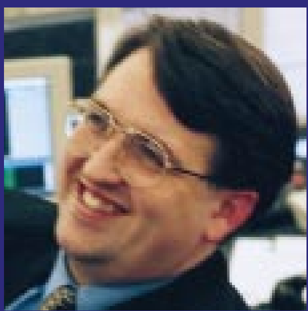
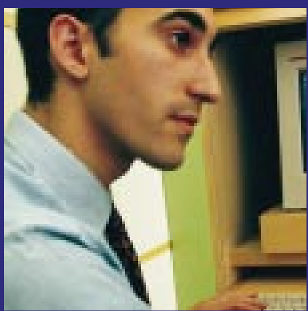
Halifax plc

Annual Report & Accounts 1998





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Our goal is to be the UK's leading provider of personal financial services.

Corporate Highlights

- Earnings per ordinary share of 47.5p, up 9%
- Profit before tax of £1,705m, underlying profit before tax[1] of £1,769m, up 7%
- Full year dividend of 20.25p per share, up 16%
- £1.5bn to be returned to shareholders

Financial Trends £m	1998	1997	1996	1995-96	1994-95
Profit before tax and exceptional items	1,705	1,649	1,430	1,214	975
Profit before tax	1,705	1,631	928	1,101	975
Profit after tax	1,171	1,091	561	723	651
Dividends	489	441	–	–	–
Total assets	144,574	131,100	116,075	98,655	72,151

Performance Measures					
Return on equity (%)[2]	16.3	16.0	14.2	13.7	16.4
Basic earnings per share (p)	47.5	43.5	22.4	n/a	n/a
Cost:income ratio (%)[3]	40.9	40.4	40.7	42.3	41.3

[1]Excluding exceptional items, Year 2000 programme costs and provision for the pensions review.
[2]Excluding exceptional items where relevant.
[3]Excluding exceptional items and Year 2000 programme costs.

Chairman's Statement

We could hardly have chosen a more turbulent period in global financial services for our first full year as a plc. Yet the Halifax has emerged from 1998 as an even stronger domestically focused personal financial services business. This contrasts sharply with the fortunes of many international banks around the world with exposures to the Far East, Russia and emerging markets.

Into this dynamic environment I welcome James Crosby as our new Chief Executive. James has been with us for five years, latterly as Financial Services and Insurance Director, and brings extensive experience of the financial services sector to his new position. I know that he will build on Mike Blackburn's great achievements to drive the continued success of the Halifax in the future.

Financial Results

In a successful year for the Halifax, I am able to report a 7% increase in underlying profit before tax and exceptional items to £1,769m from £1,659m in 1997. Underlying profit excludes costs of the Year 2000 programme, £35m (1997 £10m) and the pensions review provision, £29m (1997 £nil). Group profit before tax was £1,705m and basic earnings per share increased by 9% to 47.5p. Our Group net interest margin was 2.06% despite intense competition and our efficiency continued to be a core strength, with an underlying cost:income ratio of 40.9%.

Capital Management

The Board intends to place a proposal before shareholders for restructuring the Halifax Group and for the creation of a more efficient capital base. The Directors believe that the introduction of a new holding company above Halifax plc (a structure which is utilised by many other UK banks) will enable the Group to optimise the management of Halifax plc's regulatory capital and will provide opportunities to manage the Group's individual businesses more efficiently.

As part of this restructuring we intend to return to shareholders £1.5bn of capital which is surplus to the Group's requirements. The proposal will involve ordinary shares of Halifax plc being exchanged for a combination of shares in a new listed company plus cash. It is proposed that for every 40 shares in Halifax plc currently held, 37 shares in the new holding company will be issued, together with 62p per share in cash. If approved by shareholders and the High Court it is intended that the new shares will be issued, and the cash paid, in June 1999.

In March 1998 the Halifax began a 12-month share buy-back programme to buy up to £1bn of shares. In the period to 31 December 1998 we purchased shares with a value of £745m at an average price of 819.5p. This is the largest on-market share buy-back programme undertaken in any one year in the UK. Buying our own shares will remain an integral part of our capital management programme. The Board intends to seek renewal of the authority to purchase shares at the Annual General Meeting on 27 April 1999.

As part of the capital management programme, shareholders gave their approval at the Extraordinary General Meeting held on 18 November 1998 for up to one billion preference shares of £1 nominal value to be issued at the Board's discretion. This will provide an opportunity to reduce the overall cost to the Halifax of its tier 1 capital. Up to 225m preference shares will be issued to those entitled to receive them on the acquisition of Birmingham Midshires Building Society.
The Board intends to continue to review the capital resources required and is committed to optimise the level of capital in the efficient running of the business.

Jon Foulds Chairman

Dividend Policy

The Board has recommended a final dividend of 13.5p per share, bringing the 1998 full year dividend to 20.25p. This represents an increase of 16% compared with 1997 and dividend cover of 2.4 times.

For future years, dividend growth will broadly follow earnings per share movements. We judge this policy to be appropriate and consistent with the balance sheet structure resulting from the above proposals, as well as the ongoing capital requirement of the business.

Acquisitions and Joint Ventures

On 11 December 1998 the investing and borrowing members of Birmingham Midshires Building Society gave their overwhelming approval for Birmingham Midshires to be acquired by the Halifax. The acquisition is subject to regulatory approval, but we expect it to be completed in April 1999.

Birmingham Midshires is currently the UK's fourth largest building society. It will operate as a division of the Halifax, adding around £6bn to our residential mortgage assets and some £5bn to our retail savings balances. Birmingham Midshires will retain its brand identity, continuing to sell its current range of products and services while adding selected Halifax Group products as customer demand and competitive forces dictate. It will also become the specialised lending operation for the Halifax Group, absorbing the existing activities of Halifax Mortgage Services Ltd and other mortgage assets previously acquired amounting to some £2.2bn in total.

On 31 December we completed the acquisition of a 50% shareholding in Lex Vehicle Leasing (Holdings) Ltd, the UK's largest car and van contract hire company. This joint venture with Lex Service PLC represents an excellent opportunity for us to participate in the rapidly growing vehicle contract hire market, and to broaden our range of services to customers by developing a personal contract purchase product.

In January this year we announced a proposed 50/50 joint venture with Paris-based Cetelem SA, a major participant in the European consumer credit market. A new company – Halifax Cetelem Finance Ltd – is expected to begin trading in the third quarter of 1999. The company will offer customers credit for the purchase of consumer durable goods focusing primarily on the retail point of sale market.

Staff and Board

Continual change in the business inevitably means change for individual members of staff and their families. The Board sincerely appreciates their commitment and enthusiasm.

In October 1998, Mike Blackburn announced his intention to step down as Chief Executive. The Board had been aware for some time of his wish to relinquish the post so that he could pursue wider business interests and spend more time with his young family. He will act as Vice Chairman for 1999 before retiring from the Halifax at the end of the year.

Mike Blackburn led the organisation through five momentous years. The merger with The Leeds and conversion to plc were the highest profile events of his term, but there were many other major achievements, such as the birth of Halifax Life and the creation of Halifax Direct.

Today, the Halifax is a much stronger and more diverse organisation than the one he inherited. His ability to combine visionary thinking with attention to detail meant that the business grew with ambition and care, while his capacity for sheer hard work was an inspiration to us all.

Following a restructuring of the organisation, the role of Housing and Technology Director ceased to exist and John Miller left the Board on 31 December 1998. John was previously on the board of The Leeds and joined the Halifax Board after The Leeds merged with the Halifax. He has made a major contribution to the strength of the organisation and we wish him well in his future career.

Philip Rogerson, a Non-Executive Director, left the Board in December 1998. Philip was a non-executive member of the board of The Leeds and joined the Halifax Board in 1995. We thank him for his valuable counsel, particularly during the merger and conversion.

Two other Non-Executive Directors, Nigel Colne and Prue Leith, will retire from the Board at the Annual General Meeting in April 1999. Nigel Colne joined the Halifax Board in 1992, having been a member of the London Board of Halifax Building Society from 1987. Prue Leith was a director of The Leeds before the merger and joined the Halifax Board in 1995. We would like to thank them both for their valuable contributions as Directors.

Prospects

In what is likely to be a low interest rate environment, the affordability of housing and the lower cost of borrowing will be helpful operating conditions.

We welcome any Government initiatives that will make life simpler for consumers, and to that end we support the Review of the Homebuying Process.

Individual Savings Accounts, the Government's tax free savings initiative, will bring both new opportunities and a fresh need to educate and inform our customers. As a major provider of savings accounts, our focus in this area should help us secure a leading position in this new market.

In an increasingly complex and competitive environment, strong brands that customers can trust to meet a broad range of their financial needs will have a clear competitive advantage.

We believe the Halifax brands provide an excellent platform for continued success and for growth in our new business opportunities.

While the year to come will be no less demanding than the one behind us, I look forward with confidence to the challenges ahead.

The Halifax Today

The Halifax reports through five business sectors: Retail Operations, Consumer Credit, Personal Lines Insurance, Long Term Savings and Protection, and Group Treasury. 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 18% of outstanding mortgages. We offer a wide range of products for customers including fixed, capped and discounted variable rate mortgages.

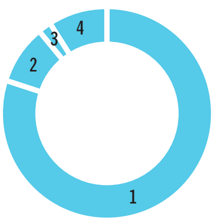
Liquid Savings
The Halifax is the market leader in UK savings with balances of £75.1bn, representing an estimated market share of 14%. Our products are designed to meet savers' requirements and can be accessed through our full range of distribution channels.

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.

Profit before tax	£m
Net interest income	1,969
Commissions, fees and other income	320
Operating expenses	(915)
Provisions for bad and doubtful debts	(61)
Profit before tax	**1,313**
1997 Profit before tax and exceptional items	1,298

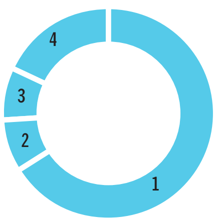
Key facts

1998 Sales (%)



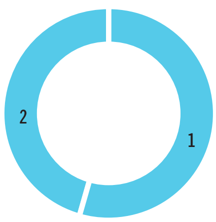
1 Fixed and capped rate	**80**
2 Variable discount	**9**
3 Cashback	**2**
4 Other	**9**

Balances (%)



1 'Gold' range	**66**
2 Fixed range	**8**
3 TESSA	**8**
4 Other	**18**

Number of Accounts



1 Current accounts	**2,033**
2 Cardcash accounts	**1,702**

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 customer needs.

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 and Protection

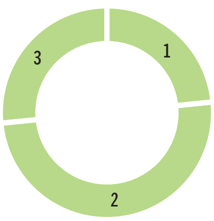
Halifax Financial Services provides long term savings and protection products through our network of personal financial advisers and through telephone-based delivery. Clerical Medical distributes through Independent Financial Advisers.

Group Treasury

Group Treasury 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 in the wholesale markets.

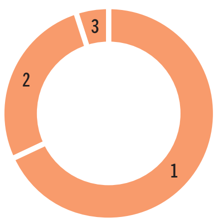
Consumer Credit £m	Personal Lines Insurance £m	Long Term Savings and Protection £m	Group Treasury £m
127	–	7	195
20	215	210	4
(68)	(57)	(47)	(30)
(35)	–	–	–
44	**158**	**170**	**169**
42	142	129	94

Balances (£m)



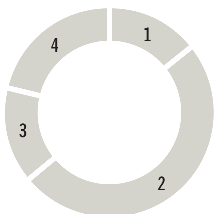
1 Secured personal loans	**483**
2 Unsecured personal loans	**1,034**
3 Credit card balances	**549**

Number of Policies (%)



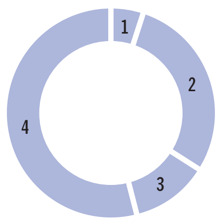
1 Household	**68**
2 Loan repayment	**27**
3 Other	**5**

Effective Premium Income (£m)



1 Clerical Medical Annual Premium	**53**
2 Clerical Medical Single Premium	**185**
3 HFS Annual Premium	**55**
4 HFS Single Premium	**79**

Treasury Instruments (%)



1 Treasury and other eligible bills	**5**
2 Loans to credit institutions	**29**
Debt securities	
3 – public bodies	**12**
4 – other borrowers	**54**

Chief Executive's Review

My aim is to generate continued success for the Halifax. The Group has two key advantages that are essential for success – brand franchise and cost efficiency – and is already moving forward with energy and pace. I believe I can reinforce its clear sense of direction. I know what the Halifax is about and what it can achieve. My task is to continue to use its great energies for the benefit of its 20m customers, its shareholders and the people who work in the business.

Brand Franchise

In our view, our brands are our greatest assets and we are building a portfolio of brands positioned to meet the needs of our target markets. The names Halifax and Clerical Medical both stand for qualities of service and dependability, without which we could not maintain the trust of our customers.

The Halifax brand is targeted at the mainstream UK population – customers who do not want to spend a lot of time sorting out their finances, but do want to deal with a name they can trust to give good value over the long term. We constantly check the health of our brands through a major research programme. It is clear that we retain a high standing among our customers: MORI confirms that the Halifax remains the financial service brand with the highest scores for familiarity and favourability.

The Clerical Medical brand is marketed as 'the choice of the professional' and came top in a recent Albemarle Research Brand Tracking Study identifying companies 'particularly for professional people'.

Birmingham Midshires will be positioned to complement these existing brands, enabling us to reach market segments that fall outside the broad appeal of the Halifax brand and the specialist strength of Clerical Medical.

Capital Management

The optimum management of the capital in our business is of prime importance to us. We generate significant amounts of cash each year and it is a strategic priority for us to assess correctly the level of capital required to successfully run the business. We are mindful of the need to retain sufficient capital to preserve the Halifax's credit ratings as one of the world's strongest financial institutions, but we also need to run the business efficiently.

To this end we are proposing to return £1.5bn of the Company's capital to our shareholders in June 1999. This is not only a direct benefit to shareholders, but will also improve the returns on the capital remaining within the business. We anticipate that our tier 1 ratio will be 7% – 8% within the next two to three years.

Capital efficiency is one of the key profit drivers of the business and we shall continue to take appropriate decisions to manage correctly this important resource.

Cost Efficiency

The Halifax is one of the UK banking sector's lowest-cost providers. We are committed to achieving the lowest cost base for an organisation of our size and complexity, while also working to maximise the value that we generate from it, to the benefit of both customers and shareholders.

Throughout 1998 we have continued to review the way we manage the branch network, estate agency network and our expanding direct distribution operations to ensure they support our service and sales objectives cost-effectively. They have now been combined under a single management structure at all levels.

We are committed to continuing productivity improvement and through good product design and more intensive use of ATMs, telephone and Internet technology we intend to reduce our transaction costs while achieving even higher standards of service.

James Crosby Chief Executive


CLERICAL MEDICAL


24
HOUR

Top: The Trafford Centre, Manchester
Bottom: A successful sale for Halifax Property Services

To create value in future years we will need sustained income growth. Generating this growth will call for continued investment in technology, new distribution channels and new business initiatives. However, through rigorous cost control we expect to contain cost increases at no more than 3%, excluding acquisitions, in each of the next two years.

Key Business Initiatives

We have a very single-minded approach to creating value for all our stakeholders – staff, customers and shareholders. Everything we do has to contribute to either strengthening the brand or reducing unit costs.

We started 1999 with a new organisational structure which brings our distribution facilities under common management and puts all the Halifax branded business together for the first time.

This structure will significantly improve our ability to increase product sales to existing customers while enhancing our delivery of the brand. Moreover, integration of all our distribution arrangements and our decision to reposition the role of Head Office will create significant opportunities to reduce unit costs.

Today's customers demand hard evidence of the benefits they gain from a brand. It is not enough simply to promise our customers 'a little extra help'. We also have to deliver it. Successful initiatives launched in 1998, such as the 15 Minute Mortgage Promise, Halifax Premium Savings Direct and the Halifax Instant Saver Account, demonstrate our commitment to delivering that promise.

Our customers also want to be able to do business with us at their convenience. After a successful pilot exercise we moved to full, seven-day trading in about 100 branches, with all-day Saturday opening in around 100 more.

Expansion of technology-driven distribution continues. Halifax Direct made significant contributions to product sales and Halifax Premium Savings Direct, our telephone-based savings account launched in January 1998, attracted savings balances of £4.5bn by 31 December 1998.

In 1998 Halifax Financial Services established a service providing financial advice by telephone – seven days a week at a time of the customer's choosing.

During the year we broadened our ATM network by improving our coverage in shopping centres and retail parks. We continue to install ATMs at selected McDonald's restaurants. We plan to locate significantly more ATMs away from our own premises over each of the next three years. In addition, the recently announced expansion of the LINK network means that our customers now have access to over 21,800 ATMs across the country.

In the Trafford Centre, one of Europe's largest shopping centres, which opened in September 1998, we are represented by a fully staffed but highly automated and counterless outlet. The technology used has proved very successful and has attracted much favourable comment.

Looking to the future, we are developing innovative distribution opportunities. People can now access information on a wide range of products and services online at the Halifax website (www.halifax.co.uk). In 1998 we added new features including online applications for current accounts and personal loans.

Our customers are also entitled to demand the highest standards of service, and sales and service training is a high priority. All customer-facing staff in our retail network have undertaken the 'Delivering Customer Focus' programme, which concentrates on customer service as a means of increasing sales.

Under our business centre programme, administration was moved from branches to business centres which use new image and workflow technology. This has created more space in branches for customers to

Above: Group Treasury Dealing Room, London

Facing: Amanda Jones with customers

transact their business and clearly focused the branch environment on service and sales.

Design work to develop our Branch of the Future has created dramatically new and distinctive branch environments in three major pilot outlets in Cardiff, Kensington and Portsmouth.

In 1998 we continued to invest in our relationships with intermediaries. Throughout the year we have delivered against a key account strategy at both a national and regional level. We believe that through effective relationship management with these key accounts we can generate significant volumes of mortgage business and respond specifically to the needs of our major business partners.

Halifax Share Dealing began trading in 1997. Initially dealing in Halifax shares only, the service was expanded in October 1998 and a non-advisory service dealing in the shares of most UK listed companies is now offered. The new service, called Halifax ShareXpress, offers immediacy of dealing at the quoted price, and electronic shareholding and money transmission – reducing paperwork to a minimum.

Clerical Medical's goals also centre on costs and developing its brand franchise – in its case with independent intermediaries. In 1998 we embarked on business transformation and operational efficiency programmes involving significant investment in systems which will deliver more customer focused and efficient service. 1998 also saw the launch of Clerical Medical's website for intermediaries and individual policyholders and the successful pilot of a new customer relationship management scheme with several IFAs.

For Group Treasury 1998 was a year of major reorganisation and in the third quarter it relocated to London. The infrastructure and control framework to support and accommodate all existing and new business activities is in the process of being enhanced. The move to London was part of the ongoing diversification of Group Treasury into a wholesale banking business. In its new location, and with the strength and stability of the Halifax credit ratings and balance sheet, Group Treasury is in a strong position to increase volumes in selected business areas.

Our People and Our Place in the Community

The Halifax employs around 36,000 staff throughout the country. In the ever-changing financial services market, they are focused on continually improving performance, handling new products and processes and doing all this cost-effectively.

We are proud of our 'people policies' which support staff and enabled us to deliver major improvements to customer service in 1998 including the extension of our opening hours and introduction of Sunday opening. These presented challenges to which our staff responded magnificently.

The Halifax invests hugely in its workforce through training, bonus and reward systems and many other activities. We pay particular attention to internal communication: in addition to conventional employee publications and briefings we make extensive use of our internal television system, relaying programmes by satellite so that employees all over the country can keep up to date with developments in the business.

As one of the country's largest companies, the Halifax has responsibilities that go beyond its normal course of business and into the wider community. Our policy includes supporting the local communities in which we operate and, at a national level, giving particular emphasis to the support of homeless people, to education and to the environment. Under our Community Affairs Programme we provide direct financial support to many organisations and projects and donated a total of over £3m in 1998.

Top: The site of Halifax General Hospital
Bottom: Robina Ibana using paperless workflow technology

Facing: Meiyee Tang, Halifax Direct

In support of the Government's Education Action Zones (EAZ) initiative, the Halifax has committed £250,000 annually for the next three years to support schools in Halifax, West Yorkshire.
Homelessness is a priority area. In 1998 we gave the Centrepoint initiative the final instalment of a £100,000 donation to help with the launch of a northern unit and also provided practical support in the form of office space and administrative help. We have committed £30,000 a year for three years to Shelterline, a national helpline for homeless and poorly housed people, established in December 1997 by Shelter.

Through our sponsorship programme we are able to enhance our public standing and promote our brand by association with prestigious, quality events and organisations. By supporting Northern Ballet Theatre (NBT), for example, we not only promote the Halifax but also ensure that NBT can continue to perform and be enjoyed by a wider audience.

Our commercial activities also have an impact on our communities. In 1998, Halifax Group Treasury contributed to the financing of four hospital projects under the Government's Public Private Partnership Scheme – including the new Halifax General Hospital in our home town.

The Environment

We recognise that our business activities have both direct and indirect environmental impacts. During the year we began implementation of our environment policy – aiming for continuous improvement in our environmental performance by identifying adverse impacts and minimising them through good management. Our policy, objectives and plans are published on our Internet website (www.halifax.co.uk). Our many current projects include the introduction of a 10% energy saving target for our central sites and the initiation of a dialogue with our major suppliers to encourage them to apply similar environmental policies to our own and to adopt an environmental procurement policy and guidelines.

Outlook

The UK financial services market is an increasingly competitive environment in which the winners will be those players that have distinct advantages and can deliver excellent customer service. The Halifax has two key advantages – brand franchise and cost efficiency. In my view, building on and developing these strengths will always be fundamental to satisfying customers' needs and improving returns for shareholders.

Financial Review

Presentation of Results

The statutory results and comparative figures are reported in these financial statements in accordance with the special provisions of the Companies Act 1985 laid down specifically for banking groups and to reflect best practice in the banking sector.

The financial statements have been prepared in accordance with the requirements of four new Financial Reporting Standards (FRS 9, 10, 11 and 14). There have been no changes to the Group's accounting policies other than those required by the adoption of FRS 9 and 10. There have been no changes to previously reported figures as a result of adopting the new standards.

Segmental Analysis

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.

The segmental analysis has been amended to reallocate profits on disposal of British Government securities from Group Items to Group Treasury. Comparative figures have been restated accordingly. The effect of this change is to increase Group Treasury net interest income and profit before tax by £97m in 1998 (1997 £17m), with a corresponding reduction in Group Items net interest income and profit before tax. This change is reflected in the segmental profit and loss accounts below and in the Group Treasury and Group Items sections within this review.

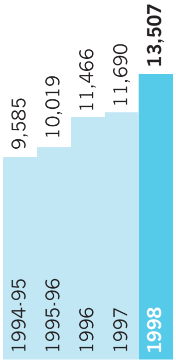
Segmental profit and loss account for 1998

	Retail Operations £m	Consumer Credit £m	Personal Lines Insurance £m	Long Term Savings and Protection £m	Group Treasury £m	Group Items £m	Total £m
Net interest income	1,969	127	–	7	195	68	2,366
Commissions, fees and other income	320	20	215	210	4	23	792
Total income	2,289	147	215	217	199	91	3,158
Operating expenses	(915)	(68)	(57)	(47)	(30)	(211)	(1,328)
Provisions	(61)	(35)	–	–	–	(29)	(125)
Profit before tax	1,313	44	158	170	169	(149)	1,705

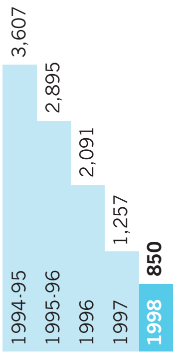
Segmental profit and loss account for 1997

	Retail Operations £m	Consumer Credit £m	Personal Lines Insurance £m	Long Term Savings and Protection £m	Group Treasury £m	Group Items £m	Total £m
Net interest income	1,996	114	3	11	106	85	2,315
Commissions, fees and other income	273	19	185	154	1	10	642
Total income	2,269	133	188	165	107	95	2,957
Operating expenses	(897)	(60)	(46)	(36)	(16)	(151)	(1,206)
Provisions	(74)	(31)	–	–	3	–	(102)
Profit before tax and exceptional items	1,298	42	142	129	94	(56)	1,649

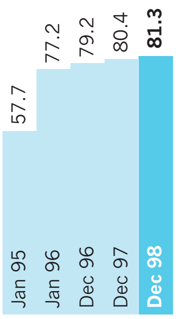
Gross residential lending
£m



Net residential lending
£m



Residential mortgage balances
£bn



Retail Operations

	1998 £m	1997 £m
Net interest income	1,969	1,996
Commissions, fees and other income	320	273
	2,289	2,269
Operating expenses	(915)	(897)
Provisions	(61)	(74)
Profit before tax	1,313	1,298

Mortgages

The number of housing transactions in England and Wales fell 6.5% to 1.35m in 1998. Total market net lending grew only 7% to £26bn, but gross lending grew significantly faster – up 16% to £89.5bn. The substantial difference between net and gross lending was the result of continued strong growth in remortgaging – which contributes little to the market total of net lending as it represents a switch of provider for most customers with minimal additional lending. Remortgages totalling an estimated £22bn (1997 £13.1bn) accounted for approximately 25% of total lending in 1998 (1997 17%).

Total Group gross secured lending was a record £14.2bn in 1998, up from £12.0bn in 1997, confirming our position as the UK's leading mortgage lender. Performance in the second half represented 17% of the market. Overall share for the year was 16%.

Allowing for principal repaid, residential mortgage balances grew by £0.9bn to £81.3bn. Second half net secured lending of 11% of the market resulted in a full year share of 5% (1997 6%). The year-end pipeline of mortgage offers awaiting completion, £1.9bn, was some 33% higher than at 31 December 1997.

Apart from competitive products and pricing, mortgage growth has been helped by the launch of the Rapid Remortgage Service, mortgages by telephone, the 15 Minute Mortgage Promise and free Additional Mortgage Security for loans up to 90% of property value. Acquisition costs of 5.6% compare with 4.4% in 1997 and 5.7% in 1996. The cost has been relatively consistent throughout 1998 with 5.5% recorded in the first half of the year.

Remortgages accounted for 15% of sales in 1998, compared to 3% in 1997, with 7% of sales in the first half of the year and 21% in the second.

Fixed and capped rate mortgages represented 80% of sales (1997 43%) and cash based incentive products represented 2% (1997 10%).

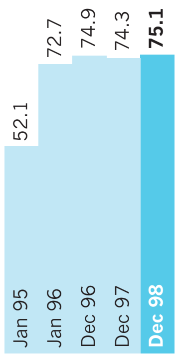
Direct business – through our own branch, estate agency and telephone channels – was 51% in 1998. Lending through intermediaries was £6.2bn, supported by a combination of focused key account management, a strong local presence, commitment to service and consistently competitive products.

The high quality of the mortgage book has been further enhanced. Lending at or below 90% of property valuation, where default and loss rates are significantly lower, represented 79% of new business, up from 63% in 1997. Our provisioning policy remains prudent and arrears levels have fallen generally. At the year end the total number of arrears cases was below the 1997 level and was better than industry averages in all categories:

	1998 Cases (000)	1998 Total mortgages (%)	1998 CML average (%)	1997 Cases (000)	1997 Total mortgages (%)	1997 CML average (%)
3 - 6 months	25.7	1.06	1.19	28.7	1.17	1.10
6 - 12 months	13.3	0.54	0.68	17.3	0.71	0.69
Over 12 months	5.3	0.22	0.32	9.4	0.38	0.42
Total	44.3	1.82	2.19	55.4	2.26	2.21

Source of market information – Council of Mortgage Lenders

Liquid savings balances
£bn



Liquid Savings

Liquid savings balances increased by over £800m to £75.1bn. These balances represent an estimated 14% of total UK Household Sector Liquid Assets, maintaining our market leading position.

Four new savings products were launched in 1998. Halifax Premium Savings Direct, a telephone based account for larger balances, attracted balances of £4.5bn following its introduction in January.

Halifax Instant Saver, a plastic card-based instant access account, accumulated balances of over £2.5bn between September and the year end.

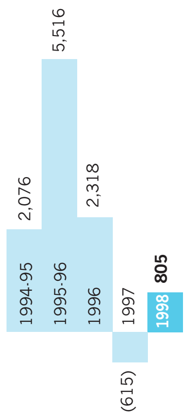
Halifax Monthly Saver and Halifax Advance ISA, launched in March and November respectively, are also meeting specific customer needs.

Preparations to launch Individual Savings Accounts (ISAs) from April 1999 are well advanced. Savers will have access to information in good time to enable them to understand, and benefit from, the new savings opportunities.

In keeping with our Savings Promise, existing customers, as appropriate, have been specifically advised of new product details this year.

We remain strongly committed to remaining the leading provider of savings accounts and will continue to develop our product range. We will focus on recognising individuals' needs while rewarding the existing relationships that we have with our customers.

Liquid savings inflow
£m



Offshore Subsidiaries

Customer balances in Halifax International (Jersey) Ltd and Halifax International (Isle of Man) Ltd grew by 27% to £1.4bn during the year.

Both subsidiaries continue to be committed to providing appropriate products for their customers. Halifax International (Jersey) Ltd launched a US dollar deposit account in October following customer demand for an offshore account that gives them instant access to their US dollar funds. In July, Halifax International (Isle of Man) Ltd launched a fixed rate deposit account for customers seeking the reassurance of a guaranteed return. Both new accounts have proved to be extremely popular.

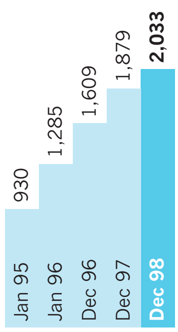
Both subsidiaries have completed work on their computer systems to address the Year 2000 and to support the introduction of the euro.

Instant access euro deposit products were made available by both subsidiaries early in 1999 to provide convenience for UK residents who travel in Europe frequently and to attract savers who may have euro-based income.

Banco Halifax Hispania SA

During 1998 savings balances in our Spanish banking subsidiary increased to £22m and loans to customers increased to £65m. The business successfully converted its systems to accommodate the introduction of the euro on 1 January 1999 and the experience gained will be valuable in assessing future developments which may impact on the Group as a whole.

Number of cheque book accounts
000s



Retail Banking

In 1998 we remained strongly focused on attracting quality new business by building up the stock of primary, regularly-funded, accounts.

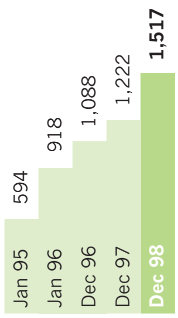
We surpassed our target of 2m cheque book accounts by the end of 1998 and the proportion of new accounts that are regularly funded increased from 46% to 57%. We also fine tuned our credit scoring to ensure a high quality of new accounts.

In an increasingly competitive market where card-based banking and high interest, instant access savings accounts are becoming less distinct, we have sustained our presence in the 'new to banking' market by taking 7% of the market.

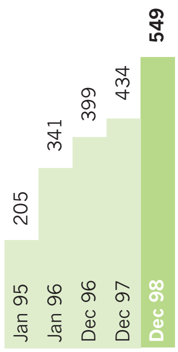
The increasing demand for time-saving technology by banking customers is reflected by the fact that 45% of our cheque book account customers are now registered to use our direct banking facilities.

Solo, the authorised debit system, was first added to our Cardcash account in 1997 to benefit our customers with greater convenience and access to their money. This was made available to over 1m customers during 1998 and continues to prove extremely popular. We opened 325,000 new Cardcash accounts in 1998, an increase of 50% on last year. We now have over 1.7m Cardcash accounts to complement our cheque book account base.

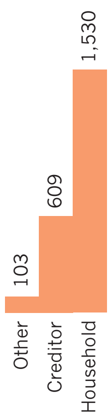
Personal loan balances
£m



Credit card balances
£m



Insurance policies by product
000s at 31 December 1998



Consumer Credit

	1998 £m	1997 £m
Net interest income	127	114
Commissions, fees and other income	20	19
	147	133
Operating expenses	(68)	(60)
Provisions	(35)	(31)
Profit before tax	44	42

Consumer Credit includes secured and unsecured personal loans and credit cards. Existing customers continue to be the focus of this sector as this minimises acquisition costs and loan quality is better controlled. Existing customers benefit from relationship discounts – on unsecured personal loans, for example, these would have reduced the December 1998 APR of 18.9% (including repayment insurance) by up to 5%.

Secured lending exhibited substantial growth, with over 50% more new loans than in 1997 and balances of £483m, representing an increase of 39% compared to 1997. Secured personal lending balances are included within Group secured lending figures for market share reporting. Total unsecured loan balances are now more than £1bn, an increase of 18% on 1997, which was pleasing against the background of a market which grew by 14% during the same period.

In 1998 we enhanced our risk control. In April we introduced new collections software and opened a new national collections centre. In October we introduced revised application scorecards which assess the quality of loan applications more rigorously. The success of our efforts was reflected in a relatively modest increase in the provisions charge for the year.

At the year end, Halifax Visa balances were £549m, an increase of 26% on 1997. New card openings in 1998 doubled to 213,000 taking the total cards in issue to almost 1.1m. Since January 1998 customers with a Halifax mortgage or salary-funded Halifax current account have enjoyed the benefit of a fee waiver on the Halifax Visa card.

In August 1998 we launched a Gold MasterCard, followed by the launch in November of Visa Balance, targeted at credit card borrowers. Both of these products are being marketed to selected customers by direct mail.

To celebrate the 10th anniversary of Halifax Visa Charity Card, we committed an extra £1m in total to the three charities supported by the scheme, The British Heart Foundation, Imperial Cancer Research Fund and Mencap – by early 1999 the charity card initiative had generated total donations of over £10m since its launch in 1988.

Personal Lines Insurance

	1998 £m	1997 £m
Net interest income	–	3
Commissions, fees and other income	215	185
	215	188
Operating expenses	(57)	(46)
Profit before tax	158	142

The number of policies outstanding was broadly unchanged over the year at just over 2.2m. The total number of household policies fell, despite a healthy level of new policy sales, as the high level of mortgage redemptions reduced the number of active accounts, particularly in the first half of the year. Sales of loan repayment insurance – covering both mortgage and personal loans – were 21% higher than in 1997. This level of sales led to the number of loan repayment insurance policies growing by 9% over the year. We successfully relaunched our Halifax travel insurance products during the year. Halifax motor insurance was launched at the end of 1996, and increased sales brought the number of policyholders to 74,000 by the end of 1998. We are pleased with this number of policies after only two years of offering the product and are encouraged by the high level of renewals by customers.

During the year we concluded a deal with Royal & SunAlliance (RSA) our underwriter for household business, which extended our relationship with them and builds on our decision to take charge of our relationships with customers.

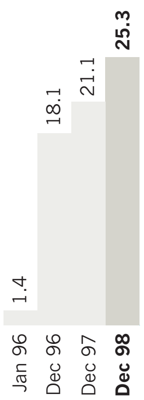
1998 was the first full year of our in-house operation set up to serve household customers. This facility, centred in Halifax, undertakes policy processing and claims administration. During the year it answered over 2m telephone calls, received more than 1m items of post and paid 250,000 claims. We continued to undertake extensive staff training to ensure that customer service meets the high standards we have set ourselves.

Towards the end of the year we concluded a major exercise to review our rating structures for household insurance. The new ratings are designed to reflect more appropriately the risks being insured and should be fairer for customers while ensuring Halifax household products are competitive in the market. These new rating structures will be implemented for new and existing customers in 1999.

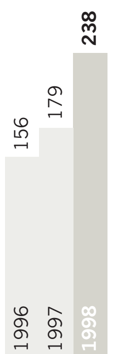
Long Term Savings and Protection

	1998 £m	1997 £m
Net interest income	7	11
Commissions, fees and other income	210	165
ACT credit withdrawal	–	(11)
	217	165
Operating expenses	(47)	(36)
Profit before tax	170	129

Group funds under management
£bn



Clerical Medical Effective premiums
£m



Clerical Medical Investment Group

In its second year with the Halifax Group Clerical Medical continued to prosper and profits increased to £100m in 1998 from £76m in 1997, an increase of 32% (the 1997 result was adversely affected by a charge of £11m arising from the Government's withdrawal of ACT credits for pension funds).

Sales again exceeded expectations and continued the growth trends evident in 1997. In 1998 effective premium income (regular premiums plus 10% of single premium business) was £238m, some 33% higher than 1997 sales. The pattern of sales growth was biased towards the first half of 1998 as the success of with-profits bond sales in the second half of 1997 influenced year on year comparisons.

Sales of life policies, with-profits bonds and individual pensions business were well ahead of 1997 levels. Group pension business grew by 26%, boosted by a mandate to manage a scheme with some 20,000 contributors – the largest such mandate Clerical Medical has ever won. Clerical Medical International's sales grew over 60% to record levels, with sales both of offshore products into the UK and of products in Continental Europe well ahead of the previous year.

Funds under management were £21.6bn at the end of 1998.

The Clerical Medical brand has continued to maintain a clear and differentiated position as 'the choice of the professional'. Its market share has grown particularly in the latter part of the year, strengthened by investors' perception that Clerical Medical's position in the Halifax Group confers stability in an uncertain environment.

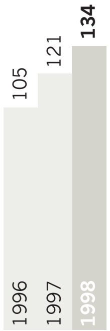
Clerical Medical investment management had a successful year, winning several new mandates, and almost 70% of retail funds achieved first or second quartile performance ranking over the year.

Halifax Financial Services

Profits grew 32% to £70m, from £53m in 1997, with sales up 11% at £134m. Sales grew particularly strongly in the first half when promotion of Halifax as a leading provider of PEPs more than doubled sales of single premium PEPs compared with the first half of 1997. Sales also benefited from the first with-profits product from HFS, the Halifax Bonus Bond.

Funds under management were £3.7bn at the end of 1998.

HFS
Effective premiums
£m



HFS has continued to deliver initiatives designed to enhance customer service and to ensure that we meet customers' needs over their lifetimes. During 1998 we introduced new telephone advice and execution-only services and postal execution-only services, which proved popular with customers. We also built on earlier initiatives to monitor customers' understanding of the advice they receive and to coach, develop and monitor our staff to ensure that they are able to meet customers' expectations.

In April this year ISAs will replace PEPs and TESSAs. Our strong market positions in TESSAs and PEPs give us a good base from which to offer ISAs. We have planned a range of ISA products that will appeal to a wide range of customers and we will ensure that savers have access to information about ISAs in good time for them to understand fully how they can benefit from the new savings opportunities.

Group Treasury

	1998 £m	1997 £m
Net interest income	195	106
Commissions, fees and other income	4	1
	199	107
Operating expenses	(30)	(16)
Provisions	–	3
Profit before tax	169	94

As one of the five key business areas of the Halifax, Group Treasury supports the Group by managing liquidity, interest rate risk and currency risk, as well as contributing to profitability through activities in structured finance and the wholesale markets. Net interest income increased by £89m, reflecting the reallocation of profits on disposal of British Government securities amounting to £97m (1997 £17m), from Group Items. Operating expenses increased due to the relocation of Group Treasury to London and increased expenditure on infrastructure.

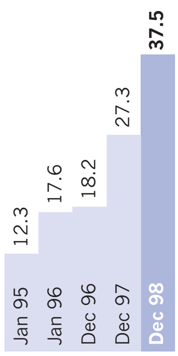
1998 was a year of exceptional volatility in the world's financial markets. The UK base rate rise in June, which surprised the market, was followed by sharp falls in interest rates in the UK and USA due to a crisis of confidence in the emerging markets, notably Russia. The near collapse of a large US-based hedge fund exacerbated turbulent market conditions. Although Group Treasury had no direct exposures to the emerging markets or hedge funds and was well positioned for the subsequent interest rate reductions, performance was tempered by the contraction in market liquidity that ensued. As a result of the scarcity of liquidity over the fourth quarter, funding costs in sterling and US dollar money markets failed to fall in line with the reduction in official interest rates. Despite the tightening of liquidity, funding over the year as a whole increased to finance greater volumes of government and other debt securities.

Credit ratings – Halifax plc

	Long term	Short term	Financial strength
Moody's Investor Services	Aa1	P–1	A
Standard and Poor's	AA	A–1+	–
Fitch IBCA	AA+	F1+	A/B

Group Treasury is composed of five business units: Money and Interest Rate Markets, Derivatives and Foreign Exchange, Capital Markets, Structured Finance and Client Business. The ongoing growth of Group Treasury and the planned Foreign Exchange business is being supported by the continuing development of an advanced infrastructure and risk management framework. Prudent credit controls continue to support our risk appetite, and we are improving our sensitivity modelling capacity with the objective of achieving significant advancements in 1999 in the whole area of market risk. Enhancements in the middle office have focused on control and measurement of risk.

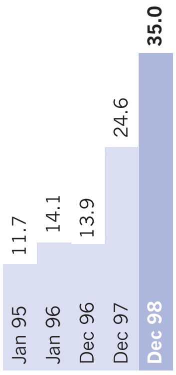
Treasury instruments
£bn



In the Money and Interest Rate Markets business, the Halifax is a major participant in the sterling money markets. As well as enhancing its presence in US dollar and yen markets, Group Treasury diversified into a wider range of other currencies ahead of the introduction of the euro, and has been appointed a market-maker in the Bank of England's Euro Treasury Bill Programme. By the end of 1998, Group Treasury had completed the necessary conversion process to deal in the euro in the wholesale market on the introduction of Economic and Monetary Union on 1 January 1999.

The Derivatives and Foreign Exchange business is being established in the first instance to manage market risk generated by the Group and to provide product

Treasury liabilities
£bn



support to the retail network. The Client Business has focused on broadening the Halifax's investor base to enhance name recognition internationally. More resources have been devoted to Relationship Management and to Sales where volumes of deposits have increased particularly with the corporate and central bank counterparties.

Debt issuance in 1998 was successful, reflecting investor confidence in the Halifax. Activity in the Capital Markets business focused on a series of landmark bond issues, notably February's US$500m 10-year Eurodollar issue and the £300m 10-year Eurosterling deal issued in April and subsequently increased to £400m in November. Outstandings on the US$6bn Euronote programme reached almost US$4bn by the year end with debt issues in a wide variety of European currencies as well as in US dollars and yen. Capital Markets expanded its investment portfolios in highly rated liquid bonds, with a significant emphasis on asset backed securities.

Structured Finance increased its revenues in Asset Finance, Housing Finance, Project Finance and Property Finance, demonstrating successful diversification in all its four business areas.

At the end of the year, Asset Finance provided a loan facility of £800m to Lex Vehicle Leasing (Holdings) Ltd, in which the Halifax acquired a 50% shareholding. Group Treasury was mandated as agent, arranger and UK lead manager in one of the largest ever aircraft financing transactions of US$4.3bn to International Lease Finance Corporation to purchase 75 aircraft manufactured by Airbus Industrie. The Halifax is making available facilities of US$1.1bn, although risks associated with this lending are mitigated by export guarantees provided by the UK Government's Export Credit Guarantee Department. Lease financing facilities were also extended to Severn Trent Water for £85m.

In the Project Finance business we have acted as both arranger and participant in syndicates providing £113m senior debt for four hospital projects under the Government's PPP (Public Private Partnership) scheme, with total commitments of over £124m.

Housing Finance had its most active year to date, committing new lending of well over £200m, which included three stock transfers from local authorities under the Government's large scale voluntary transfer scheme. Group Treasury was also involved in the largest deal under the Government's Estates Renewal Challenge Funding Scheme to support the transfer of ownership of low value property from local authorities to other landlords.

Lending within Property Finance has increased in the investment market and deals are confined to rental income producing assets.

Throughout 1999 we will continue creating a full service bank treasury and capital markets division with the intention of steadily growing profitability with risk management as our first priority.

Group Items

	1998 £m	1997 £m
Net interest income	68	85
Commissions, fees and other income	23	10
	91	95
Operating expenses	(211)	(151)
Provisions	(29)	–
Profit before tax	(149)	(56)

Group Items comprises central costs, net interest income derived from the difference between the Group's total capital and the target regulatory capital allocated to business sectors, and the results of certain non-core business activities including Halifax Share Dealing.

Net interest income fell by 20% in 1998 principally as a consequence of the share buy-back programme. Operating expenses in 1998 include £35m in respect of the Year 2000 programme.

A provision of £29m (1997 £nil) has been charged against 1998 profits in respect of administrative costs and compensation payable in connection with phase 2 of the pensions review. This includes £7m to cover rebate only cases in accordance with guidance issued by the Financial Services Authority in December 1998.

Summary of Group Results

Profit Before Tax

	1998 £m	1997 £m
Net interest income	2,366	2,315
Other income	792	642
Total income	3,158	2,957
Operating expenses	(1,293)	(1,196)
Provisions	(96)	(102)
Underlying profit before tax	1,769	1,659
Year 2000 costs	(35)	(10)
Pensions review provision	(29)	–
Conversion costs (exceptional items)	–	(18)
Profit before tax	1,705	1,631

Net Interest Income

	1998 £m	1997 £m
Interest receivable	8,979	7,538
Interest payable	(6,613)	(5,223)
Net interest income	2,366	2,315
Average interest earning assets	114,645	106,026
Average interest bearing liabilities	105,725	97,182
	%	%
Average rates		
Gross yield on interest earning assets	7.83	7.11
Cost of interest bearing liabilities	6.25	5.37
Interest spread	1.58	1.74
Net interest margin	2.06	2.18

The margin and spread within Retail Operations was:

	1998 £m	1997 £m
Net interest income	1,969	1,996
Average interest earning assets	81,129	80,445
Average interest bearing liabilities	77,586	79,033
	%	%
Average rates		
Gross yield on interest earning assets	7.95	7.15
Cost of interest bearing liabilities	5.86	5.01
Interest spread	2.09	2.14
Net interest margin	2.43	2.48

Group net interest income increased by £51m to £2,366m, after taking account of a £29m reduction attributable to the share buy-back programme.

The Retail Operations spread reduced to 2.09% from 2.14%. This reduction reflects a continuation of the extremely competitive conditions in our core mortgages and savings markets together with the introduction of new, higher rate, savings products.

The Group interest spread was 1.58%, from 1.74% in 1997. In addition to the Retail Operations impact this was attributable to an increase in lower margin Group Treasury balances coupled with difficult conditions in short term money markets during the middle of the year, the latter largely offset by gains crystallised on the repositioning of longer dated investments.

Mortgage Acquisition Incentives

Our policy is to charge mortgage incentive costs to the profit and loss account as incurred. The following table shows the difference in pre-tax profit that would have arisen if a policy of amortising mortgage acquisition incentives had been in place. The amortisation figures shown have been determined in accordance with the BBA SORP on advances.

			1998			1997
	Actual £m	Amortised £m	Difference £m	Actual £m	Amortised £m	Difference £m
Discounted products						
Fixed and capped rates						
– Prior years	29	68	(39)	139	89	50
– 1997 advances	87	78	9	29	28	1
– 1998 advances	94	77	17	–	–	–
Variable rate						
– Prior years	147	127	20	230	160	70
– 1997 advances	66	59	7	40	33	7
– 1998 advances	12	12	–	–	–	–
	435	421	14	438	310	128
Cash products						
– Prior years	–	27	(27)	–	29	(29)
– 1997 advances	–	9	(9)	33	5	28
– 1998 advances	12	1	11	–	–	–
Cash incentives						
– Prior years	–	–	–	–	–	–
– 1997 advances	–	–	–	124	124	–
– 1998 advances	130	130	–	–	–	–
	142	167	(25)	157	158	(1)
Total	577	588	(11)	595	468	127

The additional cost which would have been carried forward to be charged against future years' profits had an amortisation policy been in place since 1994/95, now stands at £487m.

Mortgage cash incentives consisted of:

	1998 £m	1997 £m
Contributions to legal fees	55	82
Free valuations	43	42
Free Additional Mortgage Security	32	–
	130	124

Other Income

	1998 £m	1997 £m
Income from long term assurance business	146	103
Insurance income	215	185
Other net fees and commission receivable	413	333
Other operating income	18	21
Total	792	642

Total other income increased by 23% to £792m. Income from long term assurance business increased by 42% to £146m, reflecting growth in effective premiums in both Clerical Medical and Halifax Financial Services. Other net fees and commissions were 24% higher at £413m, mainly due to higher mortgage related fee income and increased financial services commissions from the sale of the Halifax Bonus Bond and single premium PEPs. Insurance income was 16% higher at £215m, reflecting increased sales of loan repayment insurance products.

Operating Expenses and Depreciation

	1998 £m	1997 £m
Staff costs	607	570
Other expenses		
Accommodation, repairs and maintenance	154	141
Technology	134	108
Marketing	34	32
Communication	72	66
Other	144	123
Depreciation and amortisation		
Land and buildings	22	31
Equipment, fixtures and fittings	40	45
Information technology	76	72
Plant and machinery	10	8
Underlying operating expenses	1,293	1,196
Year 2000 expenditure	35	10
Total operating expenses	1,328	1,206
Underlying cost:income ratio	40.9%	40.4%

Underlying operating expenses and depreciation, excluding Year 2000 expenditure, increased by 8% to £1,293m. Staff costs were 6% higher at £607m, mainly due to the impact of the annual pay award and expansion of Group Treasury operations together with a first full year's operating costs in sharedealing, shareholder services and our household insurance administration unit.

Staff costs shown above exclude the cost of certain employees of the Long Term Savings and Protection business whose employment costs are charged to income from long term assurance business. The numbers of those staff, on an average full time equivalent basis, were 3,176 for 1998 (1997 3,254). Accommodation, repairs and maintenance costs were 9% higher at £154m, mainly due to the cost of the new Group Treasury premises in London.

Technology costs increased by 24% to £134m, reflecting our continued investment in the technology infrastructure and development of new systems to support growth in our Personal Lines Insurance, Long Term Savings and Protection and Group Treasury operations. Additional expenditure was also incurred on the new business centre image and workflow technology platform and our customer marketing database.

The depreciation charge was £8m lower at £148m. The adoption of a three year economic life for personal computer equipment, introduced in the second half of 1997, increased the current year charge by £14m (1997 £27m).

Excluding expenditure on the Year 2000 programme, the cost:income ratio increased to 40.9% from 40.4% in 1997.

Provisions for Bad and Doubtful Debts

We have continued to adopt a prudent approach to provisioning. The provisions charge in 1998 and 1997 is analysed as:

	1998 £m	1997 £m
Residential property and other secured advances		
Specific	17	21
General	16	27
Unsecured		
Specific	63	61
General	–	(7)
Total	96	102

The total provisions charge reduced by 6% to £96m. The specific charge for secured lending was £4m lower at £17m, reflecting a reduction in the Group's exposure to potential losses due to further improvements in the arrears profile and the impact of house price inflation. The secured general charge was £11m lower at £16m, reflecting lower captive insurer-related charges net of underwriting profits. The total charge for unsecured lending increased by £9m to £63m in line with business volumes.

Provisions at the balance sheet date were:

	1998 £m	% of loan balances	1997 £m	% of loan balances
Residential property and other secured advances	398	0.48	464	0.56
Unsecured	156	8.42	112	7.33
Total	554	0.65	576	0.69

Capital Expenditure

Group capital expenditure in 1998 amounted to £139m, of which £74m was incurred in respect of equipment, principally information technology, and £65m premises.

Taxation

	1998	1997
Tax charge (£m)	534	540
Effective tax rate (%)	31.3	33.1

The tax charge for 1998 was £534m (1997 £540m) representing 31.3% (1997 33.1%) of profit before tax compared with a UK corporation tax rate applicable to the year of 31.0% (1997 31.5%).

Capital Resources

The reduction in total regulatory capital during the year, from £8,170m to £7,863m, principally reflects retained earnings of £682m offset by £750m repurchase of shares. Details of the ongoing capital management programme are included within the Chairman's Statement on page 3.

The Group Profit and Loss Account Reserves include, at 31 December 1998, £371m not presently available for distribution. This represents principally the Group's share of the net present value of the long term assurance business in force and the surplus retained within the long term assurance funds.

The following table details the regulatory capital structures as at 31 December 1998 and 31 December 1997:

	1998 £m	1997 £m
Tier 1		
Share capital	487	504
Eligible reserves	6,464	6,725
Total tier 1 capital	6,951	7,229
Tier 2		
Perpetual subordinated debt	275	275
Term subordinated debt	1,581	1,596
General provisions	110	110
Total tier 2 capital	1,966	1,981
Supervisory deductions	(1,054)	(1,040)
Total capital	7,863	8,170

Supervisory deductions primarily reflect investments in subsidiary undertakings which are not directly regulated by the FSA. The majority of the deduction relates to Clerical Medical.

The tier 1 ratio was 12.2% at 31 December 1998, compared to 14.1% at 31 December 1997:

	1998 £m	1997 £m
Risk weighted assets		
On-balance sheet	56,919	51,254
Off-balance sheet	281	183
Total	57,200	51,437
Tier 1 ratio (%)	12.2	14.1
Total capital (%)	13.7	15.9

Shareholder Returns

The profit attributable to shareholders was £1,171m, up from £1,091m in 1997. The return on equity for 1998 was 16.3%, compared with 16.0% in 1997 and basic earnings per share increased by 9.2% to 47.5p from 43.5p in 1997.

A final dividend of 13.5p is proposed, giving a total of 20.25p for the year. This represents an increase of 15.7% on 1997 and is covered 2.4 times.

The Halifax share price was 853p at the end of 1998, up from 754p at the start of the year. This increase, together with dividend payments, generated a total shareholder return of 16%. Market capitalisation at the end of 1998 was £20.8bn (1997 £18.9bn). The share price was 770p on 16 February 1999.

Group Risk Management

The Halifax Board gives significant priority to risk management. Its Group Risk Committee is the principal forum for reviewing policy and monitoring performance across all categories of risk and across all parts of the Group. In addition to the Chairman, it consists of Executive Directors, Non-Executive Directors and senior Executives, and meets quarterly. 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 Group Treasury investment and trading activity, as well as considering liquidity policy and capital utilisation.

The Group Credit Committee, with a similar membership, meets weekly and reviews policies and credit exposures throughout the Group, as well as approving individual large transactions within the authority delegated to it by the Board.

Operationally, the Group's risk management function is structured as a single entity under the direct control of an Executive Director. With effect from January 1999, regulatory risk and internal audit have been brought into the same reporting line as credit, market and operational risk management, enhancing the co-ordination of Group-wide total risk management.

Liquidity Risk

The Group's liquidity is managed by Group 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.

Group 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, notably the Retail Operations, Consumer Credit and Group Treasury businesses, within agreed Board policies. Performance of each portfolio is reported to the Group Credit Committee monthly and to the Group Risk Committee quarterly.

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. Similar technology is used in our Consumer Credit business, with the addition of behavioural scoring for credit card accounts. Collections activity is centralised within the various products and sophisticated systems are used to prioritise action.

In Group Treasury, policies are established and reviewed by the Group Credit Committee, including limits for exposure to individual countries, sectors and corporate and financial institutions. Expansion into new areas of business is strictly controlled and monitored by Group Credit Committee. A substantial proportion of Group 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

Market risk exists where assets and liabilities have interest rates set under different bases or which reset at different times. Such risks arise mainly within Group Treasury and Retail Operations which offers 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 Group 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 Group 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 Group Treasury and the position of the Group as a whole.

We are developing models in Group Risk Management which will calculate potential changes in the fair values of assets, liabilities and derivatives resulting from adverse movements in interest and currency rates. These models will measure the potential fair value change based on statistically determined rate movements over a particular time period to a defined level of confidence.

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.

Group Treasury maintains a mix of short term and medium term funding to support the cash flow requirements 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. 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 principal derivatives used include futures, forward rate agreements, swaps and options in the interest rate and foreign exchange markets. The risks associated with such instruments are predominantly credit risk and market risk. 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 change in underlying rate 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 Note 36 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.

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 and are reviewed by the Group Operational Risk Management Committee and the Group Risk Committee.

Year 2000

Since 1996, the Group has been engaged on a major programme of work to prepare for Year 2000. The Year 2000 Programme covers all technology within the Group, the Year 2000 readiness of our key suppliers and any embedded systems within our buildings. The work is controlled by the Year 2000 Steering Group, chaired by the Deputy Chief Executive.

The overwhelming majority of Year 2000 changes in the Halifax are complete. A small number of changes are either dependent upon external parties or are in the process of being rolled out across our network. These are planned for early 1999. Work to replace any non-compliant embedded systems will be co-ordinated with existing building plans and will be complete by October 1999. Further testing, some of which will be conducted jointly with other banks, is scheduled for 1999.

The incremental cost of our Year 2000 programme is not expected to exceed our original estimate of £80m, including £10m capital expenditure. Expenditure incurred to date is analysed as:

	Operating expenses £m	Capital expenditure £m	Total £m
1997	10	1	11
1998	35	7	42
Total	**45**	**8**	**53**

Economic and Monetary Union

The launch of the single currency on 1 January 1999 had an impact on a number of business areas. Group Treasury and fund management operations in Halifax Fund Management Ltd, Clerical Medical and Clerical Medical International, successfully completed the work over the conversion weekend. This involved redenominating to euro the bond and equity holdings held in the participating currencies. In Spain, our subsidiary Banco Halifax Hispania implemented new systems to handle euro transactions.

In preparation for possible UK entry, we are continuing to assess the impact on all parts of the Group and to develop the appropriate plans. Once there is more certainty on UK entry, these plans will be developed in a more significant way.

Facing: Ellie Jones helps customer


Buying your
first home

Board of Directors


3


7


1


4


6


2


5


8

1 Jon Foulds
Chairman
66, joined the Halifax in 1986 as a Non-Executive Director and was appointed Chairman in 1990. His earlier career, over 30 years, was spent with 3i Group plc where he was chief executive for over 10 years and deputy chairman for four years.

2 James Crosby
Chief Executive
42, 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.

3 Gren Folwell
Deputy Chief Executive
55, joined the Halifax as Treasurer in 1986. He was appointed to the Board as Group Finance Director in 1989 and in August 1995 was appointed Managing Director (Building Society), prior to his appointment as Deputy Chief Executive in December 1996. Before joining the Halifax he was city treasurer of Sheffield MDC.

4 Roger Boyes
Group Finance Director
54, 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.

5 Mike Ellis
Retail Financial Services Director
47, 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 from 1 January 1999. Before joining the Halifax he held several senior appointments in the local government sector.

6 John Lee
Personnel and Communications Director
54, 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 of the Brathay Hall Trust and Common Purpose UK.

7 Mike Blackburn
Non-Executive Director
Vice Chairman
57, retired as Chief Executive on 31 December 1998. He was appointed Chief Executive of the Halifax in August 1993 having previously been chief executive of The Leeds between 1987 and 1993. His banking career started in 1962 with Lloyds Bank from where, after a period as chief manager of the Business Advisory Service, he was seconded to be chief executive of The Joint Credit Card Company Ltd (Access) in 1983. Currently, he is President of the Chartered Institute of Bankers.

8 John Wood
Non-Executive Director
Vice Chairman
63, was appointed to the Board in 1986 and became Vice Chairman in 1991. In January 1997 he was appointed Chairman of Clerical Medical Investment Group Ltd. He was formerly executive chairman of McCorquodale plc, and non-executive chairman of the Hargreaves Group plc and a non-executive director of Barclays Bank Trust Company Ltd. He is a non-executive director of Bibby Line Group Ltd.

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

10 Roy Chapman
Non-Executive Director
62, was appointed to the Board in 1994. He is a chartered accountant and 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.

11 Tony Coleby
Non-Executive Director
63, was appointed to the Board in 1994, having spent his career at the Bank of England between 1961 and 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. He is a director of Anglo Irish Bank Corporation plc.

12 Nigel Colne
Non-Executive Director
58, joined the Board in 1992. Formerly an executive director of Marks & Spencer plc where he served on the board for 15 years with responsibilities which included operations, estates and IT, and for 10 years prior to his retirement in 1997, the worldwide retailing interests. For six years he was a member of the Social Security Management Board for which he received a CBE in 1993. He is a non-executive director of Stylo plc, Charnos plc, Pizza Express plc and Woolworths (South Africa).

13 Duncan Ferguson
Non-Executive Director
56, was appointed to the Board in 1994. In the 33 years since graduating from Cambridge he has performed actuarial work in 33 countries and is currently senior partner of Bacon & Woodrow. He is immediate past president of the Institute of Actuaries.

14 John Kay
Non-Executive Director
50, was appointed to the Board in 1991. He is a director of the Said Business School in the University of Oxford. He is a director of London Economics (Holdings) Ltd and a non-executive director of Foreign and Colonial Special Utilities Investment Trust plc, Undervalued Assets Trust plc, and Value and Income Trust plc.

15 Prue Leith
Non-Executive Director
59, joined the Board in 1995. A former Leeds director who has served on numerous boards of public companies and in 1990 was voted Businesswoman of the Year. Presently, she sits on the board of UK Skills, is a governor of Ashridge Management College and of Kingshurst City Technology College in Birmingham. She is deputy chairman of the Royal Society for the Encouragement of Arts, Manufactures and Commerce.

16 Louis Sherwood
Non-Executive Director
57, joined the Board in January 1997 having served as a non-executive director of Clerical Medical and General Life Assurance Society where he is currently Deputy Chairman. He is a non-executive director of ASW Holdings plc, EBC Group plc, Wessex Water Services Ltd and The First Ireland Investment Company.

Financial Statements

Contents

Directors' Report

The Directors have pleasure in presenting the Annual Report & Accounts of Halifax plc for the year ended 31 December 1998.

Results and dividends

The profit before tax for the year ended 31 December 1998 was £1,705m (1997: £1,631m).

An interim dividend of 6.75p per share was paid on 12 October 1998. The Directors propose a final dividend of 13.5p per share, to be paid on 10 May 1999 to shareholders registered at the close of business on 5 March 1999, subject to approval at the AGM. The Company paid a dividend of 17.5p per share in respect of the whole of 1997 on 11 May 1998.

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 3 to 5 and pages 8 to 15 respectively, whilst financial aspects are covered in the Financial Review on pages 16 to 31. A list of the principal subsidiaries, and the nature of each company's business, is given in note 19 to the financial statements on page 65.

Payment policy

For the forthcoming period, the Company'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 will comply 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 had trade creditors outstanding at the year end representing 18 days of purchases.

Charitable and political donations

During the year, the Group made charitable donations of £2,401,356. Additionally £1,091,865 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. There were no political contributions.

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 in the Employees' section of the Chief Executive's Review on page 12.

Directors

The names of the Directors at 31 December 1998 together with brief biographical details are shown on pages 32 and 33. Particulars of their remuneration and interests in shares in the Company are given in the Report of the Board on Directors' Remuneration on pages 37 to 44.

All of the Directors held office throughout the year with the exception of Messrs D E Cook and R N Hodge who both retired on 21 April 1998, Mr P G Rogerson who resigned on 16 December 1998 and Mr J R Miller who resigned as a Director on 31 December 1998.

Mr J M Blackburn retired as Chief Executive and was appointed as a Vice Chairman of Halifax plc on 1 January 1999.

Mr J R Crosby was appointed as Chief Executive on 1 January 1999.

The following Directors will retire at the Annual General Meeting and offer themselves for re-election: Lord Chadlington and Messrs G J Folwell and J A Lee. Mr N L Colne and Miss P M Leith will also retire at the Annual General Meeting but will not seek re-election.

Share capital and perpetual subordinated bonds

At an Extraordinary General Meeting on 18 November 1998, the authorised share capital of Halifax plc was increased from £660m to £1,660m by the creation of one billion preference shares of £1 each. Up to 225m of the preference shares will be issued in 1999 as part of the consideration of £750m for the acquisition of the business of the Birmingham Midshires Building Society (Birmingham Midshires), subject to the approval of certain regulatory bodies including the Building Societies Commission.

In addition, up to £50m perpetual subordinated bonds will be issued in 1999 to investing members of Birmingham Midshires who are holders of permanent interest bearing shares, subject to approval as above for the preference shares.

Further details on the proposed acquisition of Birmingham Midshires are provided in note 39 to the financial statements on page 77.

On 11 March 1998, the Halifax plc Qualifying Employee Share Ownership Trust ('the QUEST') subscribed for a further 5.3m ordinary shares.

Further details of the movements in share capital during the year are provided in note 31 to the financial statements on page 71.

Since conversion and flotation, the Board has continued to keep under review the management of the Group's capital resources. In March 1998 the Board initiated an on-market share buy-back programme as part of its management of the Group's capital resources.

The Company has authority to purchase up to 251.9m of its 20p ordinary shares of which it has purchased for cancellation 91m shares in the year at a total cost of £750m. The purchased shares represented 3.6% of the issued share capital at 1 January 1998. This authority remains valid until the Annual General Meeting or, if earlier, 21 July 1999. A resolution will be put to the shareholders to renew the authority.

The Company is also authorised to make market purchases of up to one billion of its £1 preference shares. This authority remains valid until the forthcoming Annual General Meeting or, if earlier, 17 November 1999. A resolution will be put to the shareholders to renew the authority.

Post balance sheet events

On 21 January 1999 the Halifax announced a proposed joint venture with Cetelem SA, a wholly owned subsidiary of the French banking group Paribas. A new company, Halifax Cetelem Finance Ltd, is expected to commence trading in the third quarter of 1999 and will market its products and services under a new brand. Further details are given in note 40 to the financial statements on page 77.

On 17 February 1999, the Directors of Halifax plc resolved to seek shareholder approval for a proposed restructuring of Halifax plc involving the creation of a new listed holding company and the return of approximately £1.5bn of surplus capital in the form of cash to ordinary shareholders. The restructuring is subject to a number of conditions including the approval of the holders of ordinary shares in Halifax plc and the High Court. Further details of this proposed return of capital and corporate restructuring are given in note 40 on page 77 to these financial statements.

For future years, the Board expects that dividend growth will broadly follow earnings per share movements. The Board judges this policy to be appropriate and consistent with the balance sheet structure resulting from the above proposals, as well as the ongoing capital requirements of the business.

Substantial shareholdings

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
David Gilchrist
Company Secretary
17 February 1999

Report of the Board in Relation to Remuneration, Senior Appointments and Nominations Policy and Practice

1 Introduction

1.1 Composition of the Remuneration, Senior Appointments and Nominations Committee

The members and remit of the Committee are given on page 46 in the Directors' Report on Corporate Governance. The Committee is chaired by J L Wood, Non-Executive Vice Chairman. Other than when it meets as a nomination committee, the Committee consists wholly of Non-Executive Directors.

The responsibility for determining the remuneration policy for Executive Directors rests with the Board and the responsibility for determining their actual remuneration rests with the Committee. The basis of the remuneration of the Non-Executive Directors is determined by the Board as a whole.

The Chairman, the Chief Executive and the Personnel and Communications Director attend meetings at the Committee's request. They are not present when their 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 also commissions 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 45 to 47.

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

1.3 Service Contracts

All Executive Directors have service contracts which provide for one year's notice in the event of termination. Neither the Chairman nor any Non-Executive Director has a service contract, save as disclosed in 3.5.1.

2 Remuneration Policy for Executives

2.1 Policy

The remuneration policy for Executive Directors and other Executives (159 staff in all) is designed to deliver the following objectives:

- To establish a structure of reward which reinforces the importance of sustained improvement in personal and Group performance, both in absolute terms and in relation to peer groups, during a period of intense competition and change.
- To establish a market position at which salary policy is set at, or around, a market median but bonus and performance related payments provide scope for both upper and lower quartile rewards depending on the level of performance achieved.
- To enable Executives to become equity stakeholders in the Group.
- To attract, motivate and retain personnel of the highest calibre.

2.2 Basic Salary

Basic salaries and salary benchmarks for Executive Directors and other selected Executives, and salary benchmarks for other Executives, are reviewed annually by the Committee, taking into account the performance of the individual and information from independent sources on salary rates for comparable jobs in the financial services industry, and in other selected major public companies. As described in the policy objectives, the Group's policy is to set basic salary at, or around, a market median. Scope for differential rewards is provided through bonus schemes and performance related payments but this depends upon what levels of business and personal performance are achieved over a sustained period.

Pension is based on basic salary only.

2.3 Performance-Related Bonus

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

The Group introduced new bonus arrangements for Executive Directors and other Executives with effect from 1 January 1998 and these replaced all previous bonus schemes for these individuals.

These arrangements (the Long Term Executive Bonus Scheme and the Short Term Executive Bonus Scheme) were approved by shareholders at the Annual General Meeting on 21 April 1998. Other than in respect of Group Treasury and certain Clerical Medical Executives (for whom separate bonus arrangements apply), all Executive Directors and other Executives participate in both schemes. Their levels of participation differ in order that overall remuneration is positioned to align with the Group's policy objectives outlined earlier.

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 in respect of a small number of Executives in specialist areas in respect of their initial periods of employment.

Bonus payments are not pensionable.

2.3.1 Short Term Bonus Scheme

The level of payments under the Short Term Bonus Scheme is dependent, for Directors and most participants, on the level of the Group's profits after tax for the year. The benchmark payment levels, which apply for the 1998 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 profits after tax for the year match the targets specified by the Board. Maximum bonus is paid if those profits exceed targets by 5% or more. Threshold bonus is paid if profits are at 95% of the target levels. No bonus is paid if profits are lower than 95% of the target levels. 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 will be granted conditional shares at the start of each year 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 executive categories 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 Halifax 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 Long Term Bonus Scheme will be dependent on the Group's annualised total shareholder return ("TSR") (defined as the gross overall return on ordinary shares of Halifax 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 15 comparator companies over equivalent periods.

All of the shares initially granted on a conditional basis are released to participants only if Halifax'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 conditionally granted shares are released if Halifax's TSR exceeds the weighted average by 2% p.a. over the performance period. One third of the conditionally granted shares are released if Halifax's TSR matches the weighted average over the performance period. None of the conditionally granted shares is released if Halifax's TSR performance falls below the weighted average level, in which case participants' grants lapse. Intermediate positions are determined by interpolation.

The first normal operation of the Long Term Bonus Scheme will cover the period 1999-2001. The transitional operation of the Long Term Bonus Scheme, for 1998-2000, is based solely on conditional share grants, as approved by shareholders at the Annual General Meeting on 21 April 1998, 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 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.

2.4 Benefits

Each Executive Director and other Executive is provided with benefits which principally comprise a company car, pension arrangements, holidays, family healthcare cover and a concessionary rate mortgage (which is non-contractual).

Executive Directors and other Executives are eligible for membership of the Halifax Retirement Fund. The fund provides pension benefits based on basic salary only, with a maximum pension of two thirds of final pensionable salary (in broad terms, the last 12 months' basic 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 basic salary. All fund benefits are subject to Inland Revenue limits.

3 Directors' Remuneration for the year ended 31 December 1998

3.1 Chairman

Mr H J Foulds was Chairman throughout the year. The remuneration of the Chairman is determined by the Board as a whole. From 1 January 1998 the Chairman's annual fee was increased to £320,000 p.a. (from £265,000 p.a. which had applied from 1 January 1997) to recognise the increased responsibilities associated with the role following conversion to a public limited company. This fee is positioned at the market median for public limited companies of a size and complexity similar to that of the Halifax.

3.2 Chief Executive

Mr J M Blackburn was Chief Executive throughout the year. The remuneration of the Chief Executive, being the highest paid Director, is made up as follows:

3.2.1 Salary

Basic annual salary was increased on 1 May 1998 from £425,000 p.a. to £440,000 p.a., an increase of 3.5%.

3.2.2 Benefits

The value of benefits provided for the year ended 31 December 1998 was £22,836. During the year, these benefits comprised the provision of a car, private medical insurance and a staff rate mortgage.

3.2.3 Short Term Bonus

The bonus payable under the terms of the scheme set out on page 38 in respect of the year ended 31 December 1998 was a cash payment of £99,000, payable after the financial year end, and an equivalent value in shares (11,472 shares), which will be released in three years.

3.2.4 Long Term Bonus

No bonus is yet payable under the terms of the scheme as set out on page 38. All payments under the scheme are subject to performance criteria and no payments are made if Halifax's TSR falls below the weighted average TSR of the comparator companies over the three year performance period. The notional bonus accrual for 1998 which has been based on one third of the conditional share grant made under the 1998-2000 operation of the Long Term Bonus Scheme, assumes that Halifax's TSR performance during 1998-2000 will be the same as the annualised weighted average TSR of the comparator companies, and is adjusted to take account of the price of Halifax shares on 31 December 1998. On this basis, the notional bonus accrual is valued at £53,480 (6,197 shares).

3.2.5 Summary

The Chief Executive's remuneration for the year to 31 December 1998 is made up of two constituent elements, being his basic salary and benefits of £457,836 and the short term bonus, earned over 12 months, and valued at £198,000.

The notional accrued long term bonus is valued at £53,480. This is not guaranteed to be paid. Payment is dependent on Halifax's TSR performance, in relation to that of a group of comparator companies, during 1998-2000.

The aggregate of these amounts for 1998 is £709,317, an increase of 4.9% over the equivalent amount for 1997.

In addition, the Chief Executive benefits from remuneration in the form of pension benefits described later in this report.

The Chief Executive's remuneration for the year to 31 December 1997 was also made up of two constituent elements, being his basic salary and benefits of £421,951 and the short term bonus (earned over 12 months) of £93,500.

In addition, a medium term bonus of £308,479 was paid. This bonus was earned over 23 months to 31 December 1997 and, if spread evenly over that period, the amount attributable to 1997 was £160,946.

The aggregate of these amounts for 1997 was £676,397.

3.3 Directors

3.3.1 Year on Year Comparison for Executive Directors

Details of the remuneration of the Executive Directors are summarised in Table 1 below.

Table 1

	1998			1997		
	Salary, benefits, annual cash bonus £000	Share bonus accrual £000	Total £000	Salary, benefits, annual bonus £000	Medium term bonus accrual £000	Total £000
J M Blackburn	557	152	709	515	161	676
R F Boyes	315	86	401	295	93	388
J R Crosby	291	79	370	267	81	348
M H Ellis	281	81	362	243	77	320
G J Folwell	312	86	398	298	93	391
J A Lee	288	81	369	248	77	325
J R Miller	289	79	368	271	84	355

Notes to Table 1

Note 1:

The remuneration of Messrs Crosby and Ellis in the year to 31 December 1997 relates to the full 12 month period. It includes remuneration for the period to 1 June 1997 during which time they were not Directors of Halifax Building Society. Whilst they assumed directorship of Halifax plc prior to the transfer of business of Halifax Building Society to Halifax plc, they were remunerated as Executives, and not Directors, of Halifax Building Society for the period up to the conversion date of 2 June 1997.

Note 2:

Bonuses under the Medium Term Bonus Scheme, which terminated at the end of 1997, are stated on the basis that they accrued evenly over the 23 months of the scheme.

Note 3:

Bonuses under the Long Term Bonus Scheme, which started at the beginning of 1998, are stated on the basis that they accrue evenly over the 36 months of the scheme, assume that Halifax's TSR performance during 1998-2000 will be the same as the annualised weighted average TSR of the comparator companies, and are based on the price of Halifax shares on 31 December 1998.

The share bonus accrual for the year to 31 December 1998 represents the share bonus earned under the 1998 operation of the Short Term Bonus Scheme plus the accrued 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.

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 1998:

Table 2

	Notes	Salary £000	Benefits £000	Short term bonus (Note 1) £000	Fees and further remuneration £000	Total year ended 31.12.98 £000	Comparative total year ended 31.12.97 (Note 7) £000	Total medium term bonus 31.12.97 (Note 8) £000
Chairman								
H J Foulds		320	–	–	–	320	265	–
Executive Directors								
J M Blackburn	4	435	23	198	–	656	823	308
R F Boyes	5	245	15	111	–	371	473	178
J R Crosby	3, 5	225	15	102	–	342	211	47
M H Ellis	3, 5	216	9	111	–	336	192	45
G J Folwell	5	245	12	111	–	368	476	178
J A Lee	5	216	16	111	–	343	395	147
J R Miller	4	225	13	102	–	340	432	161
Non-Executive Directors								
Sir Timothy Kitson, Vice Chairman	2	–	–	–	–	–	23	–
J L Wood, Vice Chairman	6	–	–	–	89	89	77	–
Lord Chadlington		–	–	–	36	36	31	–
R J Chapman		–	–	–	33	33	31	–
A L Coleby		–	–	–	35	35	29	–
N L Colne		–	–	–	31	31	33	–
D E Cook	2	–	–	–	10	10	28	–
D G R Ferguson		–	–	–	29	29	25	–
R N Hodge	2	–	–	–	14	14	39	–
J A Kay		–	–	–	32	32	35	–
P M Leith		–	–	–	30	30	26	–
P G Rogerson	2	–	–	–	42	42	40	–
P L M Sherwood	6	–	–	–	53	53	46	–
I A Ziff	2	–	–	–	–	–	8	–
Total		2,127	103	846	434	3,510	3,738	1,064

Notes to Table 2

Note 1:

The terms of the Short Term Bonus Scheme are set out on page 38. The amounts approved by the Remuneration, Senior Appointments and Nominations Committee, for payment or establishment in March 1999, relate to a 12 month period and are set out in Table 2. Half the amounts shown are payable in cash in March 1999.

The remainders are payable in shares which will not be released to participants until March 2002. These shares will be granted at £8.63, the average market price in the ten business days ending on 31 December 1998. The following shares will therefore be granted to participants:

J M Blackburn	11,472 shares
R F Boyes	6,453 shares
J R Crosby	5,931 shares
M H Ellis	6,453 shares
G J Folwell	6,453 shares
J A Lee	6,453 shares
J R Miller	5,931 shares

Note 2:

Non-Executive Directors retired as follows: Sir Timothy Kitson – 2 June 1997, I A Ziff – 21 April 1997, D E Cook – 21 April 1998, R N Hodge – 21 April 1998, P G Rogerson – 16 December 1998.

Note 3:

Messrs Crosby and Ellis were remunerated as Directors of Halifax plc from 2 June 1997 (see Note 1 to Table 1).

Note 4:

Mr Blackburn ceased to be Chief Executive of Halifax plc on 31 December 1998. He will serve as a Non-Executive Vice Chairman of Halifax plc throughout 1999. Mr Miller ceased to be an Executive Director of Halifax plc on 31 December 1998. He will continue to be employed by Halifax plc until 30 April 1999 at which time he will be paid compensation for loss of office amounting to £132,708 as specified in 3.5.2. This compensation, which is equivalent to seven months' basic salary and which is in respect of Mr Miller's services as an Executive Director, is in addition to the remuneration shown in the table.

Note 5:

Mr Crosby was appointed Chief Executive of Halifax plc from 1 January 1999. His basic salary from that date is £425,000. At the same date the titles of the other Executive Directors were established as follows:

R F Boyes: Group Finance Director
M H Ellis: Retail Financial Services Director
G J Folwell: Deputy Chief Executive
J A Lee: Personnel and Communications Director

Note 6:

The fees include payments in respect of services as directors of subsidiaries as follows: J L Wood £22,500 (1997: £22,500) and P L M Sherwood £22,800 (1997: £22,800).

Note 7:

The amounts include payments under the Medium Term Bonus Scheme.

Note 8:

At the end of 1997, the Medium Term Bonus Scheme terminated. The amounts approved by the Remuneration, Senior Appointments and Nominations Committee, paid in March 1998, are set out in Table 2. They related to a 23 month period, other than in respect of Messrs Crosby and Ellis, where they relate to the period after 2 June 1997. The amounts paid to them in respect of the 23 month period (which represented the full period of their membership of the scheme) were £155,833 and £147,156 for Messrs Crosby and Ellis respectively.

3.3.3 Non-Executive Directors

From 1 January 1998 the Vice Chairman's (J L Wood) annual fee was increased to £65,000 p.a. (from £52,500 p.a. which had applied from 1 January 1997). The Vice Chairman also received £22,500 for services as Chairman of Clerical Medical Investment Group Ltd for the year ended 31 December 1998 (1997: £22,500).

In 1998 the annual fee payable to other Non-Executive Directors was £23,000 (1997: £21,000). This fee covers duties and responsibilities associated with the 12 Board meetings per year, the Annual General Meeting and the Strategy Conference. Further remuneration is paid to Non-Executive Directors for the responsibilities associated with Board Committee meetings and meetings of subsidiary boards.

3.4 Pension Benefits as at 31 December 1998

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

Messrs Blackburn, Boyes, Crosby, Ellis, Folwell, Lee and Miller are entitled, on retirement from service at normal retirement date, to a pension calculated on the basis of 63.5%, 60%, 60%, 66.7%, 66.7%, 60% and 62% respectively, of final pensionable 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 Company.

Messrs Folwell and Ellis are entitled to a lump sum life assurance benefit of four times basic salary under the fund. Messrs Blackburn, Boyes, Crosby, Lee and Miller 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 via separate arrangements for amounts of £1.5 million for Mr Blackburn and £500,000 for each of Messrs Boyes, Crosby, Lee and Miller so that, in broad terms, the total life assurance benefit is what 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 Company of providing pension and life assurance benefits over the future service periods of the Executive Directors are, as annual percentages of basic salaries, 82%, 54%, 21%, 29%, 39%, 55% and 48% for Messrs Blackburn, Boyes, Crosby, Ellis, Folwell, Lee and Miller, respectively. These costs are calculated on the funding assumptions adopted for the actuarial valuation of the fund as at 31 March 1997 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:

Name	Age at 31.12.98	Accrued pension at 31.12.98 £	Increase in accrued pension for year to 31.12.98 £	Director's contribution in year to 31.12.98 £	Value of increase in accrued pension (less Director's contribution) £
J M Blackburn	57	205,700	30,500	8,700	431,600
R F Boyes	54	98,700	12,200	4,900	153,500
J R Crosby	42	78,900	7,100	4,500	48,000
M H Ellis	47	89,700	11,000	4,300	96,600
G J Folwell	55	134,700	10,000	4,900	125,900
J A Lee	54	84,800	14,200	4,300	180,400
J R Miller	51	75,700	9,800	4,500	104,400

The accrued pension at 31 December 1998 is:
- the pension which the Director would have been entitled to receive based on all his pensionable service, had he left on 31 December 1998;
- payable from normal retirement date (age 60);
- subject to revaluation increases between leaving and retirement.

The increase in accrued pension is:
- the accrued pension at 31 December 1998 less the accrued pension at 31 December 1997;
- after allowance for RPI-linked revaluation increases to the latter pension covering the year to 31 December 1998.

The Director's contribution is:
- the contribution required under the terms of the fund;
- exclusive of any voluntary contributions made.

The value of the increase in accrued pension is:
- the money which could have been transferred to another pension arrangement in respect of the increase in accrued pension, had the Director left on 31 December 1998;
- exclusive of the Director's own contribution;
- calculated in accordance with actuarial guidance.

In addition to the above, the Company made contributions totalling £18,375 (1997: £17,063) to a money purchase scheme during the year in respect of one of the Executive Directors, Mr G J Folwell.

3.5 Retirement Arrangements

3.5.1 J M Blackburn

Mr Blackburn, who was Chief Executive until 31 December 1998, has a service contract providing for one year's notice. That one year period runs concurrently with his period of office as a Non-Executive Vice Chairman throughout 1999. He will receive no additional compensation when his contract terminates. He will participate in the Short Term and the Long Term Bonus Schemes based on his executive service to 31 December 1998.

From 1 January 2000, he will receive an immediate pension based on the pension accrued 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 Halifax under its early retirement severance arrangements. The cost of waiving the reduction for early payment of pension is £269,000.

3.5.2 J R Miller

Mr Miller, who was Housing & Technology Director until 31 December 1998, was given notice under his service contract with effect from 1 December 1998. He will remain an employee of Halifax until 30 April 1999 and then receive seven months' basic salary as the balance of his contractual payment amounting to £132,708. He will participate in the Short Term and Long Term Bonus Schemes based on his executive service to 30 April 1999.

From 1 December 1999, he will receive an immediate pension based on the pension accrued in accordance with his service contract, and reduced for early payment as though he were five years older. This basis of pension provision is consistent with that applying to staff of similar age who leave Halifax under its early retirement severance arrangements. The cost of lessening the reduction for early payment of pension is £324,000.

3.6 Directors' Share Interests

3.6.1 Shares

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

	Number of shares at 31.12.98	Number of shares at 1.1.98
Chairman		
H J Foulds	1,181	1,181
Executive Directors		
J M Blackburn	8,003	7,551
R F Boyes	7,348	7,348
J R Crosby	408	400
M H Ellis	4,994	4,956
G J Folwell	2,834	2,789
J A Lee	2,276	1,499
J R Miller	3,386	2,540
Non-Executive Directors		
J L Wood	1,672	1,646
Lord Chadlington	10,281	10,281
R J Chapman	1,220	1,181
A L Coleby	205	201
N L Colne	1,716	2,091
D G R Ferguson	976	617
J A Kay	208	204
P M Leith	1,036	1,036
P L M Sherwood	–	–

None of the Directors had a non-beneficial interest in the ordinary share capital of the Company at the beginning or end of the year.

The Executive Directors will receive further interests in the ordinary shares of Halifax plc arising out of the Short Term Bonus Scheme and, potentially, the Long Term Bonus Scheme, as described in 2.3 and Note 1 to Table 2.

3.6.2 Long Term Bonus Scheme

The operation of the Long Term Bonus Scheme is described in 2.3.2.

Details of the ordinary shares of Halifax plc which have been conditionally awarded to the Directors under the Long Term Bonus Scheme are set out below:

	Conditional share grants			
	At 1.1.98	Granted in year	At 31.12.98	Date on which conditional rights mature
Executive Directors				
J M Blackburn	–	55,774	55,774	23.3.2001
R F Boyes	–	31,496	31,496	23.3.2001
J R Crosby	–	28,871	28,871	23.3.2001
M H Ellis	–	26,246	26,246	23.3.2001
G J Folwell	–	31,496	31,496	23.3.2001
J A Lee	–	26,246	26,246	23.3.2001
J R Miller	–	28,871	28,871	23.3.2001

The shares granted in the year were granted at £7.62, the average market price in the ten business days ending on 31 December 1997. The proportion of shares released, if any, will be determined early in 2001 in the light of Halifax's performance, relative to a comparator group of companies, over the period 1998-2000.

All of the shares conditionally granted under the scheme during the year will be bought in the market and will be held by a trustee until due for release to participants. The cost of these conditional grants is being charged to the profit and loss account over the three year performance period to which they relate. In 1998, £217,041 was charged to the profit and loss account. There was no charge to the profit and loss account in 1997 as the scheme did not commence until 1998.

3.6.3 Interest in Shares under Qualifying Employee Share Ownership Trust

The Executive Directors were discretionary beneficiaries under the Halifax plc Qualifying Employee Share Ownership Trust and, as such, were each treated as at 31 December 1998 as being interested in the 14,432,826 ordinary shares held by the trustee of that trust. The shares held in the trust are used to satisfy the exercise of rights granted under the Halifax plc Sharesave Scheme.

3.6.4 Halifax plc Sharesave Scheme

The Halifax plc Sharesave Scheme was founded in August 1997 and its first operation started from that date. It was available to all employees eligible at that time, which was the majority of employees. A second operation of the arrangement started in August 1998.

About 80% of those eligible participate in the scheme, which allows employees to save a regular sum on a monthly basis. At the end of a pre-determined period, employees have the right, if they so choose, to use the funds accumulated to purchase shares in Halifax plc at a fixed price (£5.80 for the arrangement which started in 1997 and £5.79 for the arrangement which started in 1998).

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

	Projected entitlement					
	At 1.1.98	Granted in year	Exercised in year	At 31.12.98	Date from which exercisable	Expiry date
Executive Directors						
J M Blackburn	2,974	–	–	2,974	1.9.2002	1.3.2003
R F Boyes	3,362	–	–	3,362	1.9.2004	1.3.2005
J R Crosby	2,974	–	–	2,974	1.9.2002	1.3.2003
M H Ellis	2,974	–	–	2,974	1.9.2002	1.3.2003
G J Folwell	1,681	–	–	1,681	1.9.2000	1.3.2001
J A Lee	3,362	–	–	3,362	1.9.2004	1.3.2005
J R Miller	2,974	–	–	2,974	1.9.2002	1.3.2003

The projected entitlements for Messrs J M Blackburn and J R Miller lapse when they leave the Company.

The market price of the shares at 31 December 1997 was £7.54, at 31 December 1998 was £8.53 and the range during the year has been £6.78 to £9.77.

3.6.5 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.

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

Subject to the post balance sheet event noted below, there has been no change in the Directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and 17 February 1999, the date of approval of this Annual Report & Accounts.

4 Post Balance Sheet Event

This report of the Board, in relation to Remuneration, Senior Appointments and Nominations Policy and Practice, reflects the position for the year ended 31 December 1998. It includes details of Directors' share interests including those under bonus schemes, qualifying share trusts and sharesave schemes, in relation to shares in Halifax plc. It does not take account of the proposed return of capital and reorganisation of Halifax plc which is set out in the Directors' Report.

Report of the Directors on Corporate Governance

The Committee on Corporate Governance, chaired by Sir Ronald Hampel, issued its final report in January 1998. Following a period of consultation, the London Stock Exchange introduced a range of recommendations on key corporate governance issues, contained in the 'Combined Code', in June 1998. The Code contains both general principles of good governance and detailed requirements. The purpose of this report is to:

– explain how Halifax 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, who spends approximately three days each week on Halifax business, the Board consists of five Executives and ten Non-Executives and of the latter group all except J M Blackburn, a former Chief Executive of the Company, are considered to be independent;
– separation of the roles of Chairman and Chief Executive and the identification of J L Wood, a 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;
– monthly Board meetings 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.

Halifax plc has adopted a process whereby the Remuneration, Senior Appointments and Nominations Committee, chaired by Mr J L Wood, sits on one occasion each year as a nomination committee specifically to consider Board composition and review the competencies and experience of Board members against those required to ensure that the Board retains the ability to direct the Company.

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.

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.

Audit Committee

R J Chapman (Chairman)
Lord Chadlington
A L Coleby
P L M Sherwood

This Committee which consists entirely of Non-Executive Directors considers audit matters as they apply to all of the Company's businesses. 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. The Committee also keeps under review the level of non-audit work undertaken by KPMG Audit Plc and its associates. Representatives of the Company's internal audit division and the Company's auditors, KPMG Audit Plc, regularly attend the Committee's meetings.

Group Risk Committee

H J Foulds (Chairman)
J R Crosby
R F Boyes
A L Coleby
D G R Ferguson
G J Folwell
J L Wood

In addition the Group Treasurer, T J Goode, serves on this Committee.

This Committee reviews policy statements on market risk, credit risk, operational risk and strategic risk, statements on liquidity and wholesale funding and overall limits for risk. The Committee makes appropriate recommendations to the Board. It also reviews regular reports on each aspect of risk and monitors large exposures.

Remuneration, Senior Appointments and Nominations Committee

J L Wood (Chairman)
Lord Chadlington
N L Colne
D G R Ferguson
Miss P M Leith
H J Foulds
J R Crosby } when the Committee meets as a nomination committee

Other than when it meets as a nomination committee it consists entirely of Non-Executive Directors. It considers remuneration policy and Executive succession planning and acts as a nomination committee for all new Board appointments and also reviews Board composition. In addition to ongoing reviews, the Committee will in future meet for this purpose at least once each year, normally in September.

The Board delegates to this Committee decisions on Executive Directors' remuneration packages, service contracts and compensation payments.

Chairman's Committee

H J Foulds (Chairman)
J R Crosby
J M Blackburn
Lord Chadlington
Professor J A Kay
J L Wood

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, in the opinion of the Committee, await the next meeting of the Board. Before making a decision on a matter of urgency, the Chairman must try to obtain the views of the other members of the Board 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 37 to 44.

The Remuneration, Senior Appointments and Nominations 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 also 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 revised bonus schemes approved by shareholders at the 1998 Annual General Meeting play a central role in achieving that balance and they are operated by the Committee. 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 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 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 Report & Accounts on request. 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. These are designed to provide only reasonable and not absolute assurance against misstatement or loss.

The Board is assisted in its responsibilities by the Audit Committee which monitors control and the Group Risk Committee which monitors risk.

The principal features of control are set out below and should be seen against a wider background of high level controls and corporate governance.

There is a planning framework within which the Board approves a Corporate and a Strategic Plan setting out strategy and objectives for five and three year periods respectively. These are supported by an Annual Operating Plan at business unit level.

The Board receives a comprehensive monthly financial report based on an annual budget, with monthly results, analysis of variances and consideration of key performance indicators. There is also a regular re-forecasting process in place.

Capital expenditure is subject to the disciplines of appraisal and approval and an annual budget is set subject to this approval process incorporating the appropriate levels of authority and a post investment review.

Halifax plc has adopted the principles of internal control set out by the Basle Committee on Banking Supervision.

Control procedure manuals are in place on all key areas.

Internal Audit prepare an annual plan and this is presented in advance to the Audit Committee for approval. It is revised at intervals in order to reflect any changes in priorities.

The Audit Committee receives regular progress reports from Internal Audit and from the external auditors. It also receives regular reports on compliance matters from Group Compliance.

Group Risk overall is monitored as set out in the section on Group Risk Management on page 27.

The Audit Committee has monitored the effectiveness of the system of internal financial control which operated during the period covered by the Annual Report & Accounts. Formal guidance on the review of non-financial controls has not yet been published and the disclosure herein is in accordance with the interim direction given by the London Stock Exchange pending further guidance.

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.

Compliance with the Combined Code

Halifax plc is required to report on compliance with the detailed requirements of the Combined Code throughout the year ended 31 December 1998. The final version of the Code, which introduced several changes to previous corporate governance guidance, was not issued until June 1998.

In relation to all provisions of the Code other than those mentioned below, the Company complied throughout the period under review. Where non-compliance is reported, this is because the requirement itself did not exist throughout the period. The Company has reviewed its procedures following the issue of the Combined Code. References are to paragraphs of the Combined Code.

The Company has nominated Mr J L Wood, Vice Chairman, as its senior independent director. (A.2.1)

Previously accepted best practice, as set out in the Greenbury Report, has been for remuneration committees to determine executive remuneration policy as well as individual packages. The new Combined Code has changed this and recommends that the Board should determine executive remuneration policy. Accordingly, it was necessary to amend the terms of reference of the Remuneration, Senior Appointments and Nominations Committee and the list of matters reserved to the Board for decision to this effect. (B.2.1)

This change means that the report on remuneration, contained in the Annual Report & Accounts, will in future be in the name of the Board rather than the Remuneration, Senior Appointments and Nominations Committee. Also the decision whether to seek shareholders' approval to the policy contained in the Annual Report & Accounts on remuneration will in future be made by the Board rather than the Remuneration, Senior Appointments and Nominations Committee as has been the practice in previous years.

It has not previously been the practice of the Company to indicate the level of proxy voting at general meetings. Given this new requirement, the information was reported at the Extraordinary General Meeting held on 18 November 1998 and it will be similarly reported at future shareholders' meetings. (C.2.1)

In previous years, the Company has complied with the timetable set out in the Companies Act for giving notice of AGMs. In 1999 and future years we are complying with the new, additional, requirement to send the notice and related papers at least 20 working days before the meeting. (C.2.4)

These changes to existing practice were adopted by the Board at its meeting on 16 September 1998, with the exception of those referred to under B.2.1 which were adopted on 20 October 1998. Following these changes, the Board considers that it complies with the Combined Code in all respects.

Statement of Directors' Responsibilities for Financial Statements

The following statement, which should be read in conjunction with the Report of the Auditors below, 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 consider that in preparing the financial statements on pages 49 to 78 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 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.

Jon Foulds
Chairman
17 February 1999

Report of the Auditors to the Members of Halifax plc

We have audited the financial statements on pages 49 to 78.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report including, as described above, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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

We review whether the statement on page 47 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

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 1998 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 1999

Consolidated Profit and Loss Account
(for the year ended 31 December 1998)

	Notes	1998 £m	1998 £m	1997 £m	1997 £m
Interest receivable:					
Interest receivable and similar income arising from debt securities			1,530		985
Other interest receivable and similar income			7,449		6,553
Interest payable			(6,613)		(5,223)
Net interest income			2,366		2,315
Fees and commissions receivable			711		604
Fees and commissions payable			(83)		(86)
Other operating income	3		164		124
Operating income			3,158		2,957
Administrative expenses:					
Exceptional	4	–		18	
Ongoing	5	1,180		1,050	
			1,180		1,068
Depreciation and amortisation			148		156
Provisions for bad and doubtful debts	8		96		102
Provisions for contingent liabilities and commitments	29		29		–
Profit on ordinary activities before tax	9		1,705		1,631
Tax on profit on ordinary activities	10		534		540
Profit attributable to the shareholders of Halifax plc			1,171		1,091
Dividends	12		489		441
Profit retained for the financial year	31		682		650
Basic earnings per share	13		47.5p		43.5p
Diluted earnings per share	13		47.4p		43.4p

There were no material gains or losses other than the profit shown above in either year.
There is no difference between the Group's results as disclosed in the consolidated profit and loss account and the results on an unmodified historical cost basis for the year under review and the comparative period.

Reconciliation of Movements in Shareholders' Funds
(for the year ended 31 December 1998)

	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Profit for the financial year	1,171	1,091	858	886
Dividends	(489)	(441)	(489)	(441)
	682	650	369	445
Foreign currency translation differences on subsidiary undertaking	2	(4)	–	–
Payment of statutory cash bonus	–	(15)	–	(15)
Goodwill arising on transfer of long term assurance business	–	(21)	–	–
Repurchase of shares	(750)	–	(750)	–
Net (reduction in)/addition to shareholders' funds	(66)	610	(381)	430
Opening shareholders' funds	7,215	6,605	7,158	6,728
Closing shareholders' funds	7,149	7,215	6,777	7,158

The notes on pages 53 to 78 form part of these financial statements.

Consolidated Balance Sheet
(as at 31 December 1998)

	Notes	1998 £m	1998 £m	1997 £m	1997 £m
Assets					
Cash and balances at central banks			247		486
Treasury bills and other eligible bills	14		1,958		1,520
Loans and advances to banks	15		10,848		9,419
Loans and advances to customers	16		85,074		83,367
Debt securities	17		23,806		17,273
Investments in joint ventures:	18				
Share of gross assets		629		–	
Share of gross liabilities		(459)		–	
			170		–
Tangible fixed assets	20		920		957
Other assets	21		311		533
Prepayments and accrued income	22		1,187		860
Long term assurance business attributable to shareholders	23		921		744
			125,442		115,159
Long term assurance assets attributable to policyholders	23		19,132		15,941
Total Assets			144,574		131,100
Liabilities					
Deposits by banks	24		9,390		5,370
Customer accounts	25		84,953		81,101
Debt securities in issue	26		16,389		14,042
Other liabilities	27		1,395		1,591
Accruals and deferred income	28		4,214		3,779
Provisions for liabilities and charges	29		96		155
Subordinated liabilities	30		1,856		1,906
Equity shareholders' funds:					
Called up share capital	31	487		504	
Share premium account	31	119		70	
Capital redemption reserve	31	18		–	
Profit and loss account	31	6,525		6,641	
			7,149		7,215
			125,442		115,159
Long term assurance liabilities attributable to policyholders	23		19,132		15,941
Total Liabilities			144,574		131,100
Memorandum Items					
Contingent liabilities:					
Guarantees and assets pledged as collateral security	33		649		–
Commitments	34		4,461		2,631

Approved by the Board on 17 February 1999 and signed on its behalf by:

H J Foulds Chairman

J R Crosby Director and Chief Executive

R F Boyes Group Finance Director

The notes on pages 53 to 78 form part of these financial statements.

Company Balance Sheet
(as at 31 December 1998)

	Notes	1998 £m	1998 £m	1997 £m	1997 £m
Assets					
Cash and balances at central banks			216		484
Treasury bills and other eligible bills	14		1,867		1,417
Loans and advances to banks	15		10,661		9,286
Loans and advances to customers	16		85,909		84,120
Debt securities	17		23,662		17,115
Shares in Group undertakings	19		522		470
Tangible fixed assets	20		871		898
Other assets	21		167		382
Prepayments and accrued income	22		1,136		806
Total Assets			125,011		114,978
Liabilities					
Deposits by banks	24		9,387		5,368
Customer accounts	25		85,274		81,297
Debt securities in issue	26		16,389		14,042
Other liabilities	27		1,212		1,413
Accruals and deferred income	28		4,024		3,661
Provisions for liabilities and charges	29		92		133
Subordinated liabilities	30		1,856		1,906
Equity shareholders' funds:					
Called up share capital	31	487		504	
Share premium account	31	119		70	
Capital redemption reserve	31	18		–	
Profit and loss account	31	6,153		6,584	
			6,777		7,158
Total Liabilities			125,011		114,978
Memorandum Items					
Contingent liabilities:					
Guarantees and assets pledged as collateral security	33		649		–
Commitments	34		2,424		1,117

Approved by the Board on 17 February 1999 and signed on its behalf by:

H J Foulds Chairman

J R Crosby Director and Chief Executive

R F Boyes Group Finance Director

The notes on pages 53 to 78 form part of these financial statements.

Consolidated Cash Flow Statement
(for the year ended 31 December 1998)

	Notes	1998 £m	1997 £m
Net cash inflow from operating activities (see below)		9,003	4,834
Returns on investments and servicing of finance	42a	(175)	(149)
Taxation		(804)	(397)
Capital expenditure and financial investment	42b	(6,589)	(5,266)
		1,435	(978)
Acquisitions and disposals	42c	(163)	2
Equity dividends paid		(589)	–
		683	(976)
Financing	42d	(800)	335
Decrease in cash	42e	(117)	(641)

Reconciliation of operating profit to net cash inflow from operating activities

	1998 £m	1997 £m
Operating profit	1,705	1,631
Increase in prepayments and accrued income	(327)	(318)
Increase in accruals and deferred income	438	635
Provisions for bad and doubtful debts	96	102
Depreciation and amortisation	148	156
Increase in the value of long term assurance business	(101)	(72)
Interest on subordinated liabilities	172	164
Other non-cash movements	–	12
Net cash inflow from trading activities	2,131	2,310
Increase in treasury and other eligible bills	(103)	(98)
Increase in loans and advances to banks	(1,307)	(5,476)
Increase in loans and advances to customers	(1,801)	(1,718)
Increase in debt securities	(390)	(7)
Decrease/(increase) in other assets	129	(249)
Increase in deposits by banks	4,020	2,981
Increase in customer accounts	3,852	2,046
Increase in debt securities in issue	2,347	5,086
Increase in other liabilities	184	180
Decrease in provisions for liabilities and charges	(59)	(221)
Net cash inflow from operating activities	9,003	4,834

The notes on pages 53 to 78 form part of these financial statements.

Notes to the 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. They have been prepared in accordance with applicable accounting standards, except for the adoption of merger accounting referred to below, and 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 four new Financial Reporting Standards (FRS 9, 10, 11 and 14). There have been no changes to the Group's accounting policies other than those required by the adoption of FRS 9 and 10. There have been no changes to previously reported figures as a result of adopting the new standards.

Basis of Presentation of Financial Statements The entire business of Halifax Building Society ('the Society') was transferred to the Company in accordance with the provisions of the Building Societies Act 1986 as part of the process of conversion on 2 June 1997.

The transfer to the Company of the business of the Society was accounted for in accordance with the principles of merger accounting, as if the Company had always been the parent undertaking of the Group and had always carried out the business of the Society.

The Companies Act 1985 and FRS 6 'Acquisitions and Mergers' require acquisition accounting to be adopted where all the conditions laid down for merger accounting are not satisfied. The process of conversion of the Society to a public limited company did not satisfy all the conditions for merger accounting but the Directors consider that to record this transfer of business as an acquisition by the Company, with consequent adjustments to the fair values of the assets and liabilities transferred to the Company and the reflection of only post-conversion results within these financial statements would not give a true and fair view of the Group's results and financial position. The principal issues supporting this conclusion are set out in the paragraph below.

Substantially all the shareholders of the Company at the time of conversion were members of the Society immediately prior to conversion and accordingly maintained an interest in the Halifax business both before and after its transfer. In addition, the method of conversion is prescribed by the Building Societies Act 1986 such that the successor company stands in the place of the former Society. To attribute fair values to the assets and liabilities transferred to the Company would not be meaningful in the context of these financial statements, as in substance the process of conversion represented a change in legal status rather than an acquisition of a business.

The non-attribution of fair values has a continuing effect which the Directors consider it is not practicable to quantify.

Basis of Consolidation The Group financial statements include the audited results of the Company and its subsidiaries. The accounts of all principal subsidiaries have been made up to 31 December 1998. 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 are stated in the Company's balance sheet at cost less provisions. 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 against interest receivable in the year in which the expense is incurred.

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 the current 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.

Notes to the Financial Statements continued

1 **Accounting Policies** continued

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.

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. 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.

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 Following the introduction of FRS 10 ‘Goodwill and Intangible Assets’, 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 and joint ventures is to be capitalised in the year of acquisition and amortised over its useful economic life. As a result of the new policy, shareholders’ funds are £125m higher than they would have been under the previous policy of immediate write off to profit and loss account reserves. There is no effect on the current year’s results. Goodwill on acquisitions prior to 31 December 1997 amounting to £470m was eliminated against reserves and has not been reinstated, as permitted by FRS 10. On the disposal of subsidiary undertakings 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.

In the Company balance sheet, the cost of investment in overseas subsidiaries is translated at the historic rate.

Notes to the Financial Statements continued

1 **Accounting Policies** continued

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. 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.

Notes to the Financial Statements continued

2 Segmental Analysis – Business Sectors

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

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

	Group	
	1998 £m	1997 £m
Retail Operations	1,313	1,298
Consumer Credit	44	42
Personal Lines Insurance	158	142
Long Term Savings and Protection	170	129
Group Treasury (note a)	169	94
Group Items (note a)	(149)	(56)
Profit before tax and exceptional items (note b)	1,705	1,649
Exceptional items (note c):		
Administrative expenses	–	(18)
Profit on ordinary activities before tax	1,705	1,631

	Group	
	1998 Total assets (note d) £m	1997 Total assets (note d) £m
Retail Operations	82,144	81,144
Consumer Credit	1,965	1,554
Personal Lines Insurance	–	–
Long Term Savings and Protection	1,034	885
Group Treasury	34,868	25,132
Group Items	5,431	6,444
	125,442	115,159

Notes

a The segmental analysis has been amended to reallocate profits on disposal of British Government securities from Group Items to Group Treasury. Comparative figures have been restated accordingly. The effect of this change is to increase Group Treasury profit before tax by £97m (1997: £17m), with a corresponding reduction in Group Items profit before tax.

b In order to analyse net interest margin 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 eliminate interest rate risk, reducing the volatility of earnings in the business sectors. The level of central funding takes account of the capital notionally absorbed 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 conversion costs, are the consequence of corporate decisions made at the centre, and have not therefore been allocated across business sectors.

d 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 and Protection. All other non-interest earning assets are included in Group Items together with the Group's portfolio of Government securities.

No segmental analysis of turnover has been presented as the business of the Group is mainly that of banking and insurance. The only separable business segment as defined by the relevant accounting standard (SSAP 25) is Long Term Savings and Protection. The net assets attributable to the Long Term Savings and Protection business at 31 December 1998 were £448m (1997: £326m). The net assets of the remaining businesses were £6,701m (1997: £6,889m). It should be noted that the business is not managed on the basis of an allocation of net assets and it is not therefore appropriate to relate the segmental profits outlined above to these net assets.

Notes to the Financial Statements continued

3 Other Operating Income

	Group 1998 £m	Group 1997 £m
Increase in value of long term assurance business (note 23)	146	103
Other	18	21
	164	124

4 Exceptional Administrative Expenses

	Group 1998 £m	Group 1997 £m
Exceptional administrative expenses comprise:		
Conversion costs	–	18

The conversion costs comprise costs arising from the programme of conversion to public limited company status.

5 Ongoing Administrative Expenses

	Group 1998 £m	Group 1997 £m
Staff costs:		
Wages and salaries	557	514
Social security costs	43	40
Other pension costs	19	16
Other post-retirement benefits	3	3
	622	573
Other administrative expenses	558	477
	1,180	1,050

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 3).

	Group 1998 £m	Group 1997 £m
Wages and salaries	88	85
Social security costs	7	8
Other pension costs	1	1
	96	94

6 Staff Numbers

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

	Group Full time 1998	Full time 1997	Part time 1998	Part time 1997
Principal office and administration centres	6,329	6,537	1,058	900
Branch offices	17,106	17,547	8,604	8,440
	23,435	24,084	9,662	9,340
Long term assurance business (note 5)	3,071	3,245	210	196
	26,506	27,329	9,872	9,536

Notes to the Financial Statements continued

7 Directors' Remuneration

Details of Directors' remuneration are included in the Report of the Board on pages 37 to 44.

8 Provisions for Bad and Doubtful Debts

Provisions have been made as follows:

Group

	Specific £m	General £m	1998 Total £m	Specific £m	General £m	1997 Total £m
At 1 January	355	221	576	399	227	626
Amounts written off during the year	(84)	(34)	(118)	(126)	(26)	(152)
Charge for the year:						
Provisions	99	25	124	98	20	118
Recoveries	(19)	(9)	(28)	(16)	–	(16)
	80	16	96	82	20	102
At 31 December	351	203	554	355	221	576
Provisions at 31 December can be analysed as follows:						
Residential property and other advances secured on land	198	200	398	246	218	464
Unsecured loans	153	3	156	109	3	112
	351	203	554	355	221	576

Company

	Specific £m	General £m	1998 Total £m	Specific £m	General £m	1997 Total £m
At 1 January	311	110	421	348	113	461
Amounts written off during the year	(73)	–	(73)	(107)	–	(107)
Charge for the year:						
Provisions	85	1	86	81	(3)	78
Recoveries	(15)	–	(15)	(11)	–	(11)
	70	1	71	70	(3)	67
At 31 December	308	111	419	311	110	421
Provisions at 31 December can be analysed as follows:						
Residential property and other advances secured on land	182	108	290	219	107	326
Unsecured loans	126	3	129	92	3	95
	308	111	419	311	110	421

Notes to the Financial Statements continued

9 Profit on Ordinary Activities Before Tax

	Group 1998 £m	Group 1997 £m
Profit on ordinary activities before tax is stated after crediting:		
Profits less losses on disposal of investment securities	124	17
Profit on ordinary activities before tax is stated after charging:		
Mortgage incentives	577	595
Interest payable on subordinated liabilities	172	164
Rental of premises	67	56
Hire of equipment	25	20
Remuneration of auditors and their associates (including VAT) for:		
Audit services	1.5	1.2
Non-audit services	2.9	2.8

	1998 £m	1997 £m
Non-audit services comprise the following:		
Regulatory reporting	0.9	0.4
Tax services	0.2	0.6
Consultancy	1.2	0.7
Other	0.6	1.1
Total non-audit services	2.9	2.8

The Company's audit fee, which is included above in the figure for audit services to the Group, amounted to £0.6m (1997: £0.5m). Non-audit fees of £1.1m have also been incurred in the year ended 31 December 1998 relating to acquisitions.

10 Tax on Profit on Ordinary Activities

	Group 1998 £m	Group 1997 £m
The charge for the year, based on a corporation tax rate applicable to the year of 31.0% (1997: 31.5%) comprises:		
UK corporation tax	472	459
Tax relating to change in value of long term assurance business (note 23)	45	31
Deferred taxation	17	50
	534	540

11 Profit for the Financial Year Attributable to Shareholders

Of the profit attributable to shareholders, £858m (1997: £886m) 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.

Notes to the Financial Statements continued

12 Dividends

	1998 £m	1997 £m
Ordinary shares		
Interim (paid)	165	–
Final (proposed)	327	441
Adjustment	(3)	–
	489	441

	1998 pence per share	1997 pence per share
Ordinary shares		
Interim (paid)	6.75	–
Final (proposed)	13.50	17.50
	20.25	17.50

The adjustment in 1998 resulted from the waiver of dividends by the QUEST (note 31) and the impact of the share buy-back programme, both of which took place subsequent to the dividends being accrued but before payment.

13 Earnings per Share

Earnings per share has been calculated by dividing the profit attributable to shareholders of £1,171m (1997: £1,091m) by the weighted average number of ordinary shares in issue during the year.

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

	1998 millions	1997 millions
Weighted average number of ordinary shares in issue during the year	2,463	2,510
Diluting effect of options under Sharesave Scheme	9	3
Diluted weighted average number of ordinary shares	2,472	2,513

14 Treasury Bills and Other Eligible Bills

	1998		1997	
	Book value £m	Market value £m	Book value £m	Market value £m
Group				
Investment securities				
Treasury bills and similar securities	96	98	104	104
Other eligible bills	1,862	1,863	1,416	1,417
	1,958	1,961	1,520	1,521
Company				
Investment securities				
Treasury bills and similar securities	5	5	1	1
Other eligible bills	1,862	1,863	1,416	1,416
	1,867	1,868	1,417	1,417

Notes to the Financial Statements continued

14 Treasury Bills and Other Eligible Bills continued

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

	Group	Company
	£m	£m
At 1 January 1998	1,520	1,417
Additions	12,225	12,081
Disposals	(11,890)	(11,735)
Amortisation of discounts	103	104
At 31 December 1998	1,958	1,867

Included in the above balances are:

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Unamortised discounts on investment securities	10	11	10	11

15 Loans and Advances to Banks

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Repayable on demand	1,860	1,738	1,783	1,713
Other loans and advances repayable:				
In not more than three months	6,708	7,176	6,602	7,069
In more than three months but not more than one year	2,112	504	2,108	504
In more than one year but not more than five years	50	1	50	–
In more than five years	118	–	118	–
	10,848	9,419	10,661	9,286
Included above are the following amounts which relate to items in the course of collection from other banks	417	388	417	387

16 Loans and Advances to Customers

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Advances secured on residential properties	81,731	80,756	78,578	77,771
Other secured advances	2,046	1,659	1,775	1,486
Unsecured loans	1,851	1,528	1,233	1,025
Amounts due from subsidiary undertakings	–	–	4,742	4,259
Provisions for bad and doubtful debts	(554)	(576)	(419)	(421)
	85,074	83,367	85,909	84,120
Repayable:				
On demand or at short notice	180	129	4,922	4,388
In not more than three months	1,087	898	909	720
In more than three months but not more than one year	1,530	1,366	1,294	1,209
In more than one year but not more than five years	7,579	6,482	7,163	6,101
In more than five years	75,252	75,068	72,040	72,123
Provisions for bad and doubtful debts	(554)	(576)	(419)	(421)
	85,074	83,367	85,909	84,120

Group loans and advances to customers include finance lease receivables of £87m (1997: £1m). Assets acquired in the year for letting under finance leases amounted to £84m (1997: £1m).

Included in Group and Company loans and advances to customers are loans to joint ventures of £17m (1997: £nil).

Notes to the Financial Statements continued

16 Loans and Advances to Customers continued

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Non-performing loans and advances:				
Loans and advances three months or more in arrears	1,966	2,257	1,857	2,149
Loans and advances on properties in possession	103	140	95	135
	2,069	2,397	1,952	2,284
Provisions for bad and doubtful debts	(554)	(576)	(419)	(421)
	1,515	1,821	1,533	1,863

17 Debt Securities

	1998		1997	
	Book value £m	Market value £m	Book value £m	Market value £m
Group				
Investment securities				
Government securities	4,128	4,294	4,488	4,580
Other public sector securities	35	37	88	88
Bank and building society certificates of deposit	12,055	12,065	8,576	8,571
Other debt securities	7,128	7,152	4,096	4,107
	23,346	23,548	17,248	17,346
Other securities				
Government securities	431	431	24	24
Other debt securities	29	29	1	1
	460	460	25	25
Total	23,806	24,008	17,273	17,371
Company				
Investment securities				
Government securities	4,123	4,289	4,483	4,576
Other public sector securities	35	37	88	88
Bank and building society certificates of deposit	12,028	12,038	8,526	8,520
Other debt securities	7,016	7,039	3,993	4,004
	23,202	23,403	17,090	17,188
Other securities				
Government securities	431	431	24	24
Other debt securities	29	29	1	1
	460	460	25	25
Total	23,662	23,863	17,115	17,213

Debt securities analysed by listing status:

	Book value £m (1998)	Market value £m (1998)	Book value £m (1997)	Market value £m (1997)
Group				
Investment securities				
Listed on recognised UK exchange	6,132	6,307	6,371	6,469
Listed on other exchanges	4,387	4,399	2,076	2,082
	10,519	10,706	8,447	8,551
Unlisted	12,827	12,842	8,801	8,795
	23,346	23,548	17,248	17,346

Notes to the Financial Statements continued

17 Debt Securities continued

	1998		1997	
	Book value £m	Market value £m	Book value £m	Market value £m
Other securities				
Listed on recognised UK exchange	460	460	24	24
Unlisted	–	–	1	1
	460	460	25	25
Total	23,806	24,008	17,273	17,371
Company				
Investment securities				
Listed on recognised UK exchange	5,993	6,167	6,218	6,316
Listed on other exchanges	4,382	4,394	2,071	2,077
	10,375	10,561	8,289	8,393
Unlisted	12,827	12,842	8,801	8,795
	23,202	23,403	17,090	17,188
Other securities				
Listed on recognised UK exchange	460	460	24	24
Unlisted	–	–	1	1
	460	460	25	25
Total	23,662	23,863	17,115	17,213

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Debt securities analysed by remaining maturity:				
Due within one year	13,797	10,150	13,750	10,061
Due one year and over	10,009	7,123	9,912	7,054
	23,806	17,273	23,662	17,115

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

	Group	Company
	Book value £m	Book value £m
At 1 January 1998	17,248	17,090
Additions	48,539	48,246
Disposals	(42,396)	(42,089)
Amortisation of premiums and discounts	(32)	(32)
Exchange adjustments	(13)	(13)
At 31 December 1998	23,346	23,202

The total net book value of debt securities held for investment purposes at 31 December 1998 includes unamortised premiums less discounts of £137m (1997: £126m) for the Group, and £137m (1997: £125m) for the Company.

Debt securities include securities with a market value of £1,346m for Group and £1,344m for Company (1997: £1,372m Group and Company) sold subject to agreement to repurchase.

Notes to the Financial Statements continued

18 Investments in Joint Ventures

	Group
	£m
At 1 January 1998	–
Additions	170
At 31 December 1998	170

The principal joint ventures of Halifax plc at 31 December 1998 are:

Joint venture	Nature of business	Group interest in ordinary shares
Lex Vehicle Leasing (Holdings) Ltd	Vehicle leasing	50%
Warwick Leasing Ltd	Leasing	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 £25m (1997: £nil).

The Group's share of turnover and operating profit from joint ventures is not material.

Included within the Group's share of gross assets of joint ventures is goodwill relating to the acquisition of a joint venture as follows:

Goodwill	£m
At 1 January 1998	–
Additions	125
At 31 December 1998	125

The goodwill relates to the acquisition on 31 December 1998 of 50% of the share capital of Lex Vehicle Leasing (Holdings) Ltd and will be 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.

19 Shares in Group Undertakings

	Company
	£m
Cost	
At 1 January 1998	615
Additions/Transfers	55
At 31 December 1998	670
Provision	
At 1 January 1998	145
Charge for the year	3
At 31 December 1998	148
Net book value	
At 31 December 1998	522
At 31 December 1997	470

Included within additions is £36m relating to the acquisition of the entire share capital of Lex Vehicle Leasing (1998) Ltd, the company holding the Group's 50% share of Lex Vehicle Leasing (Holdings) Ltd.

Notes to the Financial Statements continued

19 Shares in Group Undertakings continued

The Company's interests in subsidiary undertakings, none of which are listed, are analysed as follows:

	1998 £m	1997 £m
Credit institutions	65	65
Other	457	405
	522	470

The principal subsidiary undertakings of Halifax plc at 31 December 1998 are listed below:

Subsidiary undertakings	Country of incorporation or registration	Major activity	Class of shares held	Interest in shares	Direct or indirect
Banco Halifax Hispania SA	Spain	Provision of banking services in Spain	Ordinary	100%	Direct
Halifax Asset Finance Ltd	England and Wales	Leasing	Ordinary	100%	Direct
HCM Holdings Ltd and its subsidiaries:	England and Wales	Financial services	Ordinary	100%	Direct
Clerical Medical Investment Group (Holdings) Ltd and its subsidiary:	England and Wales	Financial services	Ordinary	100%	Indirect
Clerical Medical Investment Group Ltd	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%	Indirect
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
Halifax Credit Card Ltd	England and Wales	Provision of credit card facilities	Ordinary	100%	Direct
Halifax Estate Agencies Ltd	England and Wales	Estate agency and financial services	Ordinary	100%	Direct
Halifax General Insurance Services Ltd	England and Wales	General insurance brokerage	Ordinary	100%	Direct
Halifax International (Isle of Man) Ltd	Isle of Man	Offshore licensed deposit taker	Ordinary	100%	Direct
Halifax International (Jersey) Ltd	Jersey	Offshore licensed deposit taker	Ordinary	100%	Direct
Halifax Loans Ltd and its subsidiaries:	England and Wales	Secured lending on residential property	Ordinary	100%	Direct
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%	Direct
Halifax Share Dealing Ltd	England and Wales	Execution only stockbroking	Ordinary	100%	Direct

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.

Notes to the Financial Statements continued

20 Tangible Fixed Assets and Capital Commitments

	Group Premises £m	Group Equipment £m	Group Total £m	Company Premises £m	Company Equipment £m	Company Total £m
Cost						
At 1 January 1998	906	626	1,532	867	561	1,428
Additions	65	74	139	63	67	130
Disposals	(34)	(61)	(95)	(28)	(39)	(67)
At 31 December 1998	937	639	1,576	902	589	1,491
Depreciation and provisions for diminution in value						
At 1 January 1998	334	241	575	326	204	530
Depreciation charged in year	31	125	156	30	112	142
Disposals	(18)	(57)	(75)	(14)	(38)	(52)
At 31 December 1998	347	309	656	342	278	620
Net book value						
At 31 December 1998	590	330	920	560	311	871
At 31 December 1997	572	385	957	541	357	898

Included within Group and Company tangible fixed assets are assets in the course of construction amounting to £28m (1997: £70m and £69m for Group and Company respectively) which are not depreciated until the assets are brought into use.

	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
The net book value of premises comprises:				
Freeholds	464	464	439	438
Long leaseholds	25	28	24	27
Short leaseholds	101	80	97	76
Land and buildings occupied for own activities:				
Net book value at 31 December	409	448	381	417
Capital commitments for which contracts have been placed	12	23	11	22

21 Other Assets

	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Settlement balances	–	167	–	167
Other assets	306	344	131	177
Deferred taxation (due after more than one year)	5	22	36	38
	311	533	167	382

Deferred taxation	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
At 1 January	22	72	38	70
Movement in year	(17)	(50)	(2)	(32)
At 31 December	5	22	36	38

Notes to the Financial Statements continued

21 Other Assets continued

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

	Group				Company			
	Amount provided		Amount unprovided		Amount provided		Amount unprovided	
	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m
Capital allowances in advance of depreciation	(19)	(13)	–	–	(14)	(14)	–	–
Pension fund prepayment	(15)	(18)	–	–	(15)	(18)	–	–
Reorganisation costs	11	40	–	–	10	34	–	–
Other timing differences	28	13	11	11	55	36	11	11
	5	22	11	11	36	38	11	11

22 Prepayments and Accrued Income

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Accrued interest	677	404	665	387
Pension fund prepayment	51	61	51	61
Other	459	395	420	358
	1,187	860	1,136	806

23 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:

	1998 %	1997 %
Risk discount rate (net of tax) for traditional with profits business	9.0	10.0
Risk discount rate (net of tax) for other business	11.0	12.0
Return on equities (gross of tax)	7.0	8.5
Return on gilts (gross of tax)	5.0	6.5
Expense inflation	4.0	5.0

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.

Notes to the Financial Statements continued

23 Long Term Assurance Business continued

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:

	1998 £m	1997 £m
Closing value of Group's interest in long term assurance business	921	744
Opening value of Group's interest in long term assurance business	744	696
Increase in value of long term assurance business	177	48
Transfer to long term assurance business	(76)	–
Transfer of long term assurance business of Clerical, Medical and General Life Assurance Society	–	24
Income after tax from long term assurance business	101	72
Taxation relating to long term assurance business (note 10)	45	31
Income before tax from long term assurance business (note 3)	146	103

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

The long term assurance assets attributable to policyholders comprise:

	1998 £m	1997 £m
Investments	18,938	16,039
Value of in-force policies	857	748
Net current assets/(liabilities)	258	(102)
	20,053	16,685
Long term assurance business attributable to shareholders	(921)	(744)
Long term assurance assets attributable to policyholders	19,132	15,941
Long term assurance liabilities attributable to policyholders	19,132	15,941

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

24 Deposits by Banks

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Repayable on demand	3,341	1,289	3,338	1,287
Repayable with agreed maturity dates or periods of notice:				
In not more than three months	5,062	3,740	5,062	3,740
In more than three months but not more than one year	855	178	855	178
In more than one year but not more than five years	132	163	132	163
	9,390	5,370	9,387	5,368
Included above are the following amounts which relate to items in the course of transmission to other banks	406	392	403	390

Notes to the Financial Statements continued

25 Customer Accounts

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Repayable on demand	77,184	73,372	77,838	73,819
Repayable with agreed maturity dates or periods of notice:				
In not more than three months	6,083	6,141	5,970	6,037
In more than three months but not more than one year	1,653	1,540	1,436	1,397
In more than one year but not more than five years	33	48	30	44
	84,953	81,101	85,274	81,297
Amounts include:				
Due to subsidiary undertakings	–	–	1,757	1,329

26 Debt Securities in Issue

	Group and Company	
	1998 £m	1997 £m
Bonds and medium term notes		
Repayable:		
In one year or less, or on demand	1,330	1,538
In more than one year but not more than two years	503	1,612
In more than two years but not more than five years	1,771	1,397
In more than five years	2,518	1,674
	6,122	6,221
Other debt securities		
Repayable:		
In not more than three months	7,173	6,847
In more than three months but not more than one year	3,024	969
In more than one year but not more than two years	67	5
In more than two years but not more than five years	3	–
	10,267	7,821
Total debt securities in issue	16,389	14,042

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

27 Other Liabilities

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Short positions – Government debt securities	96	24	96	24
Settlement balances	286	148	286	148
Corporation tax	268	519	178	467
Dividends payable	340	441	340	441
Other liabilities	405	459	312	333
	1,395	1,591	1,212	1,413

Notes to the Financial Statements continued

28 Accruals and Deferred Income

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Accrued interest	3,481	3,434	3,423	3,405
Other	733	345	601	256
	4,214	3,779	4,024	3,661

29 Provisions for Liabilities and Charges

	Pensions review provision £m	Other post-retirement benefits and unfunded pensions £m	Reorganisation costs provision £m	Total £m
Group				
At 1 January 1998	–	22	133	155
Transfer	15	–	–	15
Charged in year	29	4	–	33
Utilised in year	(8)	–	(99)	(107)
At 31 December 1998	36	26	34	96
Company				
At 1 January 1998	–	22	111	133
Transfer	15	–	–	15
Charged in year	29	4	–	33
Utilised in year	(8)	–	(81)	(89)
At 31 December 1998	36	26	30	92

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 pensions review provision has been established to cover estimated administrative costs and compensation payable in connection with phase 2 of the pensions review. The transfer relates to amounts previously held in accruals and deferred income to meet the costs of phase 1.

In addition, a provision of £35m (1997: £30m) to cover direct and indirect costs arising from the pensions review is included in the long term assurance business.

30 Subordinated Liabilities

	Group and Company	
	1998 £m	1997 £m
Dated		
10½% Subordinated sterling bonds 1998	–	50
8¾% Subordinated sterling bonds 2006	400	400
Floating rate subordinated sterling notes 2009	75	75
Step-up callable floating rate 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	6	6
	1,581	1,631
Undated		
12% Sterling Perpetual Subordinated Bonds	100	100
8¾% Sterling Perpetual Subordinated Bonds	100	100
13⅝% Sterling Perpetual Subordinated Bonds	75	75
	1,856	1,906

Notes to the Financial Statements continued

30 Subordinated Liabilities continued

No repayment, for whatever reason, of dated subordinated debt prior to its stated maturity and no purchase by the Company of its subordinated debt may be made without the consent of the Financial Services Authority. On a winding up of the 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 the 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.

The 10½% subordinated bonds 1998 were redeemed at maturity in accordance with their terms on 21 April 1998.

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

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 cent per annum for years 1 to 8, 0.75 per cent per annum for years 9 and 10 and 1.25 per cent per annum thereafter. The Company 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 cent per annum for years 1 to 10 and 1.25 per cent thereafter. The Company 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.

The Company 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 8¾% 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 Company may not exercise this redemption option or purchase any of its undated subordinated debt without the consent of the Financial Services Authority. The 13⅝% bonds carry no optional redemption clauses. On a winding up of the Company 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 the Company 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.

