

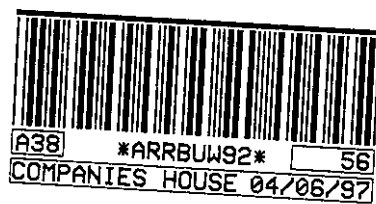
ALLIANCE & LEICESTER PLC

COMPANY NUMBER: 3263713

DIRECTORS' REPORT AND ACCOUNTS

FOR THE PERIOD ENDED

31 DECEMBER 1996



Registered Office:

49 Park Lane
London
W1Y 4EQ
England

ALLIANCE & LEICESTER PLC

COMPANY NUMBER: 3263713

DIRECTORS' REPORT - 1996

The Directors present their Report, together with the audited accounts for the period from incorporation (10 October 1996) until 31 December 1996.

Principal Activities

Other than the issue of the initial share capital, the company did not enter into any transactions which require recording in its books of account during the period.

The Company is the prospective successor vehicle to Alliance & Leicester Building Society.

Business Review and Future Developments

In the opinion of the Directors, the position of the Company at 31 December 1996 was satisfactory.

It is anticipated that, on 21 April 1997, the Company will be admitted to the official list of the London Stock Exchange. On the Vesting Date, the entire business of Alliance & Leicester Building Society will be transferred to the Company by virtue of the terms of the Transfer Agreement and the Building Societies Act.

The Directors do not recommend a dividend for the period under review.

Directors and Directors' Interests

The following served as directors during the period under review:

Current Directors:

Mr S Everard	Chairman
Mr E J Baden	Director
Sir M W Thompson	Director
Mr P R White	Director
Mr M J Allen	Director
Ms F A Cairncross	Director
Mr G N Corah	Director
Mr K C Southwood	Director (To 28.02.97)
Mr T M Hilliard	Director
Mr R A Pym	Director
Mr J R Windeler	Director

All of the above were appointed on 10 October 1996:

<i>Past Directors</i>	<i>Date of Appointment</i>	<i>Date of Cessation</i>
Hackwood Directors Limited	10.10.96	10.10.96
Hackwood Secretaries Limited	10.10.96	10.10.96

In the period under review, neither the Directors nor their associates had any beneficial interests in shares or debentures of the Company, the Society or any of its subsidiaries, other than in retail funds of Alliance & Leicester Building Society.

Corporate Governance

The Company's policies on Corporate Governance are consistent with those established at Group level and referred to in the Group Report and Accounts for 1996 of Alliance & Leicester Building Society.

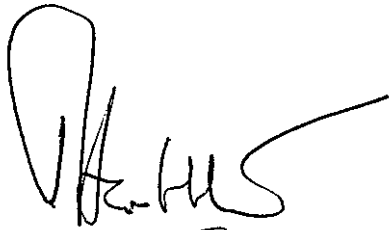
Auditors

A Resolution for the re-appointment of KPMG Audit Plc as auditors to the Company is to be proposed at the next Extraordinary General Meeting.

Insurance Effected for Officers

During the period under review, the Company maintained for certain officers such insurance as is referred to in Section 310(3)(a) of the Companies Act 1985.

Approved by the Board on
17 April 1997
and signed on its behalf by

A handwritten signature in black ink, appearing to read 'J. Hepplewhite', written over a dotted line.

Julian Hepplewhite
Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial accounts;
- Prepare the accounts on the going concern basis unless it is inappropriate to assume that the Company will continue to be in business.

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial accounts comply with the Companies Act 1985. They have general responsibility for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITOR'S REPORT TO THE MEMBERS OF

ALLIANCE & LEICESTER PLC

We have audited the financial statements on pages 6 and 7.

Respective Responsibilities of Directors and Auditors

As described on page 4, the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1996 and of its result for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
1 Waterloo Way
LEICESTER
LE1 6LP

17 April 1997

ALLIANCE & LEICESTER PLC

COMPANY NUMBER: 3263713

BALANCE SHEET AS AT 31 DECEMBER 1996

	Notes	1996 £
CURRENT ASSETS		
Debtor		<u>1</u>
Net Assets		<u><u>1</u></u>
CAPITAL AND RESERVES		
Called up Share Capital	3	1
Profit & Loss Account		<u>-</u>
Total equity shareholders funds		<u><u>1</u></u>

Other than the issue of the initial share capital the Company did not enter into any transactions which require recording in its books of account during the financial period ended 31 December 1996.

Approved by the Board on
17 April 1997
and signed on its behalf by

P. White
Peter White
Director

The attached notes form part of these accounts.

ALLIANCE & LEICESTER PLC

COMPANY NUMBER: 3263713

NOTES TO THE ACCOUNTS AS AT 31 DECEMBER 1996

1. *Accounting Policies*

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of Preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

2. *Directors' Emoluments*

There were no fees or other emoluments payable to any Director during the period.

3. *Share Capital*

	1996 £
Authorised: 100,000 Ordinary Shares of 50p each	<u>50,000</u>
Issued and fully paid: 2 Ordinary Shares of 50p each	<u>1</u>

On 19 February 1997 a further 99,998 Ordinary Shares were issued to the Society.

On 11 March 1997, the authorised share capital of the Company was increased to £388 million by the creation of 775,900,000 additional Ordinary Shares of 50p.

4. *Parent Company*

The Company's parent is Alliance & Leicester Building Society. Group accounts for the parent company are drawn up and available from its Registered Office at:-

49 Park Lane
London
W1Y 4EQ
England