

# MANCHESTER BUILDING SOCIETY

(Incorporated in England under the Building Societies Act 1986 and registered with the Central Office of the Registry of Friendly Societies with registered number 3568)

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**£5,000,000**

## **8 per cent. Permanent Interest Bearing Shares**

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Issue Price: 100 per cent.

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Application has been made to London Stock Exchange Limited (the "London Stock Exchange") for the issue of £5,000,000 8 per cent. Permanent Interest Bearing Shares (the "PIBS"), comprising 5,000 PIBS of £1,000 each, of Manchester Building Society (the "Society") to be admitted to the Official List of the London Stock Exchange (the "Official List").

Attention is also drawn to the description under "Certain Provisions of the Act" on page 13 of this document of the ways in which a building society can, without the consent of holders of permanent interest bearing shares, amalgamate with or transfer its rights and obligations to another building society or convert into a company pursuant to the relevant legislation.

It is anticipated that the PIBS will be issued in registered form on 29 October, 1999 conditionally upon the PIBS being admitted to the Official List of the London Stock Exchange and official dealings on the London Stock Exchange are expected to commence on 1 November, 1999. The listing of the PIBS will be expressed as a percentage of their principal amount.

The PIBS will be deferred shares in the Society for the purposes of section 119 of the Building Societies Act 1986, as amended, and will not be protected investments for the purposes of payments out of the Building Societies Investor Protection Fund. Attention is drawn to certain characteristics of the PIBS as described in "Risk Factors" on page 4 of this document.

The PIBS will not be withdrawable at the option of the PIBS holders and will be repayable only in certain limited circumstances as described in "Special Conditions of Issue of the PIBS — Repayment" on page 9 of this document.

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**Barclays Capital**

**Durlacher Limited**

**as advisers to Manchester Building Society**

26 October, 1999.

*This document comprises listing particulars issued in compliance with the listing rules made by the London Stock Exchange for the purpose of giving information with regard to the Society and its subsidiary undertaking, MBS (Mortgages) Limited (together the "Group") and the PIBS. The Directors of the Society, whose names appear on page 22 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information*

*No person is authorised to give any information or to make any representation not contained herein and any information or representation not contained herein must not be relied upon as having been authorised by the Society or Barclays Bank PLC (the "Manager"). Neither the delivery of this document nor any subscription, sale or purchase made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Society since the date hereof*

*Copies of this document have been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of the Financial Services Act 1986.*

*The PIBS have not been and will not be registered under the United States Securities Act of 1933, as amended, and may not be offered, sold or delivered, directly or indirectly, in the United States or to United States persons otherwise than in accordance with applicable United States securities laws and regulations.*

*This document does not constitute an offer of, or an invitation by or on behalf of the Society or the Manager to subscribe for or purchase, any of the PIBS. The distribution of this document and the offering of the PIBS in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Society and the Manager to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offering and sales of the PIBS and on distribution of this document, see "Marketing Arrangements" on page 49 of this document.*

*The information contained in this document is intended for sophisticated investors capable of understanding the nature of the PIBS and the risks attaching to them. There are fundamental differences between the PIBS and ordinary share accounts and deposit products of building societies. A number of these differences significantly increase the risk element involved in investing in the PIBS. Accordingly, attention is drawn to certain characteristics of the PIBS as described in "Risk Factors" set out on page 4 of this document.*

*The Manager may over-allot or effect transactions on the London Stock Exchange which will stabilise or maintain the market price of the PIBS at a level which might not otherwise prevail on that exchange and such stabilising, if commenced, may be discontinued at any time.*

*In this document, unless otherwise specified or the context otherwise requires, references to "pounds", "pence", "sterling", "£" and "p" are to the currency of Great Britain and Northern Ireland (the "United Kingdom") and to the "Act" are to the Building Societies Act 1986, which expression shall include, where applicable, any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under any such statutory modification or re-enactment.*

*Terms used in this document shall, unless otherwise defined, or as the context otherwise requires, have the same meanings as are given to them in the Act or, as the case may be, the Rules of the Society (the "Rules") or the Memorandum of the Society (the "Memorandum").*

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## Risk Factors

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Investors should be aware that the PIBS are undated and subordinated and that the terms of the PIBS vary considerably from the terms of ordinary building society share accounts and deposit products. They should particularly note the following characteristics of the PIBS:

- (a) **Permanence** — There is no expectation of repayment unlike normal investment accounts where the Society must return the capital investment (plus any accrued interest) to the investor as and when they demand it (subject, of course, to the stated period of notice etc, on that particular account). In the case of the PIBS, far from being obliged to repay the investment, the Society is not permitted to redeem/repay the PIBS without the permission of the Building Societies Commission (the "Commission"). The Society is under no obligation to the investor to seek the Commission's permission to repay the PIBS and permission will generally only be given in exceptional circumstances and for a significant block of PIBS.
- (b) **Liquidity** — In order to realise his capital investment in the PIBS, an investor must either go to an established secondary market or look to make a private sale. There is no guarantee that the investor will be able to liquidate his investment in the PIBS for cash either because the future liquidity of the secondary market is not guaranteed or alternatively the investor may be unable to find any potential private purchasers. Therefore, there is a risk that an investor cannot realise his investment in the PIBS when he wishes to do so.
- (c) **Capital value of investment** — As the capital value of the PIBS will vary with market interest rates, the market perception of the value of the Society and the availability of purchasers, there is a real chance that the investor will make a capital loss when he comes to sell his PIBS.
- (d) **Subordination** — In a winding-up or dissolution of the Society, the claims of the PIBS holders will rank behind all other creditors of the Society and the claims of Members holding Shares (other than deferred shