)
Exceptional items:		
Network integration	**(136)**	–
Corporate restructuring and return of capital	**(11)**	–
Statutory profit before tax	**1,616**	1,705

Net Interest Income	1999 £m	1998 £m
Interest receivable	**8,138**	8,979
Interest payable	**(5,684)**	(6,613)
Net interest income	**2,454**	2,366
Average interest earning assets	**127,859**	114,645
	%	%
Net interest margin	**1.92**	2.06

Group net interest income increased by £88m to £2,454m. The Group net interest margin at 1.92% fell 14 basis points from the 2.06% achieved in 1998. This mainly reflects a reduction in earnings from free capital as a consequence of the capital management programme and our investments in Birmingham Midshires and Lex Vehicle Leasing.

Other Income	1999 £m	1998 £m
Income from long term assurance business	**184**	146
Insurance income	**226**	215
Other net fees and commission receivable	**422**	413
Other operating income	**18**	18
Total	**850**	792

Other income increased by 7% to £850m, primarily due to increased income from long term assurance business, up 26% to £184m, reflecting growth in effective premiums in both Clerical Medical and Bancassurance.

Operating Expenses	1999 £m	1998 £m
Direct/online investment	**62**	49
Other operating expenses	**1,262**	1,279
Target operating expenses	**1,324**	1,328
Birmingham Midshires	**66**	–
Goodwill amortisation	**15**	–
Total operating expenses	**1,405**	1,328
Cost income ratio (%) (excluding exceptional items)	**42.4**	42.1

Target operating expenses were £4m less than the comparable period. Flat costs were inclusive of significantly increased investments in the future of the business, notably a 27% increase in direct/online expenditure to £62m, a 15% increase to £122m in the spend on brand building and a 32% uplift to £49m in the level of expenditure committed to the ongoing development of our Treasury & Wholesale Banking business.

Our performance in 1999 was underpinned by very tight discipline in the core business. Excluding Birmingham Midshires costs, Retail Operations costs were broadly unchanged as compared with 1998. Necessarily, the balance of costs is shifting towards the rapidly growing diversified businesses which now consume 18% of target expenditure compared to 13% two years ago.

1999 saw very significant increases in sales and activity generally. Across the entire Group, therefore, we estimate that in just 12 months we achieved a 6% increase in operating efficiency. In other words, we achieved 6% more for each pound of cost. This was delivered through a wide ranging programme of initiatives embracing network integration, process re-engineering, central restructuring and procurement; a programme which will run on into 2000 and beyond.

The trend in cost income ratio performance is distorted by the acquisition of Birmingham Midshires and the lower net interest income resulting from capital repatriation in 1998 and 1999. Adjusted for these factors, we cut the underlying cost income ratio from 41.7% to 40.5%.

Provisions for Bad and Doubtful Debts		
Profit and loss account	1999 £m	1998 £m
Residential property and other secured advances	**16**	33
Unsecured	**107**	63
	123	96
Analysed as:		
Specific	**115**	80
General	**8**	16

The charge for provisions for bad and doubtful debts was 28% higher at £123m. The secured lending charge was 52% lower reflecting further improvements in the arrears profile and the impact of house price inflation. The unsecured charge increased by £44m due to a combination of growth in balances and a more prudent provisioning policy.

Provisions for Bad and Doubtful Debts

Balance sheet	1999 £m	% of loan balances	1998 £m	% of loan balances
Residential property and other secured advances	**405**	**0.43**	398	0.48
Unsecured	**150**	**7.04**	156	8.42
Total	**555**	**0.58**	554	0.65

Exceptional Items

	1999 £m	1998 £m
Exceptional administrative expenses comprise:		
Network integration	**136**	–
Corporate restructuring and return of capital	**11**	–
	147	–
Network integration costs comprise:		
Proceeds of disposal	**(6)**	–
Costs of disposal/closure	**18**	–
Goodwill	**124**	–
	136	–

Network integration costs represent the cost of disposal/closure of approximately one third of the estate agency branch network, together with associated costs of integration/reorganisation within the retail bank branch network.

All goodwill acquired through the purchases of estate agencies has previously been written off in full against reserves. As announced in April 1999, network integration includes a charge to write back £124m of such goodwill in order to comply with the requirements of FRS10 'Goodwill and Intangible Assets'.

Corporate restructuring and return of capital costs comprise £8m costs relating to the scheme of arrangement and £3m ancillary costs including explanatory communications prepared for our retail shareholders.

There were no exceptional items in the comparable period.

Acquisition of Birmingham Midshires

In April 1999, Halifax acquired the business of Birmingham Midshires Building Society for a consideration of £761m. The consideration included the issue of £198m of Halifax plc preference shares. Goodwill of £435m was capitalised on acquisition, which is being amortised over a period of 20 years to reflect the strategic rationale of the transaction.

Since acquisition Birmingham Midshires has contributed £58m to Group profit before tax. Birmingham Midshires' profits have been allocated to business segments in accordance with Halifax practice.

Taxation

	1999	1998
Tax charge (£m)	**540**	534
Effective tax rate (%)	**33.4**	31.3

The tax charge for the full year represented 30.6% of profit before tax and exceptional items (1998: 31.3%) compared with a UK corporation tax rate applicable to the year of 30.25% (1998: 31.0%). The tax charge represents 33.4% of profit before tax. This reflects the fact that a large proportion of the exceptional costs are disallowable for tax purposes.

Capital Resources

In total, over the last two years, the Halifax has returned almost £2.3bn to shareholders. This has been achieved through two mechanisms: firstly a share buyback programme and secondly a corporate restructuring in June 1999, the latter of which returned £1.5bn to shareholders.

The overall cost of capital has also been reduced through the issue of nearly £900m tier 2 capital in the form of subordinated debt and £198m tier 1 capital in the form of Halifax plc preference shares.

Further tier1 capital has been raised for the continued growth of Clerical Medical in the form of innovative preferred securities backed by a subordinated guarantee from Halifax Group plc. The capital raised was in two issues, being £245m and euro 415m.

The following table presents the regulatory capital structure as at 31 December 1999 and the comparable period.

Regulatory Capital Structure

	1999 £m	1998 £m
Tier 1		
Share capital	**437**	487
Eligible reserves and minority interests	**5,751**	6,464
Total tier 1 capital	**6,188**	6,951
Tier 2		
Perpetual subordinated debt	**324**	275
Term subordinated debt	**2,404**	1,581
General provisions	**135**	110
Total tier 2 capital	**2,863**	1,966
Supervisory deductions	**(1,626)**	(1,054)
Total capital	**7,425**	7,863

The reduction in total regulatory capital during the year, from £7,863m to £7,425m, reflects retained earnings offset by capital repatriation. The £1.5bn return of capital to shareholders on 1 June 1999 reduced both the risk asset ratio and the tier 1 capital ratio by around 2.4%.

Supervisory deductions primarily reflect investments in subsidiary undertakings which are not directly regulated by the FSA as part of the banking group, the majority of which relates to Clerical Medical.

The tier 1 ratio was 9.7% at 31 December 1999:

Tier 1 Ratio

	1999	1998
Risk weighted assets (£m)	**63,701**	57,200
Tier 1 ratio (%)	**9.7**	12.2
Total capital (%)	**11.7**	13.7

Group Risk Management

The Halifax Board gives significant priority to risk management. In addition to the Group Audit Committee, Non-Executive Risk Control Committees have been established for each substantive business unit. These committees meet quarterly and review risk reports prepared both by business management and by the independent risk functions. Board policy statements are in place for credit, market and operational risks as well as liquidity and trading. These policy statements establish the Board's appetite for risk, set out the parameters within which businesses can operate and delegate authority, where appropriate, to the relevant Executive Committee.

The Group Asset and Liability Committee (Group ALCO) consists of Executive Directors and senior Executives and meets fortnightly or as required by business needs. Group ALCO has overall responsibility for managing the net interest margin including the approval of retail business plans, structural balance sheet positions and Treasury & Wholesale Banking (Treasury) investment and trading activity. In addition it considers the Group's liquidity policy and capital utilisation. The Group Credit Committee, with a similar membership, also meets fortnightly and reviews policies and credit exposures throughout the Group. A sub-committee of the Group Credit Committee meets as required to consider individual large transactions within the authority delegated by the Board.

Operationally, the Group's risk management function is structured as a single entity under the direct control of the Group Finance Director. The heads of each risk function meet formally each month as a Group Risk Management Committee to review progress on key risk initiatives, share information from their respective teams and debate the impact of external influences, including regulatory changes, on the risk framework of the Group. This Committee has Board authority to investigate any risk-related concerns within any part of the Group.

Liquidity Risk

The Group's liquidity is managed by Treasury and monitored by Group ALCO. The regulatory background for liquidity management is set out in the FSA's Banking Supervisory policy. This establishes the minimum sterling stock liquidity that major UK banks must maintain.

Treasury ensures that it holds sufficient assets, which are immediately realisable into cash without significant exposure to market risks or costs, to cover both maturing wholesale funds and a realistic estimate of retail funds that could potentially be withdrawn. This is achieved through cash flow monitoring and control, and by maintaining a suitable mix of short and longer term funding as well as a mix of liquid assets. While a significant proportion of retail savings and current account balances are on instant access terms, in practice the majority of such funds represent a stable and consistent funding base for the Group.

Credit Risk

Credit risk is the risk that counterparties will not be able to meet their obligations as they fall due. The Group Credit function within Group Risk Management produces high level credit policies, monitors the various asset portfolios and undertakes an independent review of all major counterparty and sector risks. Day-to-day management of credit risk is devolved to the various business units within agreed Group policies. Performance of each portfolio is reported to the Group Credit Committee monthly.

In Retail Operations, lending policies and processes are determined centrally to ensure consistency in the management and monitoring of credit risk exposure. Full use is made of software technology in credit scoring new applications and current account overdraft extensions. In addition, behavioural scoring is used for credit card and current accounts. Collections activity is centralised within the various products and sophisticated systems are used to prioritise action.

In Birmingham Midshires, both processing and the determination of policy and procedures are undertaken on a centralised basis. Mortgage applications received via the branch network and all further advances use credit scoring to assist in the underwriting decision. A phased implementation of scoring technology into the processing of applications received from intermediaries is well underway. Unsecured lending products are branded as Birmingham Midshires but are processed and administered through the systems in place within Retail Operations. Collections activity is centralised with sophisticated system support.

In Treasury policies are established and reviewed by the Group Credit Committee, including limits for exposure to individual countries, sectors and corporate and financial institutions. The approval of some specific counterparty exposures has been delegated to individuals with personal lending authorities. These individuals are all independent of any front office activity. The level of delegation is dependent both on the expertise of the individual and on the risk of the transaction as demonstrated by its internal credit rating, size and fit with approved normal policy. Higher risk exposures require sanction by individuals within the independent risk function or by a sanctioning sub-committee of the Group Credit Committee.

Expansion into new areas of business is strictly controlled and monitored by Group Credit Committee. A substantial proportion of Treasury assets is with borrowers rated AA or higher.

The controls applied to lending processes consider environmental risk and the potential impact that this may have on the value of the underlying security.

Market Risk

The primary market risk of the Group is interest rate risk. Currency exposure is managed within modest limits.

Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times. Such risks arise mainly within Treasury, Retail Operations and Birmingham Midshires, the latter two of which offer fixed and capped rate mortgages and fixed rate savings products. On the Group balance sheet there is structural market risk to the extent that net free reserves are invested in interest earning assets and to the extent that any mismatch of variable rate mortgages over variable rate retail funds is balanced by market rate assets or liabilities. The primary aim of Group ALCO is to reduce the volatility of Group profits to movements in interest rates, which is partly achieved by the determination of the investment profile for net free reserves. In addition, Group ALCO sets parameters within which Treasury can take positions in order to enhance income. Daily monitoring takes place within the relevant business sectors and sensitivity analysis is used by Group ALCO to monitor Group positions.

The majority of market risk arising from products with market related prices is removed from Retail Operations and Consumer Credit and is transfer priced into Treasury where it is managed as part of its overall position. Group Risk Management monitors any residual market risk within the business units together with market risk within Treasury and the position of the Group as a whole.

Models have been developed which will calculate the potential changes in the fair values of assets, liabilities and derivatives resulting from adverse movements in interest rates, based on statistically determined rate movements over a particular time period to a defined level of confidence. Further development is in progress to analyse individual portfolios within Treasury and to produce sensitivity analysis of the net interest margin of both Treasury and the retail businesses within the Group.

Derivatives and Other Financial Instruments

Loans and deposits to banks, debt securities and bills are held for liquidity, investment and trading purposes. Core liquidity is held in bills, short term certificates of deposit and Gilts. Investments are made in sterling and currency money market instruments and debt securities, including asset backed securities. Interest rate positions are taken in currencies other than sterling but outright currency exposure is restricted to minimal levels by Board policy.

Treasury maintains a mix of short term and medium term funding to support the cash flow requirement of the Group and to fund its own investment and trading activity.

Derivatives are contracts whose value is derived from those of underlying assets, liabilities, interest and exchange rates or indices. They are used for both non-trading and trading purposes. Non-trading transactions are those undertaken to manage the risk exposure arising on the Group's balance sheet, including the hedging of retail assets and liabilities. Derivatives are also used to take, hedge and modify positions as part of trading activities within very modest limits laid down by the Board.

The following table describes the main activities and the types of derivatives which may be used in managing associated risks:

Activity	Risk	Type of Derivative
Management of the investment of reserves and other non-interest bearing liabilities	Sensitivity to falls in interest rates	Receive fixed interest rate swaps Purchase of interest rate floors
Fixed and capped rate mortgage lending	Sensitivity to increases in interest rates	Pay fixed interest rate swaps Purchase interest rate caps
Fixed rate savings products	Sensitivity to falls in interest rates	Receive fixed interest rate swaps
Fixed rate funding	Sensitivity to falls in interest rates	Receive fixed interest rate swaps
Fixed rate asset investments	Sensitivity to increases in interest rates	Pay fixed interest rate swaps
Investment and funding in non-sterling currencies	Sensitivity to changes in foreign exchange rates and interest rates	Cross currency interest rate swaps Foreign exchange contracts
Investment in assets/issuance with embedded options	Sensitivity to changes in underlying rates and rate volatility	Interest rate swaps and caps/floors Matched swaps with embedded options

In certain circumstances, combinations of basic derivatives may be used to hedge underlying positions which contain the same risk factors. In such cases the derivative combination used will match exactly the risk of the underlying asset or liability. Exposure to market risk on such contracts is therefore fully hedged.

Further analyses of the derivatives entered into by the Group both for non-trading and trading purposes are provided in notes 40 and 41 to the financial statements.

Operational Risk

Operational risk is caused by failures in business processes or the systems or physical infrastructure which support them. This includes human error, omissions, design defects, systems failure, unavailability of resources or physical assets and deliberate acts such as fraud.

The management of such risk is an intrinsic part of every business manager's role. In addition a number of specialist support functions provide centralised expertise in operational risk areas such as information security and financial services compliance, fraud, security, business continuity planning and year 2000 contingency planning.

Our approach is to ensure business managers identify, assess, prioritise and effectively manage all substantive risks and that a co-ordinated, cost-effective approach is taken. This involves a combination of internal control systems, sound processes, firm contractual relationships with critical suppliers, appropriate insurance cover and contingency arrangements.

Operational risk policy statements have been approved by the Board. Each line of business has compiled a Total Risk Profile which sets out the internal assessment of risk and controls against consistent categories as a form of self certification. These profiles have been presented to the Board and are subject to quarterly updates and independent review by the relevant risk teams. Validation is carried out by Group Internal Audit, allocating its review resources according to the priorities implied.

Regulatory Risk

Regulatory risk is the risk that the Group, or any part of it, fails to meet the requirements or expectations of regulatory authorities or supervisors responsible for enforcing legislation, codes, or regulations governing the way that the Group's business activities are conducted within the UK or elsewhere. Regulatory risk can also arise where the Group fails to anticipate and manage regulatory change adequately.

The management of these risks is overseen by a Regulatory Risk function which is putting in place structured internal arrangements for ensuring that all parts of the Group with an interest in a specific regulatory area contribute through relevant committees towards the coherent and consistent management of the regulatory issues in question; and consider and comment on proposed changes to the regulatory environment.

While responsibility for managing regulatory risks rests with the appropriate boards and management, independent validation of the effectiveness, and comprehensiveness of the Group's compliance with codes, regulations, and legislation takes place through a combination of the Regulatory Risk function itself, and Group Internal Audit. The Regulatory Risk and Group Internal Audit functions work together under the ambit of a Memorandum of Understanding to ensure that there are proper arrangements in place for the sharing of information; and the co-ordination of work programmes so as to ensure comprehensive coverage of, and reporting on, regulatory risk issues.

Year 2000

	Operating expenses £m	Capital expenditure £m	Total £m
1997	10	1	11
1998	35	7	42
1999	14	1	15
Total	**59**	**9**	**68**

The year 2000 programme is led by an Executive Steering Group, reporting directly to the Board.

All year 2000 changes were completed early in 1999 and a comprehensive series of tests was undertaken both internally and with our major suppliers and trading partners. Detailed contingency plans were drawn up to mitigate any risk of failure in internal systems or on the part of any supplier or service provider.

There were no year 2000 issues impacting the Group at the millennium and we continue to monitor the situation.

The total cost of the year 2000 programme to 31 December 1999 was £68m and we anticipate the final costs of the programme not to exceed £72m.

Economic and Monetary Union

The Group's programme of preparation for possible UK entry into EMU is based on responsibilities at individual business unit level and on co-ordination by a dedicated central team, who also provide up-to-date information and planning assumptions about EMU derived from their working relationships with HM Treasury and the British Bankers' Association.

Detailed plans with respect to EMU are maintained in individual business areas and are also considered by senior representatives from across the Group, whose role is to ensure cross-functional communication about inter-dependencies and to discuss and resolve likely implementation issues.

Halifax People, the Community and the Environment

Our People

The Halifax employs around 37,000 staff throughout the country in an increasingly diverse business environment. We have developed and are extremely proud of, a range of leading-edge employment policies to support staff in improving service to customers, shareholders and colleagues.

Equality of opportunity is at the heart of our values and there is Board-level support to ensure that it continues to spread and deliver benefits to our staff and business. The development of our staff is vital to our success. We have implemented a comprehensive awareness programme to foster an environment where employees are aware of equality issues and have responsibility for ensuring the successful operation of our policies.

Disability is also a priority area for us. This year we have appointed a Disability Manager and a number of existing managers as Disability Champions to address the challenges of the Disability Discrimination Act, both for staff and customers.

Staff training and development continues to be a high investment area for the Halifax. During 1999 we have further enhanced our Delivering Customer Focus programme for Retail Network staff as well as introducing the programme into our corporate sites.

This programme, together with our attention to internal communications via employee publications, consultation with the union, employee suggestion scheme and our real-time television system, gives all of our employees the opportunity to keep up-to-date with developments anywhere in the business.

Community

In 1999 we gave £2.6m to charities, focusing on local communities, quality of life, education and homelessness, including well over £150,000 in matched funds for money raised by our staff.

Our contribution to the community goes far beyond financial support. Halifax regularly donates gifts in kind as well as the skills and expertise of Halifax people. This makes us one of the UK's largest corporate donors.

Through Halifax's Community Development Circles we encourage staff to broaden their skills by involvement in charitable activities in their local community. Over 5,000 staff have taken part since the initiative started in 1990 and they've raised over £1.5m for their chosen charities.

In addition to Halifax's support through the Community Affairs programme, over £1.8m has been donated to the three charities benefiting from the Halifax Visa Charity Card in 1999. Recognised by The Guinness Book of Records as the world's most successful affinity card, over the past 10 years, a total of £12m has been donated to the three charities it supports, British Heart Foundation, Imperial Cancer Research Fund and Mencap. Throughout 1999 Halifax doubled its donation to 50p for every £100 spent by customers using the card to celebrate its 10th anniversary.

In 1999 customers also showed their generosity by donating over £1m to worthy charities through our branch network.

We are proud of the work the Halifax Community Affairs programme does and we are determined to ensure that donations we make reach the people most in need. One of the best ways to do this is to work in closer partnership with charities and this is a key objective for the future.

Environment

Environmental best practice is a continuous process for the Halifax. During the year we made big improvements in our environmental performance. This resulted in the recycling of three quarters of the waste and a cut of around 10% in energy consumption at our central sites, plus a reduction in water consumption of some 10 million litres. We continued to work closely with key suppliers to identify how we can help them to improve their environmental performance. Initiatives are also being introduced to reduce the impact of staff commuting and business travel.

In partnership with the environmental charity Global Action Plan we started an exciting programme during the year involving around 1,000 employees in the Northern Home Counties. They will be promoting improved environmental performance both at work and at home.

The Halifax participated in Business in the Environment's 1998 Index of Corporate Environmental Engagement and was ranked 9th out of 20 in the Financial sector. This is the first time we have taken part so this represented a good result. Nevertheless, we will strive to improve our performance still further.

Directors' Report

The Directors have pleasure in presenting the Annual Report & Accounts of Halifax Group plc for the year ended 31 December 1999.

Corporate restructuring

On 1 June 1999 Halifax Group plc acquired the ordinary share capital of Halifax plc, following approval of Halifax plc's scheme of arrangement (note 1 to the financial statements).

Results and dividends

The profit before tax for the year ended 31 December 1999 amounted to £1,616m (1998: £1,705m).

An interim dividend of 7.5p per share was paid on 11 October 1999. The Directors propose a final dividend of 16.5p per share, to be paid on 8 May 2000 to shareholders registered at the close of business on 3 March 2000, subject to approval at the Annual General Meeting.

Principal activities

The principal activity of the Group is the provision of personal financial services. The Group's existing business and future prospects are reviewed by the Chairman and Chief Executive on pages 2 to 3 and pages 5 to 7 respectively, and in the Business Review on pages 8 to 17 whilst financial aspects are covered in the Financial Review on pages 20 to 25. A list of the principal subsidiaries, and the nature of each company's business, is given in note 20 to the financial statements on page 62.

Payment policy

For the forthcoming period, the Group's policy for the payment of suppliers will be as follows:

– payment terms will be agreed at the start of the relationship with the supplier and will only be changed by agreement;

– standard payment terms to suppliers of goods and services will be 30 days from receipt of a correct invoice for satisfactory goods or services which have been ordered and received unless other terms are agreed in a contract;

– payment will be made in accordance with the agreed terms or in accordance with the law if no agreement has been made; and

– suppliers will be advised when an invoice is contested without delay and disputes will be settled as quickly as possible.

The Halifax complies with the Better Payment Practice Code. Information regarding this Code and its purpose can be obtained from the Better Payment Practice Group's website at www.payontime.co.uk.

The Company's main trading subsidiary, Halifax plc, had trade creditors outstanding at 31 December 1999 representing 27 days of purchases.

The Company owed no amounts to trade creditors at 31 December 1999.

Charitable and political donations

During the year, the Group made charitable donations of £2,593,061. Additionally £1,814,008 has been made available to three charities benefiting from their affinity to the Halifax Visa Charity Credit Card. The charities involved are the British Heart Foundation, Imperial Cancer Research Fund and Mencap. No political contributions were paid in the year.

Employees

The Halifax encourages applications for employment from disabled people and gives full consideration to such applicants based on their skills and abilities. In the event of an existing employee becoming disabled, we provide counselling and training support and seek to provide a suitable alternative position within the Group if the individual is unable to continue in their previous role. The Group offers training and career development for all disabled staff. The views of disabled staff are sought through disability forums to ensure our policies continue to recognise their requirements.

Employee communication issues are reviewed on page 26.

Directors

The names of the current Directors together with brief biographical details are shown on pages 18 and 19. Particulars of Directors' remuneration and interests in shares in the Company are given in the Report of the Board in relation to Remuneration and Senior Succession Policy and Practice on pages 29 to 38.

Prior to the re-registration of the Company as Halifax Group plc on 2 March 1999 the director was Instant Companies Ltd (until 3 February 1999) and Hackwood Directors Ltd (from 3 February 1999 until 3 March 1999). No remuneration was paid in respect of these two directorships.

On 3 March 1999 Mike Blackburn, Roger Boyes, Roy Chapman, Tony Coleby, James Crosby, Mike Ellis, Duncan Ferguson, Gren Folwell, Jon Foulds, John Kay, John Lee, Louis Sherwood, John Wood and Lord Chadlington were appointed Directors of the Company. In addition, Jon Foulds was appointed Chairman, Mike Blackburn and John Wood were appointed Vice Chairmen and James Crosby was appointed Chief Executive on the same date. John Leighfield was appointed a Director on 19 April 1999.

Lord Stevenson was appointed a Director on 19 May 1999, and Chairman on 21 July 1999 in succession to Jon Foulds, who retired as a Director on 31 July 1999.

Philip Yea was appointed a Director on 1 October 1999 and Andy Hornby was appointed a Director on 18 November 1999.

Mike Blackburn and Gren Folwell retired as Directors on 31 December 1999.

Since the year end two additional Directors, Charles Dunstone and Coline McConville, have been appointed, both on 16 February 2000.

Lord Stevenson, Andy Hornby, John Leighfield, Philip Yea, Coline McConville and Charles Dunstone will retire at the forthcoming Annual General Meeting and offer themselves for election. Roger Boyes will also retire by rotation at the Annual General Meeting and will offer himself for re-election.

John Kay and John Wood will also retire at the Annual General Meeting but are not seeking re-election.

Capital

As part of the scheme of arrangement on 1 June 1999 Halifax Group plc issued 2,251,299,040 ordinary shares to the holders of Halifax plc ordinary shares. Further details are given in note 1 to the financial statements.

Full details of the movements in the authorised and issued share capital during the year are provided in note 35 to the financial statements on pages 72 and 73.

The Company has authority to purchase up to 225.1m of its 20p ordinary shares of which it has purchased for cancellation 5.7m shares in the year at a total cost of £39m. The purchased shares represented 0.3% of the issued share capital at 1 June 1999. The authority remains valid until the Annual General Meeting or, if earlier, 3 September 2000. A resolution will be put to the shareholders to renew the authority at the forthcoming Annual General Meeting.

On 9 December 1999 £245m and euro 415m guaranteed non-voting non-cumulative preferred securities were issued by subsidiaries of Halifax Group plc. Further details are provided in note 10 to the financial statements on page 55.

Substantial shareholdings

At the date of this report no disclosable interest in the issued share capital has been notified to the Company in accordance with Sections 198 to 208 of the Companies Act 1985.

Auditors

A resolution to re-appoint KPMG Audit Plc as auditors will be put to members at the forthcoming Annual General Meeting.

On behalf of the Board
H F Baines
Company Secretary
17 February 2000

Report of the Board in relation to Remuneration and Senior Succession Policy and Practice

1. Introduction

1.1 Composition and Operation of the Remuneration and Senior Succession Committee

This Committee (previously known as the Remuneration, Senior Appointments and Nominations Committee) exercises on behalf of the Board certain responsibilities in relation to executive remuneration and senior succession policy and practice.

The members and remit of the Committee are given on page 39 in the Directors' Report on Corporate Governance. The Committee is chaired by John Wood, Non-Executive Vice Chairman of Halifax Group plc (the 'Group'). The Committee's members are all Non-Executive Directors. The Chairman of the Group, who is not a member of the Committee, together with the Chief Executive and the Personnel and Communications Director, attend meetings at the Committee's request.

The responsibility for determining the remuneration policy for Directors rests with the Board. Responsibility for determining the actual remuneration of the Executive Directors and the Chairman of the Group rests with the Committee. The Board determines the actual remuneration of the Non-Executive Directors (including the Vice-Chairman). No Director is present at any meeting of the Board or the Committee when his own remuneration or contractual terms are being discussed.

The Committee has access to independent and external advice on remuneration matters. Each year the Committee commissions an independent survey which reviews the market position for both salaries and total remuneration for Executive Directors and other Executives. The Committee may also commission independent surveys which review the Group's remuneration policy for such Executives.

1.2 Compliance

Full details of the Group's approach to corporate governance, including compliance with the Combined Code appended to the Listing Rules of the London Stock Exchange, are included in the Directors' Report on Corporate Governance on pages 39 to 41.

The Committee has followed the provisions contained in Schedule A to the Combined Code, which is appended to the Listing Rules, in designing performance-related bonus schemes for Executive Directors and other Executives. The Board has followed the provisions in Schedule B to the Combined Code, which is appended to the Listing Rules, in preparing this Report.

1.3 Service Contracts

The Executive Directors have service contracts which can be terminated by the Group on not less than one year's notice and by the Director on not less than six months' notice. The Chairman has a service contract which has an initial term of three years, expiring in June 2002, and which can be extended with the consent of both parties for a further three year term, to June 2005. If terminated prior to expiry of the initial term, or any extension thereof, compensation up to the equivalent of 12 months' fees may be payable. The Non-Executive Directors do not have service contracts.

The Executive Directors had contracts with Halifax plc prior to the corporate restructuring on 1 June 1999 and have had contracts with Halifax Group plc since that date. For the purpose of this Report, however, it has been assumed that Halifax Group plc has been the employing company throughout the year.

2. Remuneration Policy for Executives

2.1 Policy

The remuneration policy for Executive Directors and other Executives (192 staff in all at 31 December 1999) was modified during 1999 to emphasise the importance of creating real increases in shareholder value relative to the retail finance sector. The policy is:

- to establish a structure of reward within which significant emphasis is placed, for Executives individually and collectively, on both delivering operating plan objectives and creating real increases in shareholder value relative to other retail finance sector companies;
- to set salary policy at a market median position and then manage individual salaries within broad ranges around median salary positions; and to set individual salaries by making judgements on each Executive's performance and value to the business;
- to operate bonus arrangements which recognise short term and long term success, framed predominantly around factors for which an Executive has prime or contributory accountability; with the majority of bonus opportunity for the more senior Executives aligned with the creation of real increases in shareholder value and delivered to participants in shares, rather than in cash;
- to construct salary and bonus arrangements which, when taken together, focus everyone in the Executive team on achieving levels of performance which establish the Group as an upper quartile performer in the retail finance sector as measured by relative total shareholder return;
- to encourage Executives to be significant shareholders in the Group; and
- to attract, motivate and retain Executives of the appropriate skills and ambition for the Group.

The modifications in this policy have led to proposed changes to the short and long term bonus arrangements for Executive Directors and other Executives. Approval to modify these arrangements from 1 January 2000 is being sought from shareholders at the Annual General Meeting on 18 April 2000. The bonus arrangements described in section 2.3 are those which have applied during the financial year ending 31 December 1999.

2.2 Salary

Salary benchmarks for Executives are reviewed annually by the Committee, taking account of information from independent sources on salary rates for comparable jobs in the retail finance industry and in other selected major public companies. The Group's policy is to set salary benchmarks at, or around, a market median. Differential salary levels depend on personal performance over a sustained period.

Pension entitlement is based on salary only.

2.3 Bonus

The purpose of the bonus schemes is to provide a direct link between each individual's remuneration and his or her performance and that of the Group, both annually and over the longer term.

The current arrangements were introduced with effect from 1 January 1998 and were approved by shareholders at the 1998 Annual General Meeting. All Executive Directors and a substantial majority of the other Executives participate in both schemes. Their levels of participation differ in order that overall remuneration is positioned so as to align it with the Group's policy objectives outlined earlier. Separate arrangements exist for Treasury & Wholesale Banking Executives and for a small number of other Executives in different parts of the Group, mainly within Clerical Medical, Birmingham Midshires and INTELLIGENT FINANCE.

Payment of bonuses is subject to the approval of the Committee and no Executive Director or other Executive has a contractual right to a bonus, except for a small number of Executives in respect of their initial periods of employment.

Bonus payments are not pensioned.

2.3.1 Short Term Bonus Scheme

The level of payments under the scheme is dependent, for Executive Directors and most other participants, on the level of the Group's profit after tax for the year. The benchmark payment levels, which apply for the 1999 operation of the scheme, are as follows:

	Bonus as a % of salary		
Executive category	Threshold	Target	Maximum
Tier 1 including Executive Directors	15%	45%	60%
Tier 2	10%	30%	40%
Tier 3	8.3%	25%	33.3%
Tier 4	6.7%	20%	26.7%

Target bonus is paid if the Group's profit after tax for the year matches the targets specified by the Board. Maximum bonus is paid if that profit exceeds target by 5% or more. Threshold bonus is paid if profit is at 95% of the target level. No bonus is paid if profit is lower than 95% of the target level. Intermediate positions are determined by interpolation.

Half the bonus is payable in cash after the financial year end and the other half is payable in shares which, under the terms of the scheme, are released to participants after three years.

2.3.2 Long Term Bonus Scheme

Participants in the scheme are granted conditional shares at the start of each operation of the scheme equal to:

- a matched number of shares based on the shares earned as bonus from the operation of the previous year's Short Term Bonus Scheme; and
- for those Executives in Tiers 1, 2 and 3 a number of shares secured by a percentage of the participant's salary and based on the price of the Group's shares, using the average market price in the ten business days ending at the previous year end, as follows:

Executive category	Conditional share grant as a % of salary
Tier 1 including Executive Directors	30%
Tier 2	20%
Tier 3	10%

The proportion of shares actually released to participants under the scheme is dependent on the Group's annualised total shareholder return ('TSR') (defined as the gross overall return on ordinary shares of Halifax Group plc after all adjustments for capital actions and re-investment of dividends or other income) over three year periods, compared to the annualised weighted average TSR of a basket of comparator companies over equivalent periods.

All of the shares initially granted on a conditional basis are released to participants only if the Group's TSR exceeds the weighted average TSR of the comparator group of companies by 3% p.a. or more over the three year performance period. Two thirds of the shares are released if the Group's TSR exceeds the weighted average by 2% p.a. over the performance period. One third of the shares are released if the Group's TSR matches the weighted average over the performance period. None of the shares are released if the Group's TSR performance falls below the weighted average level, in which case participants' grants lapse. Intermediate positions are determined by interpolation.

The first and second normal operations of the scheme cover the periods 1999-2001 and 2000-2002 respectively. The transitional operation of the scheme, for 1998-2000, is based solely on conditional share grants, as approved by shareholders at the 1998 Annual General Meeting, as follows:

Executive category	Conditional share grant as a % of salary
Tier 1 including Executive Directors	100%
Tier 2	66.7%
Tier 3	33.3%

The conditional shares granted under the initial, first and second normal operations of the scheme were made at £7.62 and at £8.63 and will be made at £6.78, the average market prices in the ten business days ending on 31 December 1997, 1998 and 1999 respectively.

As a consequence of the corporate restructuring of the Group during 1999, the initial and first conditional grants in Halifax plc shares were replaced with equivalent grants in Halifax Group plc shares using a basis agreed with the Inland Revenue. Every 100 shares in Halifax plc were replaced by 100.21 shares in Halifax Group plc. There were no cash payments made to participants as a result of this restructuring.

2.4 Benefits

Each Executive Director and other Executive is provided with benefits which principally comprise a company car, pension arrangements, holiday, family healthcare cover and a concessionary rate mortgage.

Executive Directors and other Executives are eligible for membership of the Halifax Retirement Fund. The Fund provides a personal pension benefit based on salary only, with a maximum pension of two thirds of final salary (in broad terms, the last 12 months' salary) at normal retirement age (age 60), subject to the necessary pensionable service. Members may increase their pension benefits by the payment of additional voluntary contributions. The Fund also provides a lump sum life assurance benefit of four times salary and pension benefits for spouses and qualifying children. All Fund benefits are subject to Inland Revenue limits.

3. Directors' Remuneration for the year ended 31 December 1999

3.1 Chairman

Jon Foulds served as Chairman until 21 July 1999 and Lord Stevenson served as Chairman for the remainder of the year.

Jon Foulds' annual fee as Chairman was increased to £337,500 p.a. from 1 January 1999 (from £320,000 p.a. which had applied from 1 January 1998). This fee was positioned at the market median for public limited companies of a size and complexity similar to that of the Group.

Lord Stevenson's annual fee as Chairman was established at £250,000 p.a.. In addition, and subject to the approval of shareholders at the 2000 Annual General Meeting, a performance conditional share grant of up to 100% of the annual fee will be made under a new Special Long Term Bonus Scheme, effective from 1 July 1999. The conditional shares will be granted at £7.88½, the average market price in the ten business days ending on 30 June 1999, and will be subject to the same performance criteria, over the period from 1 July 1999 to 31 December 2002, as is intended to apply from 1 January 2000 to Executives generally under the Long Term Bonus Scheme.

3.2 Chief Executive

James Crosby served as Chief Executive throughout the year. The remuneration of the Chief Executive, being the highest paid Director, was made up as follows:

3.2.1 Salary

Annual salary was increased on 1 January 1999 to £425,000 p.a. when James Crosby became Chief Executive, and remained at that level throughout the year. The salary of the previous Chief Executive, Mike Blackburn, was £440,000 p.a..

3.2.2 Benefits

The taxable value of benefits (company car, family healthcare cover, concessionary rate mortgage and additional life assurance cover) provided for the year ended 31 December 1999 was £13,820.

3.2.3 Short Term Bonus

The bonus payable under the terms of the scheme set out in 2.3.1 in respect of the year ended 31 December 1999 is a cash payment of £107,844, payable after the financial year end, and an equivalent value in shares (15,906 shares), which will be released in three years' time.

3.2.4 Long Term Bonus

No bonus is yet payable under the terms of the scheme as set out in 2.3.2. All payments under the scheme are subject to the performance criteria set out in 2.3.2. The notional bonus accruals for 1998 and 1999 have been based on annual accruals of one third of each of the conditional share grants made under the 1998-2000 and 1999-2001 operations of the scheme; and they assume that the Group's TSR performance during 1998-2000 and 1999-2001 will be the same as the weighted average TSR performance of the comparator group of companies, with the accruals adjusted to take account of the price of the Group's shares on 31 December 1999. On this basis, the notional bonus accrual is valued at £54,714 (7,970 shares) of which £44,135 (6,429 shares) relates to the 1998-2000 scheme and £10,579 (1,541 shares) relates to the 1999-2001 scheme.

3.2.5 Summary

The Chief Executive's remuneration for the year to 31 December 1999 is made up of two constituent elements, being his salary and benefits of £438,820 and the short term bonus, earned over 12 months, and valued at £217,039.

The notional accrued long term bonus is valued at £54,714, with £22,068 attributable to 1998 and £32,646 attributable to 1999. Neither amount is guaranteed to be paid.

The aggregate of these amounts for 1999 is £688,505, a decrease of 2.7% over the equivalent amount for 1998 (£707,553) which applied in respect of the previous Chief Executive.

In addition, the Chief Executive benefits from remuneration in the form of pension benefits described in 3.4. If the estimated costs of pension provision are included in overall remuneration, the aggregate remuneration for 1999 for the current Chief Executive represents a decrease of approximately 27% from the equivalent amount for 1998 which applied in respect of the previous Chief Executive.

3.3 Directors

3.3.1 Year on Year Comparison for Executive Directors

Details of the normal elements of remuneration of the Executive Directors are summarised in Table 1 below:

Table 1

		1999			1998		
	Notes	Salary, taxable benefits, annual cash bonus £000	Share bonus accrual £000 (Note 1)	Total £000	Salary, taxable benefits, annual cash bonus £000	Share bonus accrual £000 (Note 1)	Total £000
Roger Boyes		325	99	424	315	85	400
James Crosby		547	142	689	291	78	369
Mike Ellis	2	359	115	474	281	80	361
Gren Folwell	3	323	99	422	312	85	397
Andy Hornby	4	52	10	62	–	–	–
John Lee		325	95	420	288	80	368

Notes to Table 1

Note 1: Bonuses under the Long Term Bonus Scheme, which started at the beginning of 1998, are stated on the basis set out in 3.2.4 and are based on the price of the Group's shares on 31 December 1999 (for the 1999 data) and on 31 December 1998 (for the 1998 data).

The share bonus accrual for the year to 31 December 1998 represents the share bonus accrued under the 1998 operation of the Short Term Bonus Scheme plus the 1998 accrual of the conditional share grant under the 1998-2000 operation of the Long Term Bonus Scheme which is not guaranteed and is conditional on performance during 1998-2000.

The share bonus accrual for the year to 31 December 1999 represents the share bonus accrued under the 1999 operation of the Short Term Bonus Scheme plus the 1999 accrual of the conditional share grants under both the 1998-2000 and 1999-2001 operations of the Long Term Bonus Scheme which are not guaranteed and are conditional on performance during 1998-2000 and 1999-2001.

Note 2: The remuneration for Mike Ellis reflects his appointment as Chief Operating Officer on 1 October 1999.

Note 3: The remuneration for Gren Folwell, who retired from the Group on 31 December 1999, excludes the amount set out in 3.5.1 in connection with his retirement arrangements.

Note 4: The remuneration for Andy Hornby, who joined the Group on 1 November 1999, excludes the amount set out in 3.3.2 in connection with his joining arrangements.

3.3.2 Regulatory Presentation for Directors

Table 2 below has been prepared in accordance with regulatory requirements in respect of Directors' remuneration for the year ended 31 December 1999:

Table 2

	Notes	Salary £000	Benefits £000	Short term bonus £000 (Note 1)	Fees and further remuneration £000	Total year ended 31.12.99 £000	Comparative total year ended 31.12.98 £000
Chairmen							
Jon Foulds	3	169	–	–	–	169	320
Lord Stevenson	2	128	–	–	–	128	–
Executive Directors							
Mike Blackburn	4	–	–	–	–	–	655
Roger Boyes		249	13	126	–	388	370
James Crosby	5	425	14	217	–	656	341
Mike Ellis	5	267	9	166	–	442	336
Gren Folwell	4	248	13	126	–	387	367
Andy Hornby	5	41	–	21	200	262	–
John Lee		248	15	126	–	389	343
John Miller	4	–	–	–	–	–	340
Non-Executive Directors							
Mike Blackburn, Vice Chairman	2,3	–	12	–	440	452	–
John Wood, Vice Chairman	6	–	–	–	93	93	89
Lord Chadlington		–	–	–	45	45	36
Roy Chapman		–	–	–	36	36	33
Tony Coleby		–	–	–	37	37	35
Nigel Colne	3	–	–	–	12	12	31
Derek Cook	3	–	–	–	–	–	10
Duncan Ferguson		–	–	–	36	36	29
Ralph Hodge	3	–	–	–	–	–	14
John Kay		–	–	–	33	33	32
John Leighfield	2	–	–	–	20	20	–
Prue Leith	3	–	–	–	10	10	30
Philip Rogerson	3	–	–	–	–	–	42
Louis Sherwood	6	–	–	–	55	55	53
Philip Yea	2	–	–	–	6	6	–
Total		1,775	76	782	1,023	3,656	3,506

Notes to Table 2

Note 1: The terms of the Short Term Bonus Scheme are set out in 2.3.1. The amounts approved by the Remuneration and Senior Succession Committee, for payment or establishment in March 2000, relate to 1999. Half the amounts shown are payable in cash in March 2000. The remainders are payable in shares which will not be released to participants until March 2003. These shares will be granted at £6.78, the average market price in the ten business days ending on 31 December 1999. The following shares will therefore be granted to participants:

Roger Boyes	9,263 shares	Gren Folwell	9,263 shares
James Crosby	15,906 shares	Andy Hornby	1,544 shares
Mike Ellis	12,164 shares	John Lee	9,263 shares

Note 2: Appointment dates were as follows: John Leighfield – 19 April 1999; Mike Blackburn – 1 January 1999; Lord Stevenson – 19 May 1999 (21 July 1999 as Chairman); Philip Yea – 1 October 1999.

Note 3: Retirement dates were as follows: Derek Cook – 21 April 1998; Ralph Hodge – 21 April 1998; Philip Rogerson – 16 December 1998; Nigel Colne – 27 April 1999 (Nigel Colne retired as a Non-Executive Director of the Group, but continues to serve as a Non-Executive Director of a number of subsidiaries, for which he receives a fee of £10,000 p.a.); Prue Leith – 27 April 1999; Jon Foulds – 31 July 1999 (21 July 1999 as Chairman); Mike Blackburn – 31 December 1999.

Note 4: Mike Blackburn ceased to be Chief Executive of the Group on 31 December 1998. He served as a Non-Executive Vice Chairman of the Group throughout 1999 and retired from the Group on 31 December 1999. John Miller ceased to be an Executive Director of the Group on 31 December 1998. He continued to be employed by the Group until 30 April 1999. Details of their retirement arrangements were outlined in last year's Report.

Gren Folwell ceased to be an Executive Director of the Group on 31 December 1999. Details of his retirement arrangements are set out in 3.5.1. He will serve as a Non-Executive Director of a number of subsidiary companies of the Group from 1 January 2000 for which he will receive a fee of £17,500 p.a..

Note 5: James Crosby was appointed Chief Executive of the Group from 1 January 1999.

Mike Ellis was appointed Chief Operating Officer of the Group from 1 October 1999.

Andy Hornby joined the Group as Chief Executive, Halifax Retail from 1 November 1999 and was appointed as an Executive Director on 18 November 1999. His remuneration includes two components which are in lieu of the bonus he was otherwise due to receive had he remained with his previous employer. Firstly, an amount of £200,000 was paid to him when he joined the Group. Secondly, he will, with effect from 1 January 2000, receive a conditional share grant based on an amount of £300,000 with release subject to TSR performance over the period from 1 January 2000 to 31 December 2002, subject to a minimum release at the end of that period based on an amount of £150,000.

Note 6: The fees include payments to John Wood of £24,000 (1998: £22,500) and Louis Sherwood of £23,350 (1998: £22,800) in respect of services as directors of subsidiaries.

3.3.3 Non-Executive Directors

From 1 January 1999 John Wood's annual fee was increased to £68,000 p.a. (from £65,000 p.a. which had applied from 1 January 1998).

On 1 January 1999 Mike Blackburn was appointed as an additional Vice Chairman for a one year period based on remuneration equivalent to the salary due to him in that year under his service contract as Chief Executive.

In 1999 the annual fee payable to other Non-Executive Directors was £24,750 (1998: £23,000). This fee covered duties and responsibilities associated with Board meetings, the Annual General Meeting and the Strategy Conference. Further remuneration is paid to Non-Executive Directors for the responsibilities associated with Board committees and subsidiary boards.

3.4 Pension benefits as at 31 December 1999

For the sake of completeness, pension details for Mike Blackburn and Gren Folwell are included in this section; their detailed individual arrangements are covered in 3.5.

Messrs Boyes, Crosby, Ellis, Folwell, Hornby and Lee are entitled, on retirement from service at normal retirement date, to a pension calculated on the basis of 60%, 60%, 66.7%, 66.7%, 66.7% and 60% respectively, of final salary, disregarding the earnings cap (as defined in the Finance Act 1989). These pensions are provided from the Halifax Retirement Fund (to the extent permitted by legislation) and otherwise from separate unfunded arrangements with the Group.

Messrs Folwell and Ellis are entitled to a lump sum life assurance benefit of four times salary under the Fund. Messrs Boyes, Crosby, Hornby and Lee are entitled to a lump sum life assurance benefit of four times the statutory earnings cap under the Fund. Additional life assurance benefit is provided for them via separate arrangements so that, in broad terms, the total life assurance benefit is that which would have applied under the Fund had the earnings cap not been in place.

The Actuary to the Fund estimates that the costs to the Group of providing pension and life assurance benefits over the future service periods of the Executive Directors are, as annual percentages of salaries, 54%, 21%, 29%, 39%, 28% and 55% for Messrs Boyes, Crosby, Ellis, Folwell, Hornby and Lee respectively. These costs are calculated on the funding assumptions adopted for the latest actuarial valuation of the Fund and do not distinguish between the costs of providing benefits from the Fund and the costs of providing benefits from separate unfunded arrangements.

Details of each Executive Director's accrued pension benefits are shown as follows:

Table 3

	Age at 31.12.99	Accrued pension at 31.12.99 £ (Note 1)	Increase in accrued pension for year to 31.12.99 £ (Note 2)	Director's contribution in year to 31.12.99 £ (Note 3)	Value of increase in accrued pension (less Director's contribution) £ (Note 4)
Mike Blackburn	58	232,165	19,896	8,800	342,542
Roger Boyes	55	108,801	6,966	4,950	114,218
James Crosby	43	155,271	73,787	8,500	828,029
Mike Ellis	48	116,396	23,772	5,341	323,155
Gren Folwell	56	142,298	3,519	4,950	55,982
Andy Hornby	32	919	919	827	5,553
John Lee	55	106,678	19,074	4,950	318,964

Notes to Table 3

Note 1: The accrued pension at 31 December 1999 is the pension which the Director would have been entitled to receive based on his completed pensionable service, had he left on 31 December 1999, payable from normal retirement date (age 60) and subject to revaluation increases between leaving and retirement.

Note 2: The increase in accrued pension is the accrued pension at 31 December 1999 less the accrued pension at 31 December 1998, after allowance for RPI-linked revaluation increases of 3.2% to the latter pension covering the year to 31 December 1999.

Note 3: The Director's contribution is the contribution required from him under the terms of the Fund and exclusive of any voluntary contributions made.

Note 4: The value of the increase in accrued pension is the money which could have been transferred to another qualifying pension arrangement in respect of the increase in accrued pension, had the Director left on 31 December 1999, exclusive of the Director's own contribution, and calculated in accordance with actuarial guidance.

In addition to the above, the Group made contributions totalling £20,109 (1998: £18,375) to a money purchase scheme during the year in respect of Gren Folwell.

3.5 Retirement Arrangements

3.5.1 Gren Folwell

Gren Folwell, who was Deputy Chief Executive until 31 December 1999, was given notice under his service contract with effect from that date. The service contract provides for one year's notice and he will receive this as a lump sum amounting to £247,500. His participation in the Short Term and the Long Term Bonus Schemes is based on his service to 31 December 1999.

From 1 January 2000, he will receive an immediate pension based on his pension accrued calculated in accordance with his service contract, but not reduced for early payment. This basis of pension provision is consistent with that applying to staff of similar age who leave the Group under its early retirement severance arrangements. The cost of waiving the reduction for early payment of pension is £331,000.

3.5.2 Mike Blackburn

Mike Blackburn, who was Chief Executive until 31 December 1998 and Non-Executive Vice Chairman until 31 December 1999, will receive an immediate pension from 1 January 2000. Details of his retirement arrangements were outlined in the Committee's report last year.

3.6 Directors' Share Interests

3.6.1 Shares

The beneficial interests of the Directors and their immediate families in the ordinary shares of the Group are set out below:

Table 4

	Number of shares in Halifax Group plc at 31.12.99	Number of shares in Halifax plc at 1.1.99*
Chairmen		
Jon Foulds (retired 31.7.99)	N/A	1,181
Lord Stevenson	73,061	1,181
Vice Chairmen		
Mike Blackburn (retired 31.12.99)	8,561	8,003
John Wood	1,678	1,672
Executive Directors		
Roger Boyes	6,796	7,348
James Crosby	4,122	408
Mike Ellis	4,816	4,994
Gren Folwell (retired 31.12.99)	2,843	2,834
Andy Hornby	638	632
John Lee	9,353	2,276
Non-Executive Directors		
Lord Chadlington	8,417	10,281
Roy Chapman	1,164	1,220
Tony Coleby	217	205
Nigel Colne (retired 27.4.99)	N/A	1,716
Duncan Ferguson	1,156	976
John Kay	215	208
John Leighfield	–	–
Prue Leith (retired 27.4.99)	N/A	1,036
Louis Sherwood	–	–
Philip Yea	2,185	185

*or date of appointment if later

None of the Directors had a non-beneficial interest in the ordinary share capital of Halifax Group plc at the beginning or end of the year. Certain Directors and former Directors will receive further interests in the ordinary shares of the Group arising out of the Short Term Bonus Scheme and, potentially, the Long Term Bonus Schemes.

3.6.2 Short Term Bonus Scheme

Details of the ordinary shares of the Group in which Directors and former Directors have an interest under the scheme are set out below:

Table 5

	Shares in Halifax plc			Shares in Halifax Group plc	
	At 31.12.98	Granted in Year (Note 1)	Waived in Year (Note 2)	Granted in Year (Note 2)	At 31.12.99
Mike Blackburn	–	11,472	11,472	11,496	11,496
Roger Boyes	–	6,453	6,453	6,466	6,466
James Crosby	–	5,931	5,931	5,943	5,943
Mike Ellis	–	6,453	6,453	6,466	6,466
Gren Folwell	–	6,453	6,453	6,466	6,466
John Lee	–	6,453	6,453	6,466	6,466
John Miller	–	5,931	5,931	5,943	5,943

Notes to Table 5

Note 1: The shares, which relate solely to the 1998 operation of the Short Term Bonus Scheme, were granted at £8.63, the average market price in the ten business days ending on 31 December 1998.

Note 2: As part of the group reconstruction scheme participants agreed to waive shares in Halifax plc and were granted replacement shares in Halifax Group plc using a basis agreed with the Inland Revenue.

3.6.3 Long Term Bonus Scheme and Special Long Term Bonus Scheme

Details of the ordinary shares which have been conditionally awarded to Directors and former Directors under the schemes are set out below. The performance conditions that relate to these conditional rewards are set out in 2.3.2, other than in respect of Lord Stevenson, to whom Note 4 to the table applies.

Table 6

	Shares in Halifax plc			Shares in Halifax Group plc	
	At 31.12.98 (Note 1)	Granted in Year (Note 2)	Waived in Year (Note 3)	Granted in Year (Note 3)	At 31.12.99
Mike Blackburn	55,774	26,768	82,542	82,715	82,715
Roger Boyes	31,496	15,057	46,553	46,650	46,650
James Crosby	28,871	13,839	42,710	42,798	42,798
Mike Ellis	26,246	15,057	41,303	41,389	41,389
Gren Folwell	31,496	15,057	46,553	46,650	46,650
John Lee	26,246	15,057	41,303	41,389	41,389
John Miller	28,871	13,839	42,710	42,798	42,798
Lord Stevenson (Note 4)	–	–	–	31,705	31,705

Notes to Table 6

Note 1: The shares, which relate solely to the 1998-2000 operation of the Long Term Bonus Scheme, were granted at £7.62, the average market price in the ten business days ending on 31 December 1997.

Note 2: The shares, which relate solely to the 1999-2001 operation of the Long Term Bonus Scheme, were granted at £8.63, the average market price in the ten business days ending on 31 December 1998.

Note 3: As part of the group reconstruction, where relevant, scheme participants agreed to waive shares in Halifax plc and were granted replacement shares in Halifax Group plc using a basis agreed with the Inland Revenue.

Note 4: The shares for Lord Stevenson will be granted at £7.88½, the average market price in the ten business days ending on 30 June 1999, as set out in 3.1.

3.6.4 Sharesave Scheme

The Group's Sharesave Scheme was founded in August 1997. It is available to the majority of staff. First, second and third operations of the arrangement started in August 1997, August 1998 and August 1999, respectively.

About 80% of eligible staff have participated in the scheme. The scheme allows staff to save a fixed amount of money on a monthly basis. At the end of a pre-determined period, staff have the right, if they so choose, to use the funds accumulated to purchase shares in the Group at a fixed price (£5.79 for the arrangement which started in 1997, £5.78 for the arrangement which started in 1998 and £5.37 for the arrangement which started in 1999).

Eligible Executive Directors have each taken up membership of the Sharesave Scheme and the projected numbers of shares which they would be entitled to purchase at the end of the relevant pre-determined period are set out below:

Table 7

	Shares in Halifax plc				Shares in Halifax Group plc				
	At 31.12.98 (Note 1)	Granted in Year	Waived in Year (Note 2)	Exercised in Year (Note 3)	Granted in Year (Note 2)	Exercised in Year (Note 3)	At 31.12.99	Initial Exercise Date	Expiry Date
Mike Blackburn	2,974	–	–	1,020	–	–	–	–	–
Roger Boyes	3,362	–	3,362	–	3,369	–	3,369	1.9.2004	1.3.2005
James Crosby	2,974	–	2,974	–	2,980	–	2,980	1.9.2002	1.3.2003
Mike Ellis	2,974	–	2,974	–	2,980	–	2,980	1.9.2002	1.3.2003
Gren Folwell	1,681	–	1,681	–	1,684	–	1,684	1.9.2000	1.3.2001
John Lee	3,362	–	3,362	–	3,369	–	3,369	1.9.2004	1.3.2005
John Miller	2,974	–	2,974	–	2,980	1,107	–	–	–

Notes to Table 7

Note 1: Each eligible Executive Director makes the maximum permitted monthly contribution to the scheme. The share grants vary by reference to the periods over which participants have elected to save.

Note 2: As part of the group reconstruction, where relevant, scheme participants agreed to waive shares in Halifax plc and were granted replacement shares in Halifax Group plc using a basis agreed with the Inland Revenue.

Note 3: Mike Blackburn and John Miller have exercised interests under the scheme. Their remaining options lapsed and they are no longer members of the scheme. They exercised their share options on 7 July 1999 and 17 November 1999 respectively. These resulted in gains of £1,782 and £1,234, being the differences between the market value of the shares at the dates of exercise of £7.54 and £6.91 respectively, against an option price, in both cases, of £5.79.

3.6.5 Interest in Shares under Trusts

The Executive Directors, together with certain other Executives, are deemed to have an interest as potential discretionary beneficiaries under the Group's Employee Share Ownership Plan. As such, they were each treated as at 31 December 1999 as being interested in the 2,000,000 ordinary shares (31 December 1998 – nil) held by the trustee of that Trust. The shares held in the Trust will be used to satisfy share awards under the Short Term and Long Term Bonus Schemes.

The Executive Directors, together with certain other Executives and staff, are deemed to have an interest as potential discretionary beneficiaries under the Group's Qualifying Employee Share Ownership Trust. As such, they were each treated as at 31 December 1999 as being interested in the 14,626,075 ordinary shares (31 December 1998 – 14,432,826 ordinary shares) held by the trustee of that Trust. The shares held in the Trust are available to satisfy the exercise of rights granted under the Sharesave Scheme.

The market price of Halifax plc ordinary shares at 31 December 1998 was £8.53, the market price of Halifax Group plc ordinary shares at 31 December 1999 was £6.86½ and the ranges during the year were £6.86 to £9.18 (Halifax plc) and £6.45 to £8.76½ (Halifax Group plc).

3.6.6 General

The register of Directors' interests, which is open to inspection, contains full particulars of the Directors' shareholdings and options to subscribe for shares in the Group.

Except as disclosed no Director had any interest in the loan or share capital of any Group undertaking at the beginning or end of the financial year. No options to subscribe for shares in the other Group companies were granted.

There has been no change in the Directors' interests in shares or options granted by the Group and its subsidiaries between the end of the financial year and 17 February 2000, the date of approval of this Annual Report & Accounts.

Report of the Directors on Corporate Governance

As a listed company, Halifax Group plc has regard to a range of recommendations on key corporate governance issues, contained in the Combined Code issued by the London Stock Exchange. The Code contains both general principles of good governance and detailed requirements. The purpose of this report is to:

– explain how Halifax Group plc applies these principles; and

– report on compliance with the detailed provisions contained in the Code.

The Board

The effectiveness of the Halifax Board is underpinned by:

– a balance between Executive and Non-Executive Directors – in addition to the Chairman, the Board consists of five Executives and eleven Non-Executives and of the latter group all are considered to be independent;

– separation of the roles of Chairman and Chief Executive and the identification of John Wood, the Vice Chairman, as the senior independent Non-Executive Director to avoid the concentration of power in the hands of one individual or a small group;

– nine Board meetings each year at which operational performance is reported and reviewed against plan and new developments are considered against the Company's corporate objectives; and

– an agreed list of matters which require its approval.

All Directors are already subject to regular re-election by shareholders and the Halifax has adopted the recommendation contained in the Combined Code that no Director will serve for more than three years without being re-elected.

For newly appointed directors, a tailored induction programme is prepared having regard to their requirements to ensure that they are fully conversant both with the obligations of a director of a public limited company and with the business environment and activities of the Halifax.

Board Committees

The Board has established Committees to consider certain aspects of the Company in more detail than would be possible within the confines of a Board meeting. These Committees meet on a regular basis and report back to the Board on decisions made and issues raised at these meetings to ensure that all Directors are kept informed of their activities. The Committees, and a summary of the terms of reference of each, are set out below:

Group Audit Committee

Roy Chapman (Chairman)
Lord Chadlington
Tony Coleby
Louis Sherwood

This Committee, which consists entirely of Non-Executive Directors, considers audit matters across the Group with the support of four risk control committees covering the substantive business units, namely Retail Financial Services, Treasury & Wholesale Banking, Clerical Medical and Birmingham Midshires. In particular, the Committee's responsibilities include all statutory compliance matters, internal systems of control, the relationship between internal and external auditors, accounting policies and all other regulatory and prudential requirements. Representatives of the Company's internal audit and risk management functions and the Company's auditors, KPMG Audit Plc, regularly attend the Committee's meetings. The Committee also keeps under review the nature and level of non-audit work undertaken by KPMG Audit Plc and its associates.

Remuneration and Senior Succession Committee

John Wood (Chairman)
Lord Chadlington
Duncan Ferguson
John Leighfield

This Committee consists entirely of Non-Executive Directors. It considers remuneration policy and Executive succession planning. The Board delegates to this Committee decisions on Executive Directors' remuneration packages, including the operation of the Executive bonus schemes, service contracts and compensation payments.

Nominations Committee
Lord Stevenson (Chairman)
James Crosby
Duncan Ferguson
John Leighfield

This Committee is responsible for considering new Board appointments and meets at least annually to consider the composition of the Board.

Special Committee
Lord Stevenson (Chairman)
James Crosby
plus at least two other Directors nominated by the Chairman.

This Committee can make decisions on matters of urgency concerning the Company which would otherwise require a decision of the Board of the Company but which cannot await the next meeting of the Board. It can only act where the members of the Committee are in unanimous agreement, otherwise the matter must be referred to the full Board. The Chairman and Chief Executive must try to obtain the views of the other members of the Board (who can require a Board meeting to be held to discuss the matter) and any decisions taken in this way must be reported to the next Board meeting.

Directors' Remuneration
The report on Directors' remuneration is contained on pages 29 to 38.

The Remuneration and Senior Succession Committee is responsible for making recommendations to the Board on policy for Executive remuneration as well as itself deciding individual Executive packages. In doing so it has access to comparative information produced both internally and by external consultants. In all of this it must balance the need to encourage Executives to meet the demanding targets set by the Board with the need to ensure that the Company gets value for money. The close linkage between improved performance and payment of individual bonuses, and the combination of short term and long term targets, is intended to ensure that only by delivering sustained high levels of performance to the benefit of shareholders can Executives themselves benefit from the rewards offered by these schemes.

Shareholder Relations
Halifax Group plc communicates with its institutional shareholders through a combination of analysts' briefings both at the interim and year end results stage and individual discussions with key members of the management team, co-ordinated by our Investor Relations Department.

We recognise the importance of maintaining a regular dialogue with these shareholders to ensure that the Company's strategy is understood and that any concerns can be addressed in a constructive way.

With over three million shareholders, for most the main source of information is the Shareholders' Annual Review and Summary Financial Statement which is intended to communicate key facts about the Company's performance in a clear and concise way. Those who would like more information can receive the full Annual Report & Accounts on request or access such information through the web site www.halifaxplc.com. All shareholders do have the opportunity to attend our Annual General Meeting where a business report is presented and relevant aspects of the Company's operations can be questioned and discussed with Directors. Throughout the year our Shareholder Services Helpline offers a contact point for shareholders on issues such as dividends and announcements.

Statement of Internal Control
The Board of Directors has overall responsibility for systems of internal control throughout the Group and for reviewing their effectiveness. These include controls over financial, operating, management and risk management systems, and are designed to provide reasonable and not absolute assurance against mis-statement or loss. They are also designed to manage rather than eliminate the risk of failure to achieve business objectives.

Among the principal features of the Group's systems of internal control is a planning process within which the Board approves strategy and a Group business plan. Managers prepare business plans at unit level showing specific plans and budgets for the following two years and longer term aspirations over a five year period. Plans are challenged and approved at Executive management level.

The Board receives comprehensive monthly information including financial and business performance showing variances against budgets and consideration of key performance indicators. There is also a regular reforecasting process in place.

Capital expenditure is subject to the disciplines of appraisal and approval and an annual budget is set subject to this process and incorporates the appropriate levels of authority at business unit level. There is a post investment review process.

The Group has adopted the principles of internal control set out by the Basel Committee on banking supervision.

The Board has authorised the principle of self certification leading to a regular flow of management information on senior management responsibilities and accountabilities, process level control accountability and compliance. Through regular self certification, management will be required to provide the Board, through the Committee structures, with assurance that controls across the Group are adequate, embedded and operating. Management are also required to confirm resolution of control weaknesses when they arise.

Internal Audit operate under clear and extensive terms of reference from the Board. These, together with its work plans, which are based on risks identified within the Group, are reviewed annually by the Group Audit Committee on behalf of the Board.

The Group Audit Committee meets seven times a year and receives regular reports from management, internal and external audit together with the independent risk functions on all matters of internal control including compliance with legislation and codes of practice. Within its remit it reviews the effectiveness of the Group's system of internal financial controls, and monitors the effectiveness of all other controls including risk management.

The Group Audit Committee is assisted in its work by four risk control committees covering systems of internal control in the Group's substantive business units: Retail Financial Services, Treasury & Wholesale Banking, Clerical Medical and Birmingham Midshires. Issues relating to the central support functions e.g. Finance, Information Technology and Personnel are dealt with at the Group Audit Committee.

Group Risk activities are described in the section on Group Risk Management on page 23.

The Combined Code introduced a requirement that the Directors review the effectiveness of the Group's system of internal controls. This extends the existing requirement in respect of internal financial controls to cover all controls including financial, operational, compliance and risk management.

Guidance for Directors *Internal Control: Guidance for Directors on the Combined Code* (the Turnbull guidance) was published in September 1999 and accordingly full compliance throughout the whole of 1999 is not practicable. Consequently during 1999 the Directors have continued to review and report upon internal financial controls in accordance with the ICAEW's 1994 guidance *Internal Control and Financial Reporting.*

Nevertheless, the Board confirms that a framework of procedures has been established, a significant part of which is in place, necessary to implement the Turnbull guidance so that full compliance can be achieved for the accounting period ending 31 December 2000.

Compliance with the Combined Code

Halifax Group plc is required to report on compliance with the detailed requirements of the Combined Code throughout the year ended 31 December 1999. Subject to the comments made above on systems of internal control, the Company has complied with all other provisions of the Code throughout the period under review.

Going Concern

The Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the financial statements.

Statement of Directors' Responsibilities for Financial Statements

The following statement, which should be read in conjunction with the Report of the Auditors on page 43, enables shareholders to distinguish the respective responsibilities of the Directors and the Auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year. The Directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to do so.

The Directors consider that in preparing the financial statements on pages 44 to 83 suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used and that all accounting standards which they consider applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Lord Stevenson
Chairman
17 February 2000

Report of the Auditors to the Members of Halifax Group plc

We have audited the financial statements on pages 44 to 83.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 42, this includes responsibility for preparing the financial statements in accordance with United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on page 41 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk control procedures.

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

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

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

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Leeds
17 February 2000

Consolidated Profit and Loss Account

(for the year ended 31 December 1999)

	Notes	1999 £m	1998 £m
Interest receivable:			
Interest receivable and similar income arising from debt securities		1,261	1,530
Other interest receivable and similar income		6,877	7,449
Interest payable		(5,684)	(6,613)
Net interest income		2,454	2,366
Fees and commissions receivable		796	711
Fees and commissions payable		(148)	(83)
Other operating income	2	202	164
Operating income		3,304	3,158
Administrative expenses:			
Exceptional	3	147	–
Ongoing	4	1,245	1,180
		1,392	1,180
Depreciation		145	148
Goodwill amortisation		15	–
		160	148
Provisions for bad and doubtful debts	7	123	96
Provisions for contingent liabilities and commitments	33	19	29
Operating profit		1,610	1,705
Share of operating profit in joint ventures		6	–
Profit on ordinary activities before tax	8	1,616	1,705
Tax on profit on ordinary activities	9	540	534
Profit on ordinary activities after tax		1,076	1,171
Minority interests (non-equity)	10	12	–
Profit attributable to shareholders	11	1,064	1,171
Dividends	12	538	489
Profit retained for the financial year	35	526	682
Underlying earnings per share	13	53.3p	47.5p
Basic earnings per share	13	46.1p	47.5p
Diluted earnings per share	13	46.0p	47.4p

There were no material gains or losses other than the profit shown above in either year.

The notes on pages 49 to 83 form part of these financial statements.

Reconciliation of Movements in Shareholders' Funds

(for the year ended 31 December 1999)

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Profit attributable to shareholders	1,064	1,171	2,227	–
Dividends	(538)	(489)	(538)	–
	526	682	1,689	–
Return of capital to shareholders	(1,509)	–	–	–
Goodwill reinstatement on disposal/closure of estate agency branches	124	–	–	–
Issue of ordinary shares	1	–	451	–
Repurchase of shares	(39)	(750)	(39)	–
Foreign currency translation difference on subsidiary undertaking	(4)	2	–	–
Other movements	6	–	–	–
Net (reduction in)/addition to shareholders' funds	(895)	(66)	2,101	–
Opening shareholders' funds	7,149	7,215	–	–
Closing shareholders' funds	6,254	7,149	2,101	–

The notes on pages 49 to 83 form part of these financial statements.

Consolidated Balance Sheet

(as at 31 December 1999)

	Notes	1999 £m	1998 £m
Assets			
Cash and balances at central banks		357	247
Treasury bills and other eligible bills	14	2,768	1,958
Loans and advances to banks	15	10,770	10,848
Loans and advances to customers	16	96,566	85,074
Debt securities	18	22,770	23,806
Investments in joint ventures:	19		
Share of gross assets		635	629
Share of gross liabilities		(464)	(459)
		171	170
Intangible fixed assets	22	420	–
Tangible fixed assets	23	901	920
Own shares	24	12	–
Other assets	25	298	311
Prepayments and accrued income	26	1,082	1,187
Long term assurance business attributable to shareholders	27	1,728	921
		137,843	125,442
Long term assurance assets attributable to policyholders	27	24,235	19,132
Total Assets		162,078	144,574
Liabilities			
Deposits by banks	28	11,871	9,390
Customer accounts	29	87,853	84,953
Debt securities in issue	30	23,494	16,389
Other liabilities	31	1,273	1,395
Accruals and deferred income	32	3,436	4,214
Provisions for liabilities and charges	33	91	96
Subordinated liabilities	34	2,876	1,856
Minority interests (non-equity)	10	695	–
Equity shareholders' funds:			
Called up share capital	35	449	487
Share premium account	35	1	–
Capital redemption reserve	35	1	–
Other reserves	35	6	137
Profit and loss account	35	5,797	6,525
		6,254	7,149
		137,843	125,442
Long term assurance liabilities attributable to policyholders	27	24,235	19,132
Total Liabilities		162,078	144,574
Memorandum items			
Contingent liabilities – guarantees and assets pledged as collateral security	37	–	649
Commitments	38	5,537	4,461

Approved by the Board on 17 February 2000 and signed on its behalf by:

Lord Stevenson	Chairman
J R Crosby	Director and Chief Executive
R F Boyes	Group Finance Director

The notes on pages 49 to 83 form part of these financial statements.

Company Balance Sheet

(as at 31 December 1999)

	Notes	1999 £m	1999 £m	1998 £m	1998 £m
Fixed Assets					
Investments					
Shares in group undertakings	20		4,376		–
Own shares	24		12		–
			4,388		–
Creditors: Amounts falling due within one year					
Amounts owed to Group undertakings		1,401		–	
Dividends payable		375		–	
Accruals	32	14		–	
Net Current Liabilities			1,790		–
Total assets less current liabilities			2,598		–
Creditors: Amounts falling due after more than one year					
Subordinated liabilities	34		497		–
Net Assets			2,101		–
Capital and Reserves					
Called up share capital	35		449		–
Share premium account	35		1		–
Capital redemption reserve	35		1		–
Profit and loss account	35		1,650		–
Equity Shareholders' Funds			2,101		–

Approved by the Board on 17 February 2000 and signed on its behalf by:

Lord Stevenson	Chairman
J R Crosby	Director and Chief Executive
R F Boyes	Group Finance Director

The notes on pages 49 to 83 form part of these financial statements.

Consolidated Cash Flow Statement

(for the year ended 31 December 1999)

	Notes	1999 £m	1998 £m
Net cash inflow from operating activities (see below)		**1,849**	9,079
Dividends from joint ventures		**10**	–
Returns on investments and servicing of finance	49a	**(161)**	(175)
Taxation		**(338)**	(804)
Capital expenditure and financial investment	49b	**(1,015)**	(6,665)
		345	1,435
Acquisitions and disposals	49c	**(244)**	(163)
Equity dividends paid		**(489)**	(589)
		(388)	683
Financing	49d	**(210)**	(800)
Decrease in cash	49e	**(598)**	(117)

Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**1,610**	1,705
Decrease/(increase) in prepayments and accrued income	**143**	(327)
(Decrease)/increase in accruals and deferred income	**(1,021)**	438
Provisions for bad and doubtful debts	**123**	96
Amounts written off loans and advances	**(192)**	(118)
Provisions for contingent liabilities and commitments	**19**	29
Provisions utilised	**(33)**	(107)
Depreciation	**145**	148
Goodwill amortisation	**15**	–
Goodwill written off (previously charged to reserves)	**124**	–
Increase in the value of long term assurance business	**(184)**	(146)
Interest on subordinated liabilities	**182**	172
Other non-cash movements	**(6)**	19
Net cash inflow from trading activities	**925**	1,909
Increase in treasury and other eligible bills	**(129)**	(103)
Decrease/(increase) in loans and advances to banks	**311**	(1,307)
Increase in loans and advances to customers	**(4,607)**	(1,683)
Decrease/(increase) in debt securities	**619**	(390)
(Increase)/decrease in other assets	**(42)**	205
Increase in deposits by banks	**2,200**	4,020
(Decrease)/increase in customer accounts	**(3,706)**	3,852
Increase in debt securities in issue	**6,597**	2,347
(Decrease)/increase in other liabilities	**(319)**	229
Net cash inflow from operating activities	**1,849**	9,079

The notes on pages 49 to 83 form part of these financial statements.

1 Accounting Policies

Accounting Convention
The financial statements are drawn up under the historical cost convention in compliance with the special provisions of Part VII of the Companies Act 1985 applicable to banking groups. The consolidated accounts comply with Schedule 9 and the accounts of the Company comply with Schedule 4 to the Companies Act. The financial statements have been prepared in accordance with applicable accounting standards, other than the application of merger accounting in the circumstances referred to below, and in accordance with the Statements of Recommended Accounting Practice issued by the British Bankers' Association and the Irish Bankers' Federation.

The financial statements have been prepared in accordance with the requirements of three new Financial Reporting Standards (FRS 12, 13 and 15). There have been no changes to the Group's accounting policies other than those required by the adoption of FRS 12 and FRS 15. There have been no changes to previously reported figures as a result of adopting the new standards.

Basis of Preparation of Financial Statements
Halifax Group plc was incorporated on 2 December 1997 as Valuesouth Ltd and re-registered as a public limited company on 2 March 1999.

Following court approval of the scheme of arrangement of Halifax plc, on 1 June 1999 all the ordinary shares in Halifax plc were cancelled and the credit arising in the books of Halifax plc on the cancellation of ordinary shares was applied in paying up, in full at par, the same number of shares of 20p nominal value as those cancelled. These new ordinary shares in Halifax plc were issued to Halifax Group plc which holds all of the issued ordinary share capital of Halifax plc.

As consideration for the cancellation of their ordinary shares, each shareholder who had previously held shares in Halifax plc received 62p per share and 37 shares in Halifax Group plc for every 40 shares previously held in Halifax plc.

This share reduction and group reconstruction has been accounted for using merger accounting principles, in order to meet the overriding requirement under section 227(6) of the Companies Act 1985 for financial statements to present a true and fair view. The transaction does not meet one of the conditions for merger accounting under the Companies Act 1985, namely that the fair value of any non-equity consideration must not exceed 10% of the nominal value of equity shares issued. However, the Directors consider that the alternative approach of acquisition accounting, with the restatement of separable assets and liabilities to fair values, the creation of goodwill and inclusion of post-reorganisation results only, would not give a true and fair view of the Group's results and financial position. The substance of the transaction was not the acquisition of a business but a group reconstruction under which a new holding company has been established with all the former ordinary shareholders of Halifax plc having the same proportionate interest in the new holding company as they had previously held in Halifax plc. The Directors consider that it is not practicable to quantify the effect of this departure from the Companies Act 1985 requirements.

For the consolidated accounts the adoption of merger accounting presents Halifax Group plc as if it had always been the parent undertaking of the Group. As Halifax Group plc did not trade in the year ended 31 December 1998, the comparative results shown for the year ended 31 December 1998, and the financial position at that period end, are therefore those presented previously as the audited results and position of Halifax plc group, except that the share premium account and capital redemption reserve of Halifax plc have been reclassified as other reserves.

Halifax plc previously adopted merger accounting principles in accounting for the conversion to listed company status in June 1997. This is explained fully in Halifax plc's Annual Accounts for the years ended 31 December 1997 and 1998.

Basis of Consolidation
The Group financial statements include the audited results of the Company and its subsidiaries. The accounts of all principal subsidiaries are made up to 31 December. The assets and liabilities of the long term assurance business are presented separately from those of other businesses in order to reflect the different nature of the shareholders' interest therein.

Investments in Subsidiaries and Joint Ventures
Investments in subsidiaries and joint ventures are stated in the Company's balance sheet at the lower of cost and recoverable amount, with the exception of the investment in Halifax plc which is carried at the nominal value of the shares issued together with the cash consideration paid to acquire that company. The Group's interest in joint ventures is stated at the Group's share of gross assets, including any related unamortised goodwill, less the Group's share of gross liabilities.

Mortgage Incentive Schemes
All costs associated with mortgage incentive schemes are charged in full in the year in which the expense is incurred.

1 Accounting Policies Continued

Provisions for Bad and Doubtful Debts

Provisions are made to reduce the carrying value of loans and advances to the amount which the Directors consider is likely to be received. Following an appraisal of loans and advances at the balance sheet date, specific provisions for losses are made in respect of those loans and advances individually identified as impaired. General provisions are made to cover losses on loans and advances impaired at the balance sheet date which, although not yet specifically identified, are known from experience to exist within the portfolio of loans and advances. The charge to the profit and loss account reflects the movement in the level of provisions made together with amounts written off net of recoveries in the year.

Taxation

Corporation tax is provided on the profit on ordinary activities as adjusted for taxation purposes. Provision is made for deferred taxation using the liability method at an appropriate rate of tax for all material timing differences where it is considered that a liability will crystallise in the foreseeable future.

Finance Leases

The net investment in finance leases represents total minimum lease payments less gross earnings allocated to future periods. Leasing income is credited to the profit and loss account using an actuarial method to give a constant periodic return on the net cash investment.

Securities

Securities held with the intention of use on a continuing basis are classified as investment securities and stated at cost. Where the adjusted purchase price differs from par value, the premium or discount is amortised over the period to maturity. Provision is made for any permanent diminution in value.

Securities held for trading purposes are included in the balance sheet at their current market value. Any adjustments to market value are included in the profit and loss account as they arise.

Securities sold subject to repurchase agreements are retained within the balance sheet where the Group retains substantially all of the risks and rewards of ownership. Funds received under these arrangements are included within deposits by banks or customer accounts. Conversely, securities acquired under commitments to resell are not recognised in the balance sheet, where substantially all the risks and rewards do not pass to the Group. In this case, the purchase price is included within loans and advances to banks or loans and advances to customers.

Long Term Assurance Business

The value of the long term assurance business comprises the surplus retained in the long term assurance assets and liabilities attributable to policyholders together with a prudent estimate of the net present value of in-force business. The change in this value, grossed up at the effective rate of taxation, is included within other operating income.

Tangible Fixed Assets and Depreciation

The cost of all additions and major alterations to office premises, plant, equipment, fixtures, fittings and vehicles is capitalised according to FRS 15.

The cost of tangible fixed assets is written off over their estimated expected useful lives in equal annual instalments, which are taken as:

Buildings	
Freehold properties	100 years
Leasehold properties (100 or more years unexpired)	100 years
Leasehold properties (less than 100 years unexpired)	Unexpired period of lease
Plant and equipment and major alterations to existing properties	5 – 10 years
Equipment, fixtures, fittings and vehicles	3 – 6 years

Provision is made for the diminution in value of any fixed asset where an impairment is identified. Annual impairment reviews are performed for fixed assets with an expected remaining life which exceeds 50 years. The resulting net book value of the asset is written off over its remaining expected economic life.

Debt Securities in Issue and Subordinated Liabilities

Premiums and discounts together with commissions and other costs incurred in the issuing of fixed and floating rate notes and subordinated liabilities are accounted for as an adjustment to the amount of the liability and amortised over the relevant period to maturity.

1 Accounting Policies Continued

Additional Mortgage Security

The recognition of income is deferred in respect of premiums received by the Group for additional mortgage security on high loan to value advances. After due allowance for the expected level of claims, the surplus or deficit arising is included in the consolidated profit and loss account.

Goodwill

The excess of the fair value of purchase consideration over the fair value of net assets at the date of acquisition of subsidiary undertakings, associates, joint ventures and other businesses is capitalised in the year of acquisition and amortised over its useful economic life. Goodwill on acquisitions prior to 31 December 1997 was eliminated against reserves and has not been reinstated, as permitted by FRS 10. On the disposal of subsidiary undertakings and other businesses any related goodwill charged directly to reserves prior to 1 January 1998 is reinstated and included in the calculation of the profit or loss on disposal.

Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the appropriate rates of exchange prevailing at the year end date and exchange differences are dealt with in the profit and loss account.

In the Group financial statements, the results of overseas subsidiaries are translated using the closing rate. Exchange differences arising on the retranslation of the opening net investment in the subsidiaries at the closing rate are taken directly to profit and loss account reserves.

Derivative Financial Instruments

Derivative financial instruments used for trading and non-trading purposes include interest rate swaps, cross currency swaps, futures, options, forward rate agreements and caps and floors.

Derivatives used in trading activities are included in the financial statements at market value. Changes in the market value of trading derivatives are taken directly to the profit and loss account. Non-trading derivatives are accounted for on an accruals basis in accordance with the assets or liabilities being hedged (including anticipatory transactions). Profits or losses on instruments which are being used to hedge exposures are recognised in a manner that reflects the accounting treatment of the assets or liabilities being hedged.

A derivative is designated as a hedge if its purpose is to match or eliminate the risk inherent in the Group's non-trading assets, liabilities and cash flows arising from potential movements in interest rates, exchange rates and market values.

In circumstances where a non-trading derivative no longer represents a hedge, the derivative is restated at fair value with any change in its fair value being directly reported in the profit and loss account. Thereafter the derivative is transferred to the trading book and accounted for accordingly.

Retirement Benefits

The cost of providing retirement pensions and related benefits is assessed in accordance with the advice of qualified actuaries and is charged to the profit and loss account over the periods which benefit from the employees' services.

The full provision basis has been used in accounting for the deferred tax implications of pensions and other post-retirement benefits.

2 Other Operating Income

	Group	
	1999 £m	1998 £m
Increase in value of long term assurance business (note 27)	**184**	146
Other	**18**	18
	202	164

3 Exceptional Administrative Expenses

	Group	
	1999 £m	1998 £m
Corporate restructuring and return of capital	11	–
Network integration costs:		
Proceeds of disposal	(6)	–
Costs of disposal or closure	18	–
Goodwill written off (previously charged to reserves)	124	–
	136	–
	147	–

Corporate restructuring and return of capital costs comprise £8m costs relating to the scheme of arrangement, which was implemented on 1 June 1999, and £3m ancillary costs which included the cost of explanatory communications prepared for retail shareholders.

Network integration costs, which relate to continuing activities, represent the cost of disposal or closure of approximately one third of the estate agency branch network, together with associated costs of integration and reorganisation within the retail bank branch network. No significant tax relief has been anticipated in these accounts in respect of these exceptional expenses.

4 Ongoing Administrative Expenses

	Group	
	1999 £m	1998 £m
Staff costs:		
Wages and salaries	615	557
Social security costs	47	43
Other pension costs	31	19
Other post-retirement benefits	4	3
	697	622
Other administrative expenses	548	558
	1,245	1,180

These charges exclude those staff costs, set out below, which are taken account of in determining the increase in value of the long term assurance business (note 2).

	Group	
	1999 £m	1998 £m
Wages and salaries	91	88
Social security costs	8	7
Other pension costs	1	1
	100	96

5 Staff Numbers

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

	Full time 1999	Full time 1998	Part time 1999	Part time 1998
				Group
Principal office and administration centres	**7,602**	6,329	**1,367**	1,058
Branch offices	**15,906**	17,106	**9,035**	8,604
	23,508	23,435	**10,402**	9,662
Long term assurance business	**3,075**	3,071	**243**	210
	26,583	26,506	**10,645**	9,872

Included in the above table at 31 December 1999 are 1,026 full time and 382 part time employees in respect of Birmingham Midshires, acquired in April 1999. As at 31 December 1999 Birmingham Midshires employed 1,414 full time and 570 part time employees.

6 Directors' Remuneration

Full details of the Directors' remuneration packages for the year are set out in the Report of the Board in relation to Remuneration and Senior Succession Policy and Practice on pages 29 to 38, together with details of the Directors' share interests in Halifax Group plc.

7 Provisions for Bad and Doubtful Debts

Provisions have been made as follows:

	1999 Specific £m	1999 General £m	1999 Total £m	1998 Specific £m	1998 General £m	1998 Total £m
						Group
At 1 January	**351**	**203**	**554**	355	221	576
Provisions arising on acquisition	**48**	**22**	**70**	–	–	–
Amounts written off during the year	**(180)**	**(12)**	**(192)**	(84)	(34)	(118)
Charge for the year:						
Provisions	**125**	**23**	**148**	99	25	124
Recoveries	**(10)**	**(15)**	**(25)**	(19)	(9)	(28)
	115	**8**	**123**	80	16	96
At 31 December	**334**	**221**	**555**	351	203	554
Provisions at 31 December can be analysed as follows:						
Residential property and other advances secured on land	**188**	**217**	**405**	198	200	398
Unsecured loans	**146**	**4**	**150**	153	3	156
	334	**221**	**555**	351	203	554

8 Profit on Ordinary Activities Before Tax

	Group 1999 £m	1998 £m
Profit on ordinary activities before tax is stated after crediting:		
Profits less losses on disposal of investment securities	**60**	124
Profit on ordinary activities before tax is stated after charging:		
Mortgage incentives	**660**	577
Interest payable on subordinated liabilities	**182**	172
Rental of premises	**72**	67
Hire of equipment	**28**	25
Remuneration of auditors and their associates (including VAT) for:		
Audit services	**1.7**	1.5
Non-audit services	**1.4**	2.9
Non-audit services comprise the following:		
Regulatory reporting	**0.6**	0.9
Tax services	**0.5**	0.2
Consultancy	**0.2**	1.2
Other	**0.1**	0.6
Total non-audit services	**1.4**	2.9

Non-audit fees of £0.1m have also been incurred by the Group in the year ended 31 December 1999 relating to acquisitions (1998: £1.1m). The Company's audit fee, which is included in the figure for audit services to the Group, amounted to £34,000 (1998: £nil).

A competitive tendering process is prescribed for the appointment of consultants where the expected fee exceeds £50,000 (excluding VAT). If the tendering process results in the external auditors being the recommended supplier, the decision has to be approved by the Group Finance Director. The Group Finance Director also has the authority to appoint the external auditors, in cases where an urgent appointment is necessary, or for certain specific areas of work where he considers that the auditors' experience of the Group's activities is required.

Fees payable to the external auditors are reported regularly to the Group Audit Committee, which monitors the auditors' independence on behalf of the Board.

9 Tax on Profit on Ordinary Activities

	Group 1999 £m	1998 £m
The charge for the year, based on a corporation tax rate applicable to the year of 30.25% (1998: 31.0%) comprises:		
UK corporation tax	**476**	472
Tax relating to change in value of long term assurance business (note 27)	**48**	45
Tax relating to joint ventures	**3**	–
Deferred taxation (note 25)	**(6)**	17
Overseas taxation	**19**	–
	540	534

10 Minority Interests (non-equity)

(i) Preferred Securities

On 9 December 1999 guaranteed non-voting non-cumulative preferred securities (the 'preferred securities') were issued by subsidiary undertakings of the Group as follows:

	£m	First redemption date	Distribution rate to first redemption date	Distribution rate thereafter
£245m preferred securities	**245**	2031	7.881%	5 year Gilt rate + 4.40%
Euro 415m preferred securities	**257**	2011	7.627%	3 month EURIBOR + 2.875%
	502			
Less: unamortised issue costs	**(5)**			
Balance at 31 December 1999	**497**			

The preferred securities, together with the guarantee, are intended to provide holders with rights equivalent to those which would attach to the most senior preference shares of Halifax Group plc and may, in certain circumstances, be exchanged into directly issued preference shares of Halifax Group plc carrying substantially the same rights.

No Group company will make any payment to holders of the preferred securities, or procure such a payment, that could not have been made on such preference shares. Subject to the foregoing, and to the consent of the Financial Services Authority, the preferred securities are redeemable at the Group's option at par, on the dates shown and at intervals thereafter, either via exchange into directly issued preference shares of Halifax Group plc that are themselves redeemed or out of the proceeds of a new issue of replacement capital made for the purpose.

The preferred securities are non-voting and distributions are non-cumulative. Halifax Group plc has covenanted that if at any time distributions on the preferred securities are not being paid in full, it will not make any distribution on any share capital which ranks junior to the preferred securities.

(ii) Other Minority Interests

Minority interests also include the non-cumulative preference shares of £198m (1998: £nil) issued by a subsidiary undertaking, Halifax plc, as part of the consideration to acquire the business of the Birmingham Midshires Building Society.

11 Profit Attributable to Shareholders

Of the profit attributable to shareholders, £2,227m (1998: £nil) has been dealt with in the financial statements of the Company. As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company has not been presented separately.

12 Dividends

	1999 pence per share	1998 pence per share	1999 £m	1998 £m
Ordinary shares:				
Interim (paid)	7.50	6.75	169	165
Final (proposed)	16.50	13.50	370	327
Adjustment	–	–	(1)	(3)
	24.00	20.25	538	489

The adjustment in 1999 resulted from the waiver of dividends by the QUEST (note 24). The adjustment in 1998 resulted from the waiver of dividends by the QUEST and the impact of the share buy-back programme, both of which took place subsequent to the dividends being accrued but before the ex-dividend date.

13 Earnings per Share

Earnings per share has been calculated by dividing the profit attributable to shareholders of £1,064m (1998: £1,171m) by the weighted average number of ordinary shares outstanding during the year.

The weighted average number of ordinary shares used for diluted earnings per share is calculated as follows:

	1999 millions	1998 millions
Weighted average number of ordinary shares outstanding during the year	2,307	2,463
Diluting effect of options under Sharesave Scheme	8	9
Diluted weighted average number of ordinary shares	2,315	2,472

No restatement of prior years' earnings per share is presented in respect of the corporate restructuring as the cash payment to shareholders, together with the reduction in the number of ordinary shares outstanding on 1 June 1999, is deemed for this purpose to represent a repurchase of 3 shares in every 40 at market value on that date.

Underlying earnings per share has been calculated by reference to profit attributable to shareholders excluding the post-tax impact of exceptional items and goodwill amortisation, which for the year ended 31 December 1999 amounts to £1,229m (1998: £1,171m). This adjusted earnings per share figure has been presented because, in the opinion of the Directors, its inclusion is necessary to enable the shareholders to assess underlying trading performance.

The impact on basic earnings per share of the items excluded is as follows:

	1999 pence	1998 pence
Basic earnings per share	46.1	47.5
Exceptional items	6.3	–
Goodwill amortisation	0.9	–
Underlying earnings per share	53.3	47.5

14 Treasury Bills and Other Eligible Bills

	1999 Book value £m	1999 Market value £m	1998 Book value £m	1998 Market value £m
			Group	
Investment securities				
Treasury bills and similar securities	**863**	**862**	96	98
Other eligible bills	**1,905**	**1,904**	1,862	1,863
	2,768	**2,766**	1,958	1,961

The movement on treasury bills and other eligible bills held for investment purposes was as follows:

	Group £m
At 1 January 1999	**1,958**
Additions	**21,688**
Disposals and maturities	**(21,007)**
Amortisation of discounts	**129**
At 31 December 1999	**2,768**

Included in the above balances are:

	Group 1999 £m	Group 1998 £m
Unamortised discounts on investment securities	**17**	10

15 Loans and Advances to Banks

	Group 1999 £m	Group 1998 £m
Repayable on demand	**1,152**	1,860
Other loans and advances repayable:		
In not more than three months	**7,607**	6,708
In more than three months but not more than one year	**1,872**	2,112
In more than one year but not more than five years	**–**	50
In more than five years	**139**	118
	10,770	10,848
Included above are the following amounts which relate to items in the course of collection from other banks	**331**	417

16 Loans and Advances to Customers

	Group 1999 £m	Group 1998 £m
Advances secured on residential properties	**89,747**	81,731
Other secured advances	**5,242**	2,046
Unsecured loans	**2,132**	1,851
Provisions for bad and doubtful debts	**(555)**	(554)
	96,566	85,074
Repayable:		
On demand or at short notice	**192**	180
In not more than three months	**2,072**	1,087
In more than three months but not more than one year	**2,029**	1,530
In more than one year but not more than five years	**9,614**	7,579
In more than five years	**83,214**	75,252
Provisions for bad and doubtful debts	**(555)**	(554)
	96,566	85,074

Group loans and advances to customers include finance lease receivables of £131m (1998: £87m). Assets acquired in the year for letting under finance leases amounted to £41m (1998: £84m).

Included in Group loans and advances to customers are loans to joint ventures of £695m (1998: £17m).

Gross non-performing loans and advances were:

	Group 1999 £m	Group 1998 £m
Loans and advances three months or more in arrears	**1,771**	1,966
Loans and advances on properties in possession	**65**	103
	1,836	2,069

17 Loans and Advances to Customers Subject to Non-recourse Funding

The Group has acquired, as part of the business of Birmingham Midshires, advances secured on residential properties subject to non-recourse funding. The Group is not obliged to support any losses in respect of these mortgages subject to the non-recourse finance other than to the extent of its subordinated funding, nor do they intend to do so. This is clearly stated in the agreements with the providers of the funding. Repayment of the non-recourse funding facilities will be made solely from the cash flows generated by the underlying mortgage portfolios.

