ALLIANCE & LEICESTER plc

INTERIM ACCOUNTS

FOR THE SIX MONTHS ENDED 30.06.97

These accounts have been prepared under section 272 of the Companies Act 1985 (the 1985 Act) for the purpose of confirming that Alliance & Leicester plc has sufficient distributable reserves to support a declared interim dividend of 6.4 pence per ordinary share.

The accounts are not the annual statutory accounts required under the 1985 Act and in particular, do not include all the disclosure which would have been required in such accounts. In the opinion of the Board, any such disclosures omitted are not material for determining, by reference to the accounts, whether the proposed dividends would contravene the relevant requirements of the Act

Company Profit & Loss Account
for the six months ended 30 June 1997

	6 Months to 30.06.97 £m
Interest receivable	
Interest receivable and similar income arising from debt securities	46.1
Other interest receivable and similar income	675.4
Interest payable	(472.6)
Net Interest Income	248.9
Fees and commissions receivable	79.0
Fees and commissions payable	(16.1)
Other operating income	3.2
Total non-interest income	66.1
OPERATING INCOME	315.0
Administrative expenses	(164.8)
Exceptional administrative expenses of conversion	(28.0)
Depreciation and amortisation	(12.3)
Provisions for bad and doubtful debts	0.9
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	110.8
Tax on profit on ordinary activities	(51.2)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF ALLIANCE & LEICESTER plc	59.6
Dividends proposed	(37.2)
RETAINED PROFIT FOR THE PERIOD	22.4

The company had no gains or losses other than profit for the period.

Company Balance Sheet
as at 30 June 1997

	Notes	As at 30.06.97 £m
Assets		
Cash and balances at central banks		29.2
Loans and advances to banks		4,030.5
Loans and advances to customers		17,646.4
Debt securities		404.1
Shares in group undertakings		214.9
Tangible fixed assets		221.2
Other assets		190.6
Deferred taxation		10.2
Prepayments and accrued income		93.8
Total assets		22,840.9
Liabilities		
Deposits by banks		3,501.0
Customer accounts		15,194.6
Debt securities in issue		1,496.7
Other liabilities		240.4
Accruals and deferred income		400.7
Subordinated liabilities		
undated loan capital		198.9
dated loan capital		375.9
Called up share capital		291.0
Profit and loss account	2	1,141.7
Shareholders' funds (equity)		1,432.7
Total liabilities		22,840.9

Approved by the Board of Directors on 14 August 1997

S Everard	Chairman
P R White	Group Chief Executive
R A Pym	Group Finance Director

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

ACCOUNTING CONVENTION
The Accounts have been prepared under the historical cost convention .

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

The acquisition of the Society has been accounted for in accordance with the principles of merger accounting as set out in Financial Reporting Standards No 6 'Acquisitions and Mergers' and Schedule 4A to the Companies Act 1985. By adopting this accounting treatment the company accounts of Alliance & Leicester plc for the period ended 30 June 1997 are presented so as to show the results of the combined entity as though the combination had occurred on 1 January 1996.

FRS6 and the Companies Act set out certain conditions to be met in order that merger accounting can be adopted. Not all of these conditions have been met by the transfer of the Society's business to Alliance & Leicester plc, however, the Directors believe that it is appropriate to apply merger accounting. Had acquisition accounting been applied, only post conversion results would have been reported and there would have been adjustments to fair values: the Directors do not believe this would have given a true and fair view of the results and state of affairs of the company. It has not been practicable to quantify the effect of the departure.

CORPORATION TAX
Corporation tax is charged in the Accounts on the profit on ordinary activities for the year as adjusted for taxation purposes.

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

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

Freehold buildings	40 to 75 years
Leasehold buildings	over the remainder of the lease up to 50 years
Plant, fixtures and major alterations	10 to 15 years
Equipment and motor vehicles	4 to 7 years
No depreciation is provided on freehold land	

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

FINANCE AND RENTAL AGREEMENTS

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

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

REPAIRS AND RENEWALS

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

COMPUTER LEASING

Rentals under operating leases are charged to administrative expenses in the period in which the expenditure is incurred.

WHOLESALE FUNDING ISSUE COSTS

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

PENSION COSTS

The cost of providing pensions and related benefits is charged to the profit and loss account so as to spread the costs evenly over the employees' working lives. The difference between the charge to the profit and loss account and the contributions paid to the scheme is shown as an asset or a liability in the Balance Sheet.

DEBT SECURITIES

Debt securities intended for use on a continuing basis in the Group's activities are classified as financial fixed assets and are stated at cost. Premiums and discounts arising on the purchase of financial fixed assets are amortised over the period to the maturity date of the security. Any amounts so amortised are charged or credited to the profit and loss account for the relevant financial periods.

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 ultimately received. The charge to the profit and loss account reflects the movement in the level of provisions made, less recoveries, together with amounts written off in the period unless previously provided.

- **ADVANCES SECURED ON RESIDENTIAL PROPERTY**

  Specific provision is made where the property is in possession or where arrears exceed 2.5% of the account balance. In considering the specific provision against arrears cases, account is taken of any discount which may be needed against the value of the property at the balance sheet date to agree a sale within three months of that date, the amounts recoverable under mortgage indemnity policies and anticipated realisation costs. The directors recognise that not all accounts in arrears will result in repossession and apply a factor based on recent experience to reflect the probability when calculating the provision for accounts in arrears. General provisions are made against loans known to be impaired at the balance sheet date, but where specific provision is not required. Where the property is in possession, interest is suspended in respect of interest deemed to be irrecoverable.

- **OTHER SECURED ADVANCES**
  Specific provision is made in respect of those loans and advances identified, at the balance sheet date, as impaired. General provisions are made to cover losses not yet identified which are known from experience to exist in the portfolio of loans and advances. Interest is suspended in respect of impaired loans where it is deemed to be irrecoverable.

- **UNSECURED LOANS**
  Specific provision for losses is made in respect of unsecured loans identified as impaired at the balance sheet date. General provisions are made based on relevant past experience.

Total loans and advances to customers are shown in the Balance Sheet net of provisions and suspended interest.

INTRA GROUP CHARGING
Where services are provided between group members, the charges are made on a commercial basis.

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

OFF BALANCE SHEET INSTRUMENTS
The group uses various financial instruments for the purposes of reducing interest and exchange rate risk. The income or expenditure effect of these financial instruments is spread over the duration of the contract and included in either 'interest receivable and similar income arising from debt securities' or 'other interest receivable and similar income' or 'interest payable' depending upon the balance sheet position hedged.

MORTGAGE GUARANTEE INCOME
The bank charges a fee to reflect the increased risk on high loan to value advances and has established a wholly owned subsidiary, as a captive insurance company, for the purposes of insuring part of the risk upon such secured lending. The insurance fund of the captive is included within accruals and deferred income in the group balance sheet.

INCENTIVES TO BORROWERS
The costs of mortgage cashbacks, discounts and other incentives to borrowers are charged as incurred to interest receivable and similar income.

2. PROFIT AND LOSS ACCOUNT

	30.06.97 £m
At 1 January 1997	1,428.4
Retained profit for the period	22.4
Statutory Cash Bonus	(18.1)
New share capital substituted	(291.0)
At 30 June 1997	1,141.7