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

	Group and Company	
	1998 £m	1997 £m
Dated subordinated liabilities are repayable as follows:		
In one year or less, or on demand	–	50
In more than five years	1,581	1,581
	1,581	1,631

31 Capital and Reserves

Called Up Share Capital

	Preference Shares of £1 each £m	Ordinary Shares of 20p each £m
Authorised share capital		
At 31 December 1997	–	660
At 31 December 1998	1,000	660

	Ordinary shares £m
Allotted, called up and fully paid share capital	
At 1 January 1998	504
Issued to the Halifax plc Qualifying Employee Share Ownership Trust ('the QUEST')	1
Repurchase of shares	(18)
At 31 December 1998	487

Notes to the Financial Statements continued

31 **Capital and Reserves** continued

The QUEST was established, under a deed of trust, on 8 December 1997 to acquire shares in the Company for the benefit of employees and Directors of the Company and its subsidiaries. Under the terms of the trust, the Company is empowered to finance the acquisition of shares by the QUEST. On 11 March 1998 the Company provided £50m for this purpose and the QUEST subscribed at market value for 5.3m of the Company's ordinary 20p shares. The total number of shares held by the QUEST at 31 December 1998 was 14.4m which had a market value of £123m. The shares rank pari passu in all respects with the existing ordinary shares. They will be allocated to employees and Directors in satisfaction of their options under the employee savings related share option scheme, the Halifax plc Sharesave Scheme 1997.

The cost of the contribution by the Company has been transferred directly to profit and loss account reserves, and the share premium account has been increased by the excess of the subscription price over nominal value which amounts to £49m.

The shares held by the QUEST at 31 December 1998 have been included in the Group balance sheet at nil value, reflecting their ultimate purpose which is to satisfy options granted to employees and Directors of the Company.

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

At 31 December 1998, options to acquire 32.9m Halifax plc shares were outstanding under the Halifax plc Sharesave Scheme 1997 which are exercisable by employees of the Group at a price of £5.79 or £5.80 at various dates up to the year 2006.

During the year ended 31 December 1998 the Company repurchased ordinary shares with a nominal value of £18m at a total cost of £750m (being £745m value of shares and £5m costs) which has been charged against profit and loss account reserves.

Share Premium Account

	Group and Company
	£m
At 1 January 1998	70
Arising on share issue to the QUEST	49
At 31 December 1998	119

Capital Redemption Reserve

	Group and Company
	£m
At 1 January 1998	–
Repurchase of shares	18
At 31 December 1998	18

Profit and Loss Account

	Group	Company
	£m	£m
At 1 January 1998	6,641	6,584
Profit retained for the financial year	682	369
Repurchase of shares	(750)	(750)
Shares issued to the QUEST	(50)	(50)
Foreign currency translation differences on subsidiary undertaking	2	–
At 31 December 1998	6,525	6,153

The cumulative amount of goodwill resulting from acquisitions in earlier financial years, which has been deducted from Group profit and loss account reserves, is £470m (1997: £470m).

Of the total Group profit and loss account reserves at 31 December 1998, £371m (1997: £183m), representing principally the Group's share of the net present value of long term assurance business in-force and the surplus retained within the long term assurance funds, is not currently available for distribution.

Notes to the Financial Statements continued

32 Non-Sterling Assets and Liabilities

At 31 December 1998 the aggregate amount of all assets and liabilities included in the Group and Company balance sheets denominated in a currency other than sterling was as follows:

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Assets	13,536	8,595	13,525	8,539
Liabilities	15,020	9,541	15,010	9,524

The amounts disclosed above do not equate to the Company or Group's exposure to currency risk. The Group's currency positions are substantially hedged by off-balance sheet instruments (note 36).

33 Memorandum Items – Contingent Liabilities

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Guarantees and assets pledged as collateral security:				
Guarantees and irrevocable letters of credit	649	–	649	–

The above guarantee was terminated on 12 January 1999 and related to the acquisition of 50% of the share capital of Lex Vehicle Leasing (Holdings) Ltd.

34 Memorandum Items – Commitments

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Forward asset purchases and forward deposits placed	310	208	310	208
Undrawn formal standby facilities, credit lines and other commitments to lend:				
Over one year	674	385	674	385
One year or less	3,477	2,038	1,440	524
	4,461	2,631	2,424	1,117

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

35 Leasing Commitments

Annual commitments under non-cancellable operating leases

	1998		1997	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Group				
Operating leases which expire:				
Within one year	3	1	3	2
In more than one year but not more than five years	6	19	7	16
In more than five years	62	1	54	–
	71	21	64	18
Company				
Operating leases which expire:				
Within one year	2	1	1	2
In more than one year but not more than five years	5	17	5	16
In more than five years	51	–	43	–
	58	18	49	18

Notes to the Financial Statements continued

36 Derivatives and Other Financial Instruments

At 31 December 1998, the contract or underlying principal amounts of derivative financial instruments, together with their risk weighted amounts and replacement costs, were:

Non-Trading Derivatives

Group and Company

	1998			1997		
	Contract or underlying principal amount £m	Credit risk weighted amount £m	Net replacement cost £m	Contract or underlying principal amount £m	Credit risk weighted amount £m	Net replacement cost £m
Exchange rate contracts:						
Cross currency swaps	4,753	97	235	4,131	61	84
Forward foreign exchange	5,861	19	35	4,500	28	93
	10,614	116	270	8,631	89	177
Interest rate contracts:						
Interest rate swaps	18,646	116	436	7,488	85	223
Forward rate agreements	6,100	13	38	382	–	1
Caps and floors	6,682	36	139	357	1	5
Financial futures	39,985	–	–	1,700	–	–
	71,413	165	613	9,927	86	229

Trading Derivatives

Group and Company

	1998				1997			
	Contract or underlying principal amount £m	Credit risk weighted amount £m	Positive fair values £m	Negative fair values £m	Contract or underlying principal amount £m	Credit risk weighted amount £m	Positive fair values £m	Negative fair values £m
Interest rate contracts:								
Forward rate agreements	100	–	1	1	772	–	1	1
Financial futures	297	–	–	6	350	–	–	–
	397	–	1	7	1,122	–	1	1
Amount included in other assets or other liabilities	–	–	1	1	–	–	1	1

Substantially all of the Group's derivatives activity is contracted with financial institutions. The risk weighted values have been calculated in accordance with the provisions of the EU Solvency Ratio Directive. Replacement cost is calculated by marking the value of contracts to market and aggregating those with a positive value.

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

Group and Company

	1998		1997	
	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	13,830	77	7,526	150
In more than one year but not more than five years	23,693	335	6,388	108
In more than five years	4,619	471	2,944	148
	42,142	883	16,858	406

Notes to the Financial Statements continued

36 Derivatives and Other Financial Instruments continued

The types of derivative held and their purpose is discussed in detail on pages 29 and 30. Details of the interest rate risk and currency risk on the non-trading instruments held at 31 December 1998 are set out below:

i) Interest rate risk

The following table provides an analysis of the repricing periods of assets and liabilities (excluding the trading book) at 31 December 1998:

Group

	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	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.

The table takes account of derivative financial instruments whose effect is to alter the interest basis of non-trading book assets and liabilities.

ii) 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 £3m at 31 December 1998. This figure takes into account the effect of any currency swaps and forward contracts entered into to manage these currency exposures.

iii) Trading results

No analysis of dealing profits by financial instrument is presented on the grounds of materiality. 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.

Notes to the Financial Statements continued

37 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 1998 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.

The main long term financial assumptions used in the valuation 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 1997, the market value of the assets of the Halifax Retirement Fund was £1,404m. The actuary's assessment, on a market value basis, was that the assets represented 126% 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 liabilities.

The pension cost for accounts purposes has been calculated using the same assumptions as those adopted for the 1997 valuation, with the exception of the long term rate assumed for equity dividend increases which has been increased from 4.0% to 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 1998 was £20m (1997: £17m). Included in prepayments and accrued income (note 22) is a pension prepayment of £51m (1997: £61m) which relates to excess pension contributions.

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 1998 estimated the present value of the accumulated other post-retirement benefit obligations at £26m for the Group (1997: £25m). 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 1998 for other post-retirement benefits was £3m (1997: £3m). Included in provisions for liabilities and charges (note 29) is £21m (1997: £18m) which represents the accrued amount for other post-retirement benefits.

38 Transactions with Directors and Other Officers

The aggregate amounts outstanding at 31 December 1998 under transactions, arrangements and agreements made by the Group for persons who are, or were during the year, Directors of Halifax plc and their connected persons and for Officers of the Company were:

	Number	Amount £000
Directors		
Loans	6	533
Credit card accounts	7	11
Officers		
Loans	24	2,562
Credit card accounts	11	21

The credit card balances disclosed above for Directors and other Officers are with a subsidiary of the Company, 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.

Notes to the Financial Statements continued

39 Proposed Acquisition of Birmingham Midshires Building Society

On 30 July 1998, the Board of Halifax plc announced that it had agreed terms with the Board of Birmingham Midshires Building Society (Birmingham Midshires) under which it would acquire the business of Birmingham Midshires subject to the approval of Birmingham Midshires' members and various regulatory bodies. On 11 December 1998 the investing and borrowing members of Birmingham Midshires gave their approval. The proposed consideration of £750m will be paid in cash to those qualifying persons who are eligible, under the terms of the Building Societies Act, to receive cash and in the form of preference shares to those qualifying persons who are ineligible to receive cash under the Act. It is proposed that these distributions will be made to Birmingham Midshires' eligible investing members and borrowers and certain other stakeholders, in accordance with the terms of the distribution scheme which have been determined by the Board of Birmingham Midshires. Vesting Day is expected to be 19 April 1999.

40 Post Balance Sheet Events

On 21 January 1999 the Halifax announced a proposed joint venture with Cetelem SA, a wholly owned subsidiary of the French banking group Paribas. A new company, Halifax Cetelem Finance Ltd in which the Halifax and Cetelem are equal shareholders, is expected to commence trading in the third quarter of 1999 and will market its products and services under a new brand. Products will be designed to offer credit for the purchase of consumer durable goods with a focus on the point of sale retail market. The new company will be managed jointly by the Halifax and Cetelem. Both parties will provide a nominal amount of capital at inception.

On 17 February 1999, the Directors of Halifax plc resolved to seek shareholder approval for a proposed restructuring of Halifax plc involving the creation of a new listed holding company and the return of approximately £1.5bn of surplus capital in the form of cash to ordinary shareholders. The restructuring is subject to a number of conditions including the approval of the holders of ordinary shares in Halifax plc and the High Court. The proposal also requires Inland Revenue clearance.

The proposed restructuring will be effected by a Scheme of Arrangement under which the ordinary shares of Halifax plc are exchanged for a combination of shares in the new listed company plus cash. Subject to the conditions being met, it is expected that the Scheme will become effective in mid-1999. The number of ordinary shares to be issued by the new listed holding company will be set to facilitate comparability of financial measures per share with existing ordinary shares of Halifax plc.

Shortly after the Scheme becomes effective, it is proposed that the new listed holding company will, in order to ensure normal tax consolidation, subscribe for new preference shares in Halifax plc.

41 Related Party Transactions

i) Transactions with joint ventures

Balances outstanding between the Group and joint ventures as at 31 December 1998 are set out in note 16.

ii) Transactions with Birmingham Midshires

Subject to the approval of various regulatory bodies (note 39), the assets and liabilities of Birmingham Midshires will be acquired by Halifax plc on 19 April 1999.

Transactions with Birmingham Midshires have arisen during the year in the normal course of business at market rates. At the year end included within loans and advances to banks is £79m due from Birmingham Midshires (1997: £41m).

Notes to the Financial Statements continued

42 Notes to the Consolidated Cash Flow Statement

		1998 £m	1997 £m
	Gross cash flows		
a	Returns on investments and servicing of finance		
	Interest paid on subordinated liabilities	(175)	(149)
b	Capital expenditure and financial investment		
	Purchase of investment securities	(60,764)	(59,479)
	Sale and maturity of investment securities	54,286	54,437
	Purchase of tangible fixed assets	(139)	(247)
	Sale of tangible fixed assets	28	23
		(6,589)	(5,266)
c	Acquisitions and disposals		
	Investment in subsidiary undertakings	–	2
	Investment in joint ventures	(163)	–

The investment in joint ventures 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% shareholding; and £45m to acquire a further 20% holding of LVLH.

		1998 £m	1997 £m
d	Financing		
	Repurchase of share capital	(750)	–
	(Redemption)/issue of subordinated liabilities	(50)	350
	Statutory cash bonus	–	(15)
		(800)	335
e	Analysis of the balances of cash as shown in the balance sheet		
	Cash and balances at central banks	247	486
	Loans and advances to other banks repayable on demand	1,860	1,738
		2,107	2,224

The Group is required to maintain balances with the Bank of England which, at 31 December 1998, amounted to £119m (1997: £279m).
Analysis of the changes in cash

	1998 £m	1997 £m
Opening cash	2,224	2,865
Cash flow	(117)	(641)
Closing cash	2,107	2,224

f Analysis of changes in financing during the year	Share capital and share premium £m	Subordinated liabilities £m
Balances at 1 January 1997	–	1,543
Net inflow of cash from financing	–	350
Share capital issued on conversion/to the QUEST	574	–
Other movements	–	13
Balances at 31 December 1997	574	1,906
Net outflow of cash from financing	–	(50)
Repurchase of share capital	(18)	–
Share capital issued to the QUEST	50	–
Balances at 31 December 1998	606	1,856

Five Year Summary

	1998	1997	1996	1995-96	1994-95
Profit & Loss Account (£m)					
Total income	3,158	2,957	2,656	2,291	1,892
Ongoing operating expenses	1,328	1,206	1,081	969	781
Provisions for bad and doubtful debts	96	102	145	108	136
Exceptional items	–	18	451	113	–
Profit before tax and exceptional items	1,705	1,649	1,430	1,214	975
Balance Sheet					
Total assets (£bn)	145	131	116	99	72
Total assets (excluding long term assurance assets attributable to policyholders) (£bn)	125	115	103	99	72
Subordinated debt (£m)	1,856	1,906	1,543	775	610
Proprietors' funds:					
Share capital (£m)	487	504	–	–	–
Share premium and capital redemption reserve (£m)	137	70	–	–	–
Reserves (£m)	6,525	6,641	6,605	6,234	4,301
Performance Ratios (%)					
Post-tax return on mean equity+	16.3	16.0	14.2	13.7	16.4
Cost:income ratio*	40.9	40.4	40.7	42.3	41.3
Net interest margin	2.06	2.18	2.17	2.22	2.14
Shareholder Information					
Profit attributable to shareholders (£m)	1,171	1,091	561	–	–
Dividends per ordinary share (p)	20.25	17.50	–	–	–
Basic earnings per ordinary share (p)	47.5	43.5	22.4	–	–

+Excluding exceptional items

*Excluding exceptional items and Year 2000 costs

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.

Five Year Summary continued

	1998	1997	1996	1995-96	1994-95
Gross secured lending (£m)	14,190	12,022	11,466	10,019	9,585
– estimated market share (%)	16	16	16	18	17
Net secured lending (£m)	1,275	1,466	2,091	2,895	3,607
– estimated market share (%)	5	6	11	19	19
Residential mortgage balances (£bn)	81.3	80.4	79.2	77.2	57.7
– estimated market share of UK mortgages outstanding (%)	18	19	20	20	15
Halifax Estate Agencies Ltd contracts exchanged	83,000	86,000	76,000	57,000	55,000
Increase/(decrease) in retail balances (£m)	805	(615)	2,318	5,516	2,076
Retail deposit balances (£bn)	75.1	74.3	74.9	72.7	52.1
– estimated share of HSLA (%)	14	14	15	16	12
Total current accounts (m)	3.73	3.42	3.11	2.77	2.45
– cheque book accounts (m)	2.03	1.88	1.61	1.28	0.93
– Cardcash accounts (m)	1.70	1.54	1.50	1.49	1.52
Unsecured personal loan balances (£m)	1,034	874	779	617	376
Secured personal loan balances (£m)	483	348	309	301	218
Credit card balances (£m)	549	434	399	341	205
Total Consumer Credit balances (£m)	2,066	1,656	1,487	1,259	799
Credit cards in issue (000s)	1,068	910	830	745	461
Funds under management (£bn)	25.3	21.1	18.1	1.4	–
Distribution					
Branches	814	897	970	1,083	684
Agencies	939	1,002	1,084	1,179	1,135
Estate agency outlets	618	628	634	693	602
Halifax ATMs	2,097	1,952	1,858	1,783	1,660

Shareholder Information

Financial Calendar 1999

18 February	Results for 1998 announced
1 March	Ex-dividend date for 1998 final dividend
5 March	Record date for 1998 final dividend
27 April	Annual General Meeting
10 May	1998 final dividend paid
1 June	Effective date of Company restructuring
27 July	Interim results for 1999 announced
2 August	Ex-dividend date for 1999 interim dividend
6 August	Record date for 1999 interim dividend
11 October	1999 interim dividend paid

Useful Contacts
For general enquiries about your shares, call the Shareholder Services Helpline on 0990 522 566 or write to Halifax plc, Shareholder Services, 1 Lovell Park Road, Leeds LS1 1NS.

Share Price
For the current share price call the Halifax Share Price Information Service on 09014 700 007. 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 0990 711 117. 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.

Halifax ShareXpress
To shelter your shares for tax purposes, you may be interested in the new Halifax ShareXpress Individual Savings Account (ISA), which will be available from 6 April 1999. For further information, please telephone Halifax Share Dealing Ltd on 0990 336 644.

Internet
Visit our home page at http://www.halifax.co.uk

Registered Office
Trinity Road, Halifax, West Yorkshire HX1 2RG. Telephone 01422 333333.

Registered Number
2367076.

Visually Impaired
An audio tape which gives the highlights of our performance in 1998 can be obtained from Transcription Services, telephone 01422 334037.

Share Register Analysis at 31 December 1998

Size of shareholding	Number of shareholders	%	Number of ordinary shares	%
1 – 200	1,340,012	37.1	254,156,061	10.4
201 – 1,000	2,124,001	58.7	803,678,816	33.0
1,001 – 5,000	150,441	4.2	184,160,355	7.6
5,001 – 10,000	543	–	3,840,108	0.2
10,001 – 50,000	504	–	12,022,431	0.5
50,001 – 100,000	179	–	12,856,702	0.5
Over 100,000	579	–	1,164,793,649	47.8
	3,616,259	100.0	2,435,508,122	100.0

Halifax plc
Registered Office:
Trinity Road, Halifax, West Yorkshire HX1 2RG.

Telephone: 01422 333333
Telex: 517441
Fax: 01422 333000
Website: http://www.halifax.co.uk