	1999 Customer loans £m	1999 Non-recourse funding £m	1999 Subordinated loans and other Group interests £m
Pendeford Mortgages No. 1 plc	**532**	**(404)**	**(24)**
Birmingham Midshires Mortgage Asset No. 1 Ltd	**44**	**(43)**	**–**
	576	**(447)**	**(24)**

Pendeford Mortgages No. 1 plc is owned by Eastern Gate Ltd which in turn is owned by Royal Exchange Trust Company Ltd.

As at 31 December 1999 the Group owned £66m of the A3 notes issued by Pendeford Mortgages No. 1 plc.

The Group has rights to the residual income and management fees for servicing the portfolio of mortgages.

Net income recognised by the Group in 1999 of £3m comprised interest receivable and other income of £48m less interest payable of £45m.

18 Debt Securities

	1999 Book value £m	1999 Market value £m	Group 1998 Book value £m	Group 1998 Market value £m
Investment securities				
Government securities	**4,386**	**4,404**	4,128	4,294
Other public sector securities	**14**	**16**	35	37
Bank and building society certificates of deposit	**8,314**	**8,289**	12,055	12,065
Other debt securities	**10,056**	**10,022**	7,128	7,152
	22,770	**22,731**	23,346	23,548
Other securities				
Government securities	**–**	**–**	431	431
Other debt securities	**–**	**–**	29	29
	–	**–**	460	460
Total	**22,770**	**22,731**	23,806	24,008
Debt securities analysed by listing status:				
Investment securities				
Listed	**10,655**	**10,648**	10,519	10,706
Unlisted	**12,115**	**12,083**	12,827	12,842
	22,770	**22,731**	23,346	23,548
Other securities				
Listed	**–**	**–**	460	460
Total	**22,770**	**22,731**	23,806	24,008

Debt securities analysed by remaining maturity:

	1999 £m	1998 £m
Due within one year	**10,435**	13,797
Due in one year and over	**12,335**	10,009
	22,770	23,806

18 Debt Securities Continued

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

	Group Book value £m
At 1 January 1999	23,346
Additions	67,130
Disposals and maturities	(67,546)
Amortisation of premiums and discounts	(57)
Exchange adjustments	(103)
At 31 December 1999	22,770

The total net book value of debt securities held for investment purposes at 31 December 1999 includes unamortised premiums less discounts of £108m (1998: £137m) for the Group.

Debt securities include securities with a market value of £1,477m for Group (1998: £1,346m) sold subject to agreement to repurchase.

19 Investments in Joint Ventures

	Group £m
At 1 January 1999	170
Additions	2
Other net movements	(1)
At 31 December 1999	171

The principal joint ventures of the Group at 31 December 1999 were:

Joint venture	Nature of business	Group interest in ordinary shares
Lex Vehicle Leasing (Holdings) Ltd	Vehicle Leasing	50%
Warwick Leasing Ltd	Leasing	50%
Halifax Cetelem Credit Ltd	Consumer Credit	50%

All joint ventures are unlisted, registered in England and Wales, and their principal area of operation is the United Kingdom.

The Group's share of capital commitments by joint ventures is £18m (1998: £25m).

Included within the Group's share of gross assets of joint ventures is goodwill as follows:

	Group £m
Cost	
At 1 January 1999 and 31 December 1999	125
Amortisation	
At 1 January 1999	–
Charged in year	6
At 31 December 1999	6

The goodwill relates to the acquisition on 31 December 1998 of 50% of the share capital of Lex Vehicle Leasing (Holdings) Ltd and is being amortised over a period of 20 years to reflect the strategic rationale of the acquisition and the period over which economic benefits associated with the goodwill are expected to arise.

20 Shares in Group Undertakings

	Company
	£m
Cost and net book value	
At 1 January 1999	–
Additions	3,073
Transfer	1,303
At 31 December 1999	4,376

Additions includes the cost of acquiring the share capital of Halifax plc on 1 June 1999 (note 1). Following approval of the scheme of arrangement, the Company acquired 100% of the ordinary share capital of Halifax plc for a cash consideration of £1,509m together with the issue of 2,251,299,040 ordinary shares at 20p each and associated costs of £11m. On the same date the Company subscribed for 601,934,400 preference shares of £1 each in Halifax plc.

The transfer relates to investments in the shares of certain non-banking subsidiaries which were transferred from Halifax plc group on 1 July 1999.

The Company's interests in subsidiary undertakings are analysed as follows:

	1999 £m	1998 £m
Credit institutions	2,573	–
Other	1,803	–
	4,376	–

20 Shares in Group Undertakings Continued

The principal subsidiary undertakings of Halifax Group plc at 31 December 1999 are set out below:

Subsidiary undertakings	Country of incorporation or registration	Major activity	Class of shares held	Interest in shares	Direct or indirect
Halifax plc and its subsidiaries:	England and Wales	Banking services	Ordinary Preference	100% 75%	Direct Direct
Banco Halifax Hispania SA	Spain	Provision of banking services in Spain	Ordinary	100%	Indirect
Birmingham Midshires Mortgage Asset No.1 Ltd	England and Wales	Secured lending on residential property	Ordinary	100%	Indirect
Birmingham Midshires Mortgage Asset (No.6) Ltd	England and Wales	Secured lending on residential property	Ordinary	100%	Indirect
Birmingham Midshires (Guernsey) Ltd	Guernsey	Offshore licensed deposit taker	Ordinary	100%	Indirect
Halifax Asset Finance Ltd	England and Wales	Leasing	Ordinary	100%	Indirect
Halifax Credit Card Ltd	England and Wales	Provision of credit card facilities	Ordinary	100%	Indirect
Halifax Estate Agencies Ltd	England and Wales	Estate agency and financial services	Ordinary	100%	Indirect
Halifax General Insurance Services Ltd	England and Wales	General insurance brokerage	Ordinary	100%	Indirect
Halifax International (Isle of Man) Ltd	Isle of Man	Offshore licensed deposit taker	Ordinary	100%	Indirect
Halifax International (Jersey) Ltd	Jersey	Offshore licensed deposit taker	Ordinary	100%	Indirect
Halifax Loans Ltd and its subsidiaries:	England and Wales	Secured lending on residential property	Ordinary	100%	Indirect
HL Group (Holdings) Ltd and its subsidiaries	England and Wales	Secured lending on residential property	Ordinary	100%	Indirect
Halifax Mortgage Services (Holdings) Ltd and its subsidiaries	England and Wales	Secured lending on residential property	Ordinary	100%	Indirect
Halifax Mortgage Re Ltd	Guernsey	Provision of mortgage indemnity insurance	Ordinary	100%	Indirect
Halifax Share Dealing Ltd	England and Wales	Execution only stockbroking	Ordinary	100%	Indirect
Western Trust Holdings Ltd and its subsidiary:	England and Wales	Secured lending on residential property	Ordinary	100%	Indirect
Western Trust and Savings Holdings Ltd and its subsidiary:	England and Wales	Secured lending on residential property	Ordinary	100%	Indirect
Birmingham Midshires Mortgage Services Ltd	England and Wales	Secured lending on residential property	Ordinary	100%	Indirect
Clerical Medical Investment Group (Holdings) Ltd and its subsidiary:	England and Wales	Financial services	Ordinary	100%	Direct
Clerical Medical Investment Group Ltd and its subsidiaries	England and Wales	Life assurance and pensions	Ordinary	100%	Indirect
Halifax Financial Services (Holdings) Ltd and its subsidiaries:	England and Wales	Financial services	Ordinary	100%	Direct
Halifax Financial Services Ltd	England and Wales	Financial services	Ordinary	100%	Indirect
Halifax Fund Management Ltd	England and Wales	Investment fund management	Ordinary	100%	Indirect
Halifax Investment Services Ltd	England and Wales	Financial services	Ordinary	100%	Indirect
Halifax Life Ltd	England and Wales	Life assurance and pensions	Ordinary	100%	Indirect
Halifax Unit Trust Management Ltd	England and Wales	Unit trust management	Ordinary	100%	Indirect
Halifax Independent Financial Advisers Ltd	England and Wales	Financial services	Ordinary	100%	Indirect

All the above companies are included in the consolidated financial statements and have 31 December as their accounting reference date. The companies operate principally in their country of incorporation or registration.

21 Acquisition of Business

On 19 April 1999 the Group's subsidiary Halifax plc acquired the business of Birmingham Midshires Building Society for a consideration of £761m. The acquisition method of accounting has been adopted.
The following table summarises the effect of this acquisition:

	Acquired book value £m	Revaluation adjustments £m	Accounting policy adjustments £m	Total fair value adjustments £m	Acquired fair value £m
Cash and balances at central banks	45	–	–	–	45
Loans and advances to banks	1,216	–	–	–	1,216
Loans and advances to customers	6,833	4	(17)	(13)	6,820
Tangible fixed assets	77	(17)	–	(17)	60
Other assets	66	(1)	(1)	(2)	64
Total assets	8,237	(14)	(18)	(32)	8,205
Deposits by banks	282	–	–	–	282
Customer accounts	6,606	–	–	–	6,606
Debt securities in issue	507	–	–	–	507
Provisions and other liabilities	263	22	–	22	285
Subordinated liabilities	199	–	–	–	199
Total liabilities	7,857	22	–	22	7,879
Net assets	380	(36)	(18)	(54)	326
Goodwill					435
Consideration					761
Satisfied by:					
Cash					552
Preference shares issued by Halifax plc					198
Acquisition costs					11
					761

Loans and advances to customers were increased by £4m, reflecting the net effect of adjustments made to premiums held by Birmingham Midshires Building Society and aligning the loan loss provisioning method with that of the Halifax. The accounting policy adjustment in respect of loans and advances to customers reflects the alignment of the mortgage incentives accounting policy with that of the Group.

The value of tangible fixed assets was reduced by £17m to reflect property acquired at market value.

The increase in other liabilities relates to an estimated pension fund deficit as a result of aligning the pension scheme valuation assumptions with those adopted by the Halifax, and an increase in the expected level of claims relating to additional mortgage security.

The summarised consolidated profit and loss account for Birmingham Midshires for the period from 19 April to 31 December 1999 is as follows:

	£m
Net interest income	103
Other income	24
	127
Operating expenses	66
Provisions for bad and doubtful debts	3
Operating profit	58

The profit after taxation for the period from 1 January to 18 April 1999 amounted to £1m, after charging exceptional items of £21m and for the year ended 31 December 1998 £36m, after charging exceptional items of £22m. Exceptional items in both periods principally relate to transfer costs.

22 Intangible Fixed Assets

Goodwill	Group £m
Cost	
At 1 January 1999	–
Additions	435
At 31 December 1999	435
Amortisation	
At 1 January 1999	–
Charged in year	15
At 31 December 1999	15
Net book value	
At 31 December 1999	420
At 31 December 1998	–

The goodwill relates to the acquisition of the business of Birmingham Midshires Building Society on 19 April 1999 (note 21). The goodwill is being amortised over a period of 20 years to reflect the period over which economic benefits associated with the infrastructure and customer relationships are expected to arise.

23 Tangible Fixed Assets

	Group		
	Premises £m	Equipment £m	Total £m
Cost			
At 1 January 1999	937	639	1,576
Acquisition	24	36	60
Additions	35	76	111
Disposals	(41)	(41)	(82)
At 31 December 1999	955	710	1,665
Depreciation and provisions for diminution in value			
At 1 January 1999	347	309	656
Depreciation charged in year	32	132	164
Disposals	(24)	(32)	(56)
At 31 December 1999	355	409	764
Net book value			
At 31 December 1999	600	301	901
At 31 December 1998	590	330	920

Included within Group tangible fixed assets are assets in the course of construction amounting to £32m (1998: £28m) which are not depreciated until the assets are brought into use.

23 Tangible Fixed Assets Continued

	Group 1999 £m	Group 1998 £m
The net book value of premises comprises:		
Freeholds	**476**	464
Long leaseholds	**28**	25
Short leaseholds	**96**	101
Land and buildings occupied for own activities:		
Net book value at 31 December	**513**	409
Capital commitments for which contracts have been placed	**52**	12

24 Own Shares

(a) Halifax Group plc Employee Share Ownership Plan

The Halifax Group plc Employee Share Ownership Plan was established in 1999 to administer shares conditionally granted under the Short Term and Long Term Bonus Schemes to Executive Directors and other Executives. Halifax Group plc Employee Trust Ltd, a wholly owned subsidiary of Halifax Group plc, has been appointed as trustee.

In August 1999 Halifax Group plc loaned £14m interest free to the trust to enable ordinary shares to be acquired in the Company. Ordinary shares have been purchased in the market which will be held by the trustee until due for release to participants in the schemes. The cost of the shares which have been conditionally awarded is being charged to the profit and loss account on a straight line basis over the performance period.

At 31 December 1999 two million shares (nominal value 20p each) were held by the trustee with a market value of £14m. No shares were held at 31 December 1998. Under the terms of the trust, dividends on these shares have been waived. At 31 December 1999 1.2 million of these ordinary shares have been conditionally granted to Executive Directors and other Executives. The circumstances in which the shares will be released are set out in the Report of the Board in relation to Remuneration and Senior Succession Policy and Practice.

(b) Halifax plc Qualifying Employee Share Ownership Trust (the 'QUEST')

The QUEST was established in 1997 to acquire ordinary shares in Halifax plc for the benefit of employees and Directors of Halifax plc and its subsidiaries. The QUEST operates in conjunction with the Halifax plc Sharesave Scheme 1997, an employee savings related share option scheme.

Up to 31 December 1998, Halifax plc had contributed £122m to the QUEST. No contributions have been made in 1999. These funds have been used by the QUEST to subscribe for ordinary shares in Halifax plc at market value.

The cost of these contributions is transferred directly to profit and loss account reserves, and the share premium account increased by the excess of the subscription price over nominal value. The ordinary shares held by the QUEST at 31 December 1999 are included in the Group balance sheet at nil value.

Following approval of the scheme of arrangement for Halifax plc, the trustee of the QUEST received Halifax Group plc ordinary shares and cash on the same basis as other Halifax plc ordinary shareholders. Participants in the Halifax plc Sharesave Scheme 1997 have been given the opportunity to exchange their existing rights over Halifax plc ordinary shares for new rights over Halifax Group plc ordinary shares of an equivalent value. The new rights will continue to be governed by the rules of the Halifax plc Sharesave Scheme 1997. The QUEST may use the Halifax Group plc ordinary shares it holds to satisfy rights under the existing Sharesave Scheme.

At 31 December 1999 the QUEST held 14.6 million Halifax Group plc ordinary shares (1998: 14.4 million Halifax plc ordinary shares) with a market value of £100m (1998: £123m).

Under the terms of the trust deed, dividends are required to be waived on the shares held by the QUEST.

At 31 December 1999 options to acquire 31.8 million shares were outstanding under the Sharesave Scheme (1998: 32.9 million) which are exercisable by employees of the Group at a range of prices from £5.37 to £5.79 at various dates up to March 2007.

25 Other Assets

	Group 1999 £m	Group 1998 £m
Other assets	**283**	306
Deferred taxation (due after more than one year)	**15**	5
	298	311

The movement on deferred tax was as follows:

	Group 1999 £m	Group 1998 £m
At 1 January	**5**	22
Acquisition	**4**	–
Movement in year	**6**	(17)
At 31 December	**15**	5

The amounts provided for deferred taxation and the amounts unprovided are set out below:

	Group Amount provided 1999 £m	Amount provided 1998 £m	Amount unprovided 1999 £m	Amount unprovided 1998 £m
Capital allowances in advance of depreciation	**(11)**	(19)	**–**	–
Pension fund prepayment	**(12)**	(15)	**–**	–
Other timing differences	**38**	39	**11**	11
	15	5	**11**	11

26 Prepayments and Accrued Income

	Group 1999 £m	Group 1998 £m
Accrued interest	**602**	677
Pension fund prepayment	**36**	51
Other	**444**	459
	1,082	1,187

27 Long Term Assurance Business

The value of long term assurance business is actuarially assessed and comprises the surplus attributable to the Group, together with the net present value of in-force business. This method of calculating the net worth of the business to the Group is known as the embedded value approach. The principal economic assumptions behind the embedded value calculation are reviewed regularly and are as follows:

	1999 %	1998 %
Risk discount rate (net of tax) for traditional with profits business	**8.5**	9.0
Risk discount rate (net of tax) for other business	**10.5**	11.0
Return on equities (gross of tax)	**7.0**	7.0
Return on gilts (gross of tax)	**5.0**	5.0
Expense inflation	**3.0**	4.0

In-force business is defined as all live policies where the first premium has been paid. Recurrent single premium policies are treated as single premium policies, with the exception of Department of Social Security rebate policies, which are treated as regular premium policies. The Group's entitlement is equivalent to one ninth of the value of traditional with profits business bonuses declared in any particular year. The level of assumed future bonuses is calculated by projecting the portfolio of with profits business forward and applying reversionary and terminal bonus rates at such a level as to exhaust the projected surplus of assets attributable to with profit policyholders over liabilities. For all other business the entire surplus is attributable to the Group.

The income from long term assurance business which is included within other operating income in the consolidated profit and loss account is calculated as follows:

	1999 £m	1998 £m
Closing value of Group's interest in long term assurance business	**1,728**	921
Opening value of Group's interest in long term assurance business	**921**	744
Increase in value of long term assurance business	**807**	177
Transfer to long term assurance business	**(671)**	(76)
Income after tax from long term assurance business	**136**	101
Taxation relating to long term assurance business (note 9)	**48**	45
Income before tax from long term assurance business (note 2)	**184**	146

Included in the transfer to long term assurance business is £647m arising from the issue of preferred securities and subordinated debt to support the growth in the Group's new long term assurance business.

The assets and liabilities attributable to policyholders are presented separately from those arising from other Group activities to reflect the different nature of the policyholders' interest.

The long term assurance assets attributable to policyholders comprise:

	1999 £m	1998 £m
Investments	**24,209**	18,938
Value of in-force policies	**1,633**	857
Net current assets	**121**	258
	25,963	20,053
Long term assurance business attributable to shareholders	**(1,728)**	(921)
Long term assurance assets attributable to policyholders	**24,235**	19,132
Long term assurance liabilities attributable to policyholders	**24,235**	19,132

Derivatives (options and futures) are used for efficient portfolio management of the long term assurance business and to match obligations to policyholders. These derivatives are included in investments at market value.

28 Deposits by Banks

	Group	
	1999 £m	1998 £m
Repayable on demand	**2,803**	3,341
Repayable with agreed maturity dates or periods of notice:		
In not more than three months	**8,364**	5,062
In more than three months but not more than one year	**588**	855
In more than one year but not more than five years	**116**	132
	11,871	9,390
Included above are the following amounts which relate to items in the course of transmission to other banks	**377**	406

29 Customer Accounts

	Group	
	1999 £m	1998 £m
Repayable on demand	**77,667**	77,184
Repayable with agreed maturity dates or periods of notice:		
In not more than three months	**7,275**	6,083
In more than three months but not more than one year	**2,292**	1,653
In more than one year but not more than five years	**619**	33
	87,853	84,953

30 Debt Securities in Issue

	Group	
	1999 £m	1998 £m
Bonds and medium term notes		
Repayable:		
In one year or less, or on demand	**629**	1,330
In more than one year but not more than two years	**559**	503
In more than two years but not more than five years	**2,303**	1,771
In more than five years	**2,095**	2,518
	5,586	6,122
Other debt securities		
Repayable:		
In not more than three months	**16,018**	7,173
In more than three months but not more than one year	**1,862**	3,024
In more than one year but not more than two years	**18**	67
In more than two years but not more than five years	**10**	3
	17,908	10,267
Total debt securities in issue	**23,494**	16,389

As at 31 December 1999, debt securities with an original book value of £19,275m (1998: £11,650m) have been valued at £19,226m (1998: £11,772m) by reference to market prices. No liquid and active market exists for the other issues and therefore no market values are available.

31 Other Liabilities

	Group	
	1999 £m	1998 £m
Short positions – Government debt securities	–	96
Settlement balances	50	286
Corporation tax	401	268
Dividends payable	389	340
Other liabilities	433	405
	1,273	1,395

32 Accruals and Deferred Income

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Accrued interest	2,748	3,481	2	–
Other	688	733	12	–
	3,436	4,214	14	–

33 Provisions for Liabilities and Charges

	Group			
	Pensions review provision £m	Other post-retirement benefits and unfunded pensions £m	Reorganisation costs provision £m	Total £m
At 1 January 1999	36	26	34	96
On acquisition	–	2	–	2
Charged in year	19	7	–	26
Utilised in year	(9)	–	(24)	(33)
At 31 December 1999	46	35	10	91

The pensions review provision has been established to cover estimated administrative costs and compensation payable in connection with phases 1 and 2 of the pensions review. A further provision of £40m (1998: £35m) to cover direct and indirect costs arising from the pensions review is included in the long term assurance business.

Reorganisation costs relate to the costs of reorganising, restructuring and integrating the businesses following the transfer of engagements of Leeds Permanent Building Society on 1 August 1995. The remaining provision at 31 December 1999 principally comprises property related costs.

34 Subordinated Liabilities

	Group 1999 £m	Group 1998 £m
Dated		
Floating rate subordinated sterling notes 2005 (issued 1990)	**30**	–
Floating rate subordinated sterling notes 2005 (issued 1995)	**15**	–
9⅛% Subordinated sterling notes 2006	**75**	–
8¾% Subordinated sterling bonds 2006	**400**	400
Floating rate subordinated sterling notes 2009	**75**	75
4¾% Subordinated euro bonds 2009	**404**	–
Floating rate subordinated US dollar step-up callable notes 2009	**310**	–
Floating rate step-up callable subordinated sterling notes 2012	**200**	200
11% Subordinated sterling bonds 2014	**250**	250
10½% Subordinated sterling bonds 2018	**150**	150
9⅜% Subordinated sterling bonds 2021	**500**	500
Unamortised premiums, discounts and issue costs	**(4)**	6
	2,405	1,581
Undated		
12% Sterling perpetual subordinated bonds	**100**	100
8¾% Sterling perpetual subordinated bonds	**100**	100
13⅝% Sterling perpetual subordinated bonds	**75**	75
9⅜% Sterling perpetual subordinated bonds	**50**	–
7⅜% Subordinated guaranteed bonds	**150**	–
Unamortised premiums, discounts and issue costs	**(4)**	–
	2,876	1,856

No repayment, for whatever reason, of dated subordinated debt prior to its stated maturity and no purchase by the relevant company of its subordinated debt may be made without the consent of the Financial Services Authority. On a winding up of the relevant company, the claims of the holders of dated subordinated debt shall be subordinated in right of payment to the claims of all depositors and creditors of that company other than creditors whose claims are expressed to rank pari passu with or junior to the claims of the holders of the dated subordinated debt.

In March 1999, the Group issued euro 650m 4¾% subordinated bonds 2009 and, in April 1999, the Group issued US$500m floating rate subordinated step-up callable notes 2009.

Upon the acquisition of Birmingham Midshires Building Society (BMBS) on 19 April 1999, all rights and liabilities of BMBS, including those in respect of the £30m floating rate subordinated sterling notes 2005, the £15m floating rate subordinated sterling notes 2005 and the £75m 9⅛% subordinated sterling notes 2006 were transferred to the Group. On 19 April 1999 the rights and liabilities of BMBS in respect of £30m 11⅝% subordinated bonds 1999 were transferred to the Group. These bonds were redeemed in accordance with their terms on 18 May 1999.

Interest on the 9⅛% and 8¾ % bonds due 2006 and the bonds due 2009, 2014, 2018 and 2021 is payable annually in arrear. These bonds are due for redemption on 5 January 2006, 10 July 2006, 24 March 2009, 17 January 2014, 16 February 2018 and 15 May 2021 respectively.

Interest on the £30m floating rate notes dated 2005, issued originally by BMBS in 1990, is paid six months in arrear at LIBOR plus a margin of 0.65% per annum for years 1 to 10 and 1.50% per annum thereafter. The Group has the option to redeem the notes at their nominal value on any interest payment date falling on or after March 2000. The notes are otherwise due for redemption on the interest date falling in March 2005.

Interest on the £15m floating rate notes dated 2005, issued originally by BMBS in 1995, is payable six months in arrear at LIBOR plus a margin of 0.75% per annum for years 1 to 5 and 1.45% per annum thereafter. The Group has the option to redeem the notes at their nominal value on any interest payment date falling on or after October 2000. The notes are otherwise due for redemption on the interest payment date falling in October 2005.

Interest on the floating rate subordinated US dollar step-up callable notes 2009 is payable three months in arrear at US dollar LIBOR plus a margin of 0.35% per annum for years 1 to 5 and 0.85% per annum thereafter. The Group has the option to redeem the notes at their nominal value on 16 April 2004. The notes are otherwise due for redemption on 16 April 2009.

34 Subordinated Liabilities Continued

Interest on the floating rate notes dated 2009, issued in 1996, is payable three months in arrear at LIBOR plus a margin of 0.25% per annum for years 1 to 8, 0.75% per annum for years 9 and 10 and 1.25% per annum thereafter. The Group has the option to redeem the notes at their nominal value on the interest payment date falling in July 2004. The notes are otherwise due for redemption on the interest payment date falling in July 2009.

Interest on the floating rate notes dated 2012, which were issued in April 1997, is payable three months in arrear at LIBOR plus a margin of 0.25% per annum for years 1 to 10 and 1.25% per annum thereafter. The Group has the option to redeem the notes at their nominal value on the interest payment date falling in April 2007. The notes are otherwise due for redemption on the interest payment date falling in April 2012.

On the acquisition of BMBS on 19 April 1999, the £50m Permanent Interest Bearing Shares which made up the subscribed capital of BMBS were replaced by perpetual subordinated bonds which are undated subordinated liabilities of the Group. These bonds have a principal amount equal to the principal amount of the BMBS Permanent Interest Bearing Shares they replace and carry the same rate of interest.

The Group has the option at any time after, in the case of the 12% perpetual subordinated bonds, 30 January 2022 and, in the case of the $8\frac{3}{4}\%$ perpetual subordinated bonds, 14 September 2023, to redeem some or all of the bonds at their principal value plus any accrued and unpaid interest. The Group may not exercise this redemption option or purchase any of its undated subordinated debt without the consent of the Financial Services Authority. The $13\frac{5}{8}\%$ bonds and the $9\frac{3}{8}\%$ bonds carry no optional redemption clauses. On a winding up of Halifax plc the claims of the holders of perpetual subordinated debt shall be subordinated in right of payment to the claims of all depositors and creditors of Halifax plc other than creditors whose claims are expressed to rank pari passu with or junior to the claims of the holders of the perpetual subordinated bonds. The perpetual subordinated bonds are junior in point of subordination to the dated subordinated debt referred to above.

On 5 November 1999 Clerical Medical Finance plc (CMFplc), a subsidiary of Halifax Group plc, issued £150m $7\frac{3}{8}\%$ undated subordinated guaranteed bonds at an issue price of 98.856% of their principal amount. Interest on the $7\frac{3}{8}\%$ undated subordinated guaranteed bonds is payable annually in arrear on 5 November each year commencing 5 November 2000; CMFplc has the option to redeem these bonds on 5 November 2019 and on each fifth anniversary thereafter, or at any time if the issuer or the Guarantor (Clerical Medical Investment Group Ltd) is required to pay additional amounts in respect of UK taxation.

The subordinated liabilities, which have a nominal value of £2,884m (1998: £1,850m) as disclosed above, were valued by reference to market prices at £3,329m as at 31 December 1999 (1998: £2,530m).

Company

The Company balance sheet includes subordinated liabilities of £497m which is shown net of unamortised premiums, discounts and issue costs of £5m. This balance reflects the two issues detailed below.

On 9 December 1999 the Company issued £245m 7.881% subordinated extendable maturity notes 2048 and euro 415m fixed to floating rate extendable maturity notes 2048 to subsidiary undertakings.

Interest on the 7.881% subordinated extendable maturity notes 2048 is payable annually in arrear on 9 December each year from 9 December 2000 to 9 December 2031 at the rate of 7.881% per annum and, for each period of five years thereafter, annually in arrear on 9 December each year at the rate per annum equal to the sum of the five year benchmark Gilt rate plus 4.40% per annum. The Company has the option to redeem these notes on any interest payment date at a price to be determined by reference to the conditions of the notes. The notes are otherwise redeemable at par on 9 December 2048. Notwithstanding the foregoing, the Company has the right to extend the maturity of the notes for a period of 49 years from the previously stated redemption date.

Interest on the fixed to floating rate subordinated extendable maturity notes 2048 is payable annually in arrear on 9 December each year from 9 December 2000 to 9 December 2011 at the rate of 7.627% per annum. Thereafter, interest will be payable quarterly in arrear on or about 9 March, 9 June, 9 September and 9 December each year, commencing 9 March 2012 at the per annum percentage rate which is the sum of three-month EURIBOR plus 2.875%. The Company has the option to redeem these notes on any interest payment date at a price to be determined by reference to the conditions of the notes. The notes are otherwise redeemable at par on 9 December 2048. Notwithstanding the foregoing, the Company has the right to extend the maturity of the notes for a period of 49 years from the previously stated redemption date.

34 Subordinated Liabilities Continued

	Group 1999 £m	Group 1998 £m
Dated subordinated liabilities are repayable as follows:		
In more than five years	2,405	1,581

35 Capital and Reserves

Share Capital	Preference Shares of £1 each £m	Ordinary Shares of 20p each £m	Total £m
Authorised share capital			
At 31 December 1999	1,000	660	1,660
At 31 December 1998	–	–	–

	Group Ordinary Shares £m	Company Ordinary Shares £m
Allotted, called up and fully paid share capital		
At 1 January 1999	487	–
Cancellation of Halifax plc ordinary shares	(487)	–
Issued to former Halifax plc ordinary shareholders	450	450
Repurchase of shares	(1)	(1)
At 31 December 1999	449	449

(a) Share Capital

On incorporation the authorised share capital of the Company was £1,000 divided into 1,000 ordinary shares of £1 each; 2 shares of £1 each were issued. By a written resolution of the shareholders dated 2 March 1999, the authorised share capital was increased to £50,000 by the creation of 49,000 redeemable preference shares of £1 each; the 998 authorised but unissued ordinary shares of £1 each were converted into 998 redeemable preference shares of £1 each; and the 2 issued ordinary shares of £1 each were subdivided into 10 ordinary shares of 20p each. The 49,998 redeemable preference shares were paid up as to one-quarter of nominal value.

By a special resolution passed on 3 March 1999, it was resolved that the authorised share capital of the Company be increased from £50,000 (comprising 10 ordinary shares of 20p each and 49,998 redeemable preference shares of £1 each) to £1,660m by the creation of 3,299,750,000 ordinary shares of 20p each and the creation of 1,000 million preference shares of £1 each.

On 1 June 1999 the Company issued 2,251,299,040 ordinary shares of 20p each as part of the consideration to acquire the ordinary share capital of Halifax plc (notes 1 and 20).

On 30 June 1999 the redeemable preference shares were paid up in full and redeemed at their nominal value. The 49,998 redeemable preference shares within the authorised share capital were subsequently sub-divided and converted into 249,990 ordinary shares of 20p.

(b) Repurchase of shares

During the year ended 31 December 1999 ordinary shares with a nominal value of £1m were repurchased for cancellation (1998: £18m) at a total cost of £39m (1998: £750m) which has been charged against profit and loss account reserves.

Share Premium Account	Group and Company £m
At 1 January 1999	–
Shares issued under employee share option scheme	1
At 31 December 1999	1

35 Capital and Reserves Continued

Capital Redemption Reserve

	Group and Company
	£m
At 1 January 1999	–
Repurchase of shares	1
At 31 December 1999	1

Other Reserves

	Group
	£m
At 1 January 1999	137
Merger adjustment	(137)
Other movements	6
At 31 December 1999	6

Profit and Loss Account

	Group	Company
	£m	£m
At 1 January 1999	6,525	–
Profit retained for the financial year	526	1,689
Merger adjustment	(1,335)	–
Goodwill reinstatement on disposal/closure of estate agency branches	124	–
Repurchase of shares	(39)	(39)
Foreign currency translation difference on subsidiary undertaking	(4)	–
At 31 December 1999	5,797	1,650

The cumulative amount of goodwill resulting from acquisitions in earlier financial years, net of amounts relating to disposals, which has been deducted from Group profit and loss account reserves, is £346m (1998: £470m).

Of the total Group profit and loss account reserves at 31 December 1999, £234m (1998: £181m), being the excess of retained profits on an embedded value basis over those available for distribution at a company level, is not currently available for distribution.

Of the Company reserves at 31 December 1999, £1,520m, arising from the corporate restructuring, is not available for distribution.

36 Non-Sterling Assets and Liabilities

At 31 December 1999 the aggregate amount of all assets and liabilities included in the Group balance sheet denominated in a currency other than sterling was as follows:

	Group	
	1999 £m	1998 £m
Assets	17,890	13,536
Liabilities	20,723	15,020

The amounts disclosed above do not equate to the Group's exposure to currency risk. The Group's currency positions are substantially hedged by off-balance sheet instruments (notes 40 and 43).

37 Memorandum Items – Contingent Liabilities

	Group 1999 £m	Group 1998 £m
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**–**	649

38 Memorandum Items – Commitments

	Group 1999 £m	Group 1998 £m
Forward asset purchases and forward deposits placed	**379**	310
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Over one year	**1,451**	674
One year or less	**3,707**	3,477
	5,537	4,461

Commitments to lend include the undrawn element of overdraft and credit card facilities.

39 Leasing Commitments

Annual commitments under non-cancellable operating leases were as follows:

	Group 1999		1998	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Operating leases which expire:				
Within one year	**2**	**1**	3	1
In more than one year but not more than five years	**6**	**12**	6	19
In more than five years	**60**	**2**	62	1
	68	**15**	71	21

40 Derivative Financial Instruments

The types of derivative financial instruments held and their purpose is discussed in detail on pages 24 and 25. At 31 December 1999, the contract or underlying principal amounts of derivative financial instruments, together with their fair values (based on market values), were:

Group

	1999			1998		
Non-Trading Derivatives	**Contract or underlying principal amount £m**	**Positive fair value £m**	**Negative fair value £m**	Contract or underlying principal amount £m	Positive fair value £m	Negative fair value £m
Exchange rate contracts:						
Cross currency swaps	**4,397**	**123**	**396**	4,753	235	226
Forward foreign exchange	**4,801**	**93**	**40**	5,861	35	221
	9,198	**216**	**436**	10,614	270	447
Interest rate contracts:						
Interest rate swaps	**49,828**	**814**	**312**	18,646	436	359
Forward rate agreements	**3,162**	**1**	**11**	6,100	38	39
Caps and floors	**10,085**	**377**	**9**	6,682	139	6
Financial futures	**12,454**	**1**	**22**	15,842	39	46
	75,529	**1,193**	**354**	47,270	652	450
Trading Derivatives						
Interest rate contracts:						
Forward rate agreements	**–**	**–**	**–**	100	1	1
Financial futures	**–**	**–**	**–**	297	–	6
	–	**–**	**–**	397	1	7
Amount included in other assets or other liabilities	**–**	**–**	**–**	–	1	1

There have been no material trading positions during 1999 and all trading positions were eliminated prior to 31 December 1999.

40 Derivative Financial Instruments Continued

The residual maturity of 'over the counter' (OTC) and non-margined exchange traded contracts was as follows:

				Group
	1999		1998	
	Contract or underlying principal amount £m	Net replacement cost £m	Contract or underlying principal amount £m	Net replacement cost £m
Contracts maturing:				
In not more than one year	34,325	230	13,830	77
In more than one year but not more than five years	30,609	894	23,693	335
In more than five years	7,339	284	4,619	472
	72,273	1,408	42,142	884

Substantially all of the Group's derivatives activity is contracted with financial institutions. Replacement cost is calculated by marking the value of contracts to market and aggregating those with a positive value.

41 Gains and Losses on Hedges

			Group
	Gains £m	Losses £m	Total net gains/(losses) £m
Unrecognised gains and losses on hedges at 1 January 1999	298	(373)	(75)
Gains and losses arising in previous years that were recognised in 1999	(81)	157	76
Gains and losses arising before 1 January 1999 that were not recognised in 1999	217	(216)	1
Gains and losses arising in 1999 that were not recognised in 1999	240	48	288
Unrecognised gains and losses on hedges at 31 December 1999	457	(168)	289
Of which:			
Gains and losses expected to be recognised in 2000	198	(137)	61
Gains and losses expected to be recognised in 2001 or later	259	(31)	228

The above table shows the gains and losses on off-balance sheet derivative instruments used for hedging by the Group. The gains and losses therefore do not 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.

At 31 December 1999 accrued interest receivable and unamortised premiums relating to non-trading derivatives amounted to £952m (1998: £624m).

At 31 December 1999 accrued interest payable relating to non-trading derivatives amounted to £622m (1998: £524m).

42 Interest Rate Risk

The following tables provide an analysis of the repricing periods of Group assets and liabilities (excluding the trading book) at 31 December 1999 and 31 December 1998 respectively:

Group

	1999						
	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Non-interest bearing £m	Total £m
Assets							
Treasury bills and other eligible bills	2,351	417	–	–	–	–	2,768
Loans and advances to banks	8,073	1,217	735	58	–	687	10,770
Loans and advances to customers	64,051	1,419	2,559	26,109	2,428	–	96,566
Debt securities	11,714	2,273	3,851	4,436	496	–	22,770
Other assets	–	–	–	–	–	4,969	4,969
Total assets	86,189	5,326	7,145	30,603	2,924	5,656	137,843
Liabilities							
Deposits by banks	10,748	432	212	116	–	363	11,871
Customer accounts	80,060	1,404	1,899	4,490	–	–	87,853
Debt securities in issue	16,421	1,696	816	2,551	2,010	–	23,494
Other liabilities	–	–	–	–	–	5,495	5,495
Subordinated liabilities	610	15	–	–	2,251	–	2,876
Shareholders' funds	–	–	–	–	–	6,254	6,254
Total liabilities	107,839	3,547	2,927	7,157	4,261	12,112	137,843
Off-balance sheet items	15,819	619	(2,984)	(15,535)	2,081	–	–
Interest rate sensitivity gap	(5,831)	2,398	1,234	7,911	744	(6,456)	–
Cumulative gap	(5,831)	(3,433)	(2,199)	5,712	6,456	–	–

42 Interest Rate Risk Continued

	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Non-interest bearing £m	Total £m
							Group
							1998
Assets							
Treasury bills and other eligible bills	1,919	39	–	–	–	–	1,958
Loans and advances to banks	8,097	1,392	817	6	–	536	10,848
Loans and advances to customers	65,461	335	1,759	16,023	1,496	–	85,074
Debt securities	13,858	2,183	2,418	4,323	660	–	23,442
Other assets	–	–	–	–	–	3,756	3,756
Total assets	89,335	3,949	4,994	20,352	2,156	4,292	125,078
Liabilities							
Deposits by banks	7,590	486	538	6	–	406	9,026
Customer accounts	78,268	2,140	1,661	2,884	–	–	84,953
Debt securities in issue	8,099	1,149	2,688	2,090	2,363	–	16,389
Other liabilities	–	–	–	–	–	5,705	5,705
Subordinated liabilities	281	–	–	–	1,575	–	1,856
Shareholders' funds	–	–	–	–	–	7,149	7,149
Total liabilities	94,238	3,775	4,887	4,980	3,938	13,260	125,078
Off-balance sheet items	3,775	(2,714)	1,587	(4,178)	1,530	–	–
Interest rate sensitivity gap	(1,128)	(2,540)	1,694	11,194	(252)	(8,968)	–
Cumulative gap	(1,128)	(3,668)	(1,974)	9,220	8,968	–	–

Instruments have been allocated to time bands by reference to the earlier of the next interest rate repricing date and the maturity date.

43 Currency Risk

No analysis of the Group's foreign net investments has been provided on the grounds of materiality.

The total currency exposure arising on the monetary assets and liabilities held in the non-trading book amounted to £4m at 31 December 1999 (1998: £3m). This figure takes into account the effect of any currency swaps and forward contracts entered into to manage these currency exposures. This level of currency exposure is consistent with the Group policy outlined on page 24.

44 Trading Book

No details are provided of the highest, lowest, average and balance sheet date exposure of the trading book to market price risk due to the immaterial levels of trading instruments held during the year. No analysis of dealing profits by financial instrument is presented on the grounds of materiality.

45 Retirement Benefits

Pension Schemes

The Group operates a number of pension schemes for the benefit of the majority of employees. The principal scheme at 31 December 1999 was the Halifax Retirement Fund, which is a funded scheme and provides defined benefits based on final pensionable salary. The assets of the scheme are held separately from the assets of the Group in trustee administered funds. Contributions to the scheme are assessed in accordance with the advice of a qualified actuary. Actuarial valuations are normally carried out triennially.

The most recent formal valuation for the Halifax Retirement Fund was as at 31 March 1997. An interim funding review of the Halifax Retirement Fund was carried out as at 31 March 1999, and the results of that review have been taken into account in assessing pension costs for 1999.

45 Retirement Benefits Continued

The main long term financial assumptions used in the 1997 valuation and the 1999 funding review were:

	% per annum
Price inflation	4.00
Investment return	8.25
Salary escalation	6.00
Pension increases*	4.00
Dividend increases	4.00

*On the excess over the Guaranteed Minimum Pension

At 31 March 1999, the market value of the assets of the Halifax Retirement Fund was £1,855m. The actuary's assessment, on a market-related basis, was that the assets represented 108% of the value of the benefits that had accrued to members and pensioners, after allowing for expected future increases in earnings. The valuation takes into account the impact of the loss of tax credits on UK equity dividends which was announced in the Budget of July 1997.

The projected unit method of valuation has been adopted and the valuation has been prepared on the basis of market values of assets and market-related values of liabilities.

The pension cost for accounting purposes has been calculated using the same assumptions as those adopted for the 1997 valuation and 1999 funding review, with the exception of the long term rate assumed for equity dividend increases which has been increased to 4.5% (1998: 4.25%).

Excess funding has been spread over the average expected future working lives of scheme members using the 'straight line' method. The Group charge for pension costs for the year ended 31 December 1999 was £32m (1998: £20m). Included in prepayments and accrued income (note 26) is a pension prepayment of £36m (1998: £51m) which relates to excess pension contributions.

Birmingham Midshires also operates a defined benefit pension scheme for its employees. As part of the allocation of fair values to the net assets acquired, a liability has been recognised in the Group's accounts in respect of the deficiency in this scheme. This liability has been valued using the assumptions adopted for calculating pension costs for the Halifax Retirement Fund for 1999. The pension cost for this scheme for the post-acquisition period to 31 December 1999 amounted to £3m.

Other Post-Retirement Benefits

The Group also provides post-retirement health care benefits and concessionary rate mortgages for certain pensioners and dependent spouses.

An independent actuarial review as at 31 December 1999 estimated the present value of the accumulated other post-retirement benefit obligations at £30m for the Group (1998: £26m). The main financial assumption used was that over the long term the rate of increase in health care costs would be 8.25% per annum, being 4.25% per annum higher than the rate of inflation. The charge for the year ended 31 December 1999 for other post-retirement benefits was £4m (1998: £3m). Included in provisions for liabilities and charges (note 33) is £27m (1998: £21m) which represents the accrued amount for other post-retirement benefits.

46 Transactions with Directors and Other Officers

The aggregate amounts outstanding at 31 December 1999 in respect of loans and credit cards which were made available by the Group for persons who are, or were during the year, Directors of Halifax Group plc and their connected persons and for Officers of the Company were:

	Number	Amount £000
Directors		
Loans	9	363
Credit card accounts	6	8
Officers		
Loans	23	2,857
Credit card accounts	3	12

The credit card balances disclosed above for Directors and other Officers are with a subsidiary, Halifax Credit Card Ltd. Transactions are on normal commercial terms and in the ordinary course of business.

There were no significant contracts between the Company and Directors or persons connected with Directors of the Company during the year.

47 Related Party Transactions

(i) Transactions with joint ventures
Balances outstanding between the Group and joint ventures as at 31 December 1999 and 1998 are set out in note 16. Interest receivable by the Group on these balances amounted to £32m for the year ended 31 December 1999.

(ii) Transactions with Birmingham Midshires Building Society
Money market transactions with Birmingham Midshires Building Society arose during the period prior to acquisition in the normal course of business at market rates. The amounts involved were not significant.

48 Segmental Analysis – Business Sectors

The Group reports through five business sectors: Retail Operations (which includes Mortgages, Liquid Savings and Retail Banking), Consumer Credit, Personal Lines Insurance, Long Term Savings & Protection, and Treasury & Wholesale Banking.

The information contained within the following tables represents an analysis of the Group profit before tax and Group net and total assets by business sector. Further information on the bases of these analyses is given in notes a to e below.

	Group	
	1999 **£m**	1998 Restated (note a) £m
Retail Operations	**1,265**	1,226
Consumer Credit	**64**	41
Personal Lines Insurance	**160**	148
Long Term Savings & Protection	**203**	160
Treasury & Wholesale Banking	**194**	135
Group Items	**(123)**	(5)
Profit before tax and exceptional items (note b)	**1,763**	1,705
Exceptional items (note c):		
Administrative expenses	**(147)**	–
Profit on ordinary activities before tax	**1,616**	1,705

	Group			
	1999 Net assets (note d) £m	1998 Net assets (note d) £m	**1999 Total assets (note e) £m**	1998 Total assets (note e) £m
Retail Operations	**3,204**	2,874	**90,589**	82,144
Consumer Credit	**146**	122	**2,377**	1,965
Personal Lines Insurance	**107**	145	**–**	–
Long Term Savings & Protection	**1,108**	448	**1,729**	1,034
Treasury & Wholesale Banking	**978**	564	**38,519**	34,868
Group Items	**1,406**	2,996	**4,629**	5,431
	6,949	7,149	**137,843**	125,442

Notes

(a) Comparative figures for the segmental analysis of Group profit before tax have been restated. The segmental results continue to reflect the capital notionally absorbed by each business sector based on the Financial Services Authority regulatory requirements. The amount of free capital allocated to business sectors has been reduced to take account of the capital management programme. This notional capital credit adjustment, previously calculated by reference to average LIBOR, now reflects the returns from the investment of Group reserves. Earnings on surplus free capital are reported within Group Items. Continued development and refinement of the activity based costing model has resulted in a more accurate allocation of costs from central support functions (included within Group Items) to the operating business sectors. The segmental analysis is reported on this revised basis and 1998 comparative figures have been restated accordingly. Details of the restated 1998 comparative figures are as follows:

48 Segmental Analysis – Business Sectors Continued

	1998 As previously reported £m	1998 As restated £m
Retail Operations	1,313	1,226
Consumer Credit	44	41
Personal Lines Insurance	158	148
Long Term Savings & Protection	170	160
Treasury & Wholesale Banking	169	135
Group Items	(149)	(5)
Profit on ordinary activities before tax	1,705	1,705

(b) In order to analyse net interest income by business sector, internal funds transfer pricing is applied to the average funding or liquidity gap in each sector. Interest rates used for transfer pricing have been determined to reduce interest rate risk in retail areas. The level of central funding takes account of the capital utilised by each business sector, calculated on the basis of regulatory requirements. Costs have been assigned to each sector based on resources consumed.

(c) Exceptional items, being network integration and corporate restructuring costs, are the consequence of corporate decisions made at Group level, and have not therefore been allocated across business sectors.

(d) Net assets have been allocated to banking sectors on the basis of regulatory capital requirements and to the Personal Lines Insurance and Long Term Savings & Protection sectors on the basis of shareholders' funds. It should be noted that the business is not managed on the basis of an allocation of net assets and it is therefore not appropriate to relate the segmental profits outlined above to the net assets.

(e) Interest earning assets have been allocated to the relevant business sector and exclude long term assurance assets attributable to policyholders. Long term assurance business attributable to shareholders has been assigned to Long Term Savings & Protection. All other non-interest earning assets are included in Group Items together with the Group's portfolio of Government securities used for reserves management.

No segmental analysis of turnover has been presented as the business of the Group is mainly that of banking and insurance.

For segmental reporting purposes, the Birmingham Midshires profit before tax is reported as follows: Retail Operations £46m, Consumer Credit £1m, Personal Lines Insurance £5m and Long Term Savings & Protection £6m.

49 Notes to the Consolidated Cash Flow Statement

	Group 1999 £m	Group 1998 £m
Gross cash flows		
(a) Returns on investments and servicing of finance		
Interest paid on subordinated liabilities	**(155)**	(175)
Dividends paid to non-equity minority interests	**(6)**	–
	(161)	(175)
(b) Capital expenditure and financial investment		
Transfers to long term assurance business	**(671)**	(76)
Purchase of investment securities	**(88,818)**	(60,764)
Sale and maturity of investment securities	**88,553**	54,286
Purchase of tangible fixed assets	**(111)**	(139)
Sale of tangible fixed assets	**44**	28
Purchase of own shares	**(12)**	–
	(1,015)	(6,665)
(c) Acquisitions and disposals		
Acquisition of net assets of Birmingham Midshires Building Society	**(242)**	–
Investment in joint ventures	**(2)**	(163)
	(244)	(163)

The cash consideration payable for the acquisition of the business of Birmingham Midshires Building Society and a summary of the transaction are shown in note 21. The cash balance transferred amounted to £321m.

The investment in joint ventures in 1998 comprises: £34m for the acquisition of the entire share capital of Lex Vehicle Leasing (1998) Ltd (LVL98) which held 30% of the share capital of Lex Vehicle Leasing (Holdings) Ltd (LVLH); £84m for the settlement of liabilities in LVL98 relating to the 30% shareholdings; and £45m to acquire a further 20% holding of LVLH.

	Group 1999 £m	Group 1998 £m
(d) Financing		
Return of capital to shareholders	**(1,509)**	–
Repurchase of share capital	**(39)**	(750)
Issue of subordinated liabilities	**864**	–
Repayment of subordinated liabilities	**(30)**	(50)
Issue of ordinary share capital	**1**	–
Issue of preferred securities to minority interests	**497**	–
Other movements	**6**	–
	(210)	(800)

49 Notes to the Consolidated Cash Flow Statement Continued

(e) Analysis of the balances of cash as shown in the balance sheet

	Group 1999 £m	Group 1998 £m
Cash and balances at central banks	**357**	247
Loans and advances to other banks repayable on demand	**1,152**	1,860
	1,509	2,107

The Group is required to maintain balances with the Bank of England which, at 31 December 1999, amounted to £139m (1998: £119m). These balances are not included in cash for the purposes of the cash flow statement.

Analysis of the changes in cash	Group 1999 £m	Group 1998 £m
Opening cash	**2,107**	2,224
Cash flow	**(598)**	(117)
Closing cash	**1,509**	2,107

(f) Analysis of changes in financing during the year

	Share capital and share premium £m	Subordinated liabilities £m
Balances at 1 January 1998	574	1,906
Net outflow of cash from financing	–	(50)
Repurchase of share capital	(18)	–
Share capital issued to the QUEST	50	–
Share premium reclassified as other reserves	(119)	–
Balances at 31 December 1998	**487**	**1,856**
Net inflow of cash from financing	**1**	**834**
Reduction in share capital on corporate restructuring	**(37)**	**–**
Repurchase of share capital	**(1)**	**–**
Acquisitions	**–**	**200**
Other movements	**–**	**(14)**
Balances at 31 December 1999	**450**	**2,876**

Five Year Summary

	1999	1998	1997	1996	1995-96
Profit & Loss Account (£m)					
Total Income	**3,304**	3,158	2,957	2,656	2,291
Operating expenses[2]	**1,405**	1,328	1,206	1,081	969
Provisions for bad and doubtful debts	**123**	96	102	145	108
Underlying profit before tax[1]	**1,782**	1,734	1,649	1,430	1,214
Balance Sheet					
Total assets (£bn)	**162**	145	131	116	99
Total assets (excluding long term assurance assets attributable to policyholders) (£bn)	**138**	125	115	103	99
Subordinated debt (£m)	**2,876**	1,856	1,906	1,543	775
Share capital (£m)	**449**	487	504	–	–
Other reserves (£m)	**8**	137	70	–	–
Profit and loss account reserves (£m)	**5,797**	6,525	6,641	6,605	6,234
Performance Ratios (%)					
Post-tax return on mean equity[2]	**18.0**	16.3	16.0	14.2	13.7
Cost:income ratio[2]	**42.4**	42.1	40.8	40.7	42.3
Net interest margin	**1.92**	2.06	2.18	2.17	2.22
Shareholder Information					
Dividends per ordinary share (p)	**24.0**	20.25	17.5	–	–
Underlying earnings per ordinary share[3] (p)	**53.3**	47.5	44.2	37.5	–

[1]Excluding exceptional items and pensions review
[2]Excluding exceptional items
[3]Excluding exceptional items and goodwill amortisation.

Note

During 1996, the reporting date was amended from 31 January to 31 December. The statutory period for 1996 was the 11 month period to 31 December 1996. The 1996 figures shown in the above table are for a 12 month period in order to aid comparison.

	1999	1998	1997	1996	1995-96
Gross secured lending (£m)	**18,201**	14,190	12,022	11,466	10,019
Estimated market share of gross mortgage market (%)	**16**	16	16	16	18
Net secured lending (£m)	**2,805**	1,275	1,466	2,091	2,895
Estimated market share of net mortgage market (%)	**6**	5	6	11	19
Secured mortgage balances (£bn)	**93.3**	83.7	80.4	79.2	77.2
Estimated market share of UK mortgages outstanding (%)	**19**	18	19	20	20
Retail deposit balances (£bn)	**80.2**	75.1	74.3	74.9	72.7
Estimated share of HSLA (%)	**14**	14	14	15	16
Total current accounts (m)	**4.0**	3.7	3.4	3.1	2.8
– Halifax current accounts (m)	**2.2**	2.0	1.9	1.6	1.3
– Cardcash accounts (m)	**1.8**	1.7	1.5	1.5	1.5
Unsecured personal loan balances (£m)	**1,324**	1,034	874	779	617
Secured personal loan balances (£m)	**646**	483	348	309	301
Credit card balances (£m)	**653**	549	434	399	341
Total Consumer Credit balances (£m)	**2,623**	2,066	1,656	1,487	1,259
Credit cards in issue (000s)	**1,225**	1,068	910	830	745
Funds under management (£bn)	**30.7**	25.3	21.1	18.1	1.4
Distribution					
Branches	**910**	814	897	970	1,083
Agencies	**852**	939	1,002	1,084	1,179
Estate Agency outlets	**399**	618	628	634	693
Halifax ATMs	**2,413**	2,097	1,952	1,858	1,783

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Shareholder Information

Financial Calendar 2000

18 February	Results for 1999 announced
18 April	Annual General Meeting
27 July	Interim results for 2000 announced

Ordinary Dividend

28 February	Ex-dividend date
3 March	Record date
8 May	Payment of final dividend for 1999
7 August	Ex-dividend date
11 August	Record date
9 October	Payment of interim dividend for 2000

Useful Contacts

For general enquiries about your shares, call the Shareholder Services Helpline on 0870 55 22 566 or write to Halifax Group plc, Shareholder Services, Trinity Road, Halifax, West Yorkshire HX1 2RG.

Share Price

For the current share price call the Halifax ShareXpress Price Information Service on 0901 47 00 007. Calls are charged at 60p per minute at all times and should last no longer than one minute.

Share Dealing

To buy or sell Halifax shares call Halifax Share Dealing Ltd on 0870 57 11 117. If you are registered with a Halifax ShareXpress account you can use the Halifax Online share dealing service at www.halifax-online.co.uk. Halifax Share Dealing Ltd is regulated by the SFA, is a member of the London Stock Exchange and is a participant in the Investors Compensation Scheme.

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To shelter your shares for tax purposes, you may be interested in the Halifax ShareXpress Individual Savings Account (ISA). For further information, please telephone Halifax Share Dealing Ltd.

Internet

Visit our home page at www.halifax.co.uk

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Registered Number

3474881.

Visually Impaired

An audio tape which gives the highlights of our performance in 1999 can be obtained from Transcription Services, telephone 01422 334037.

Share Register Analysis at 31 December 1999

Size of shareholding	Number of shareholders	%	Number of ordinary shares	%
1 – 200	1,531,374	45.0	272,095,505	12.1
201 – 1,000	1,745,401	51.2	673,878,283	30.0
1,001 – 5,000	127,287	3.8	150,499,148	6.7
5,001 – 10,000	641	–	4,482,532	0.2
10,001 – 50,000	633	–	15,104,263	0.7
50,001 – 100,000	194	–	14,121,074	0.6
Over 100,000	598	–	1,116,571,047	49.7
	3,406,128	100.0	2,246,751,852	100.0

Published by Black Sun plc 020 7736 0011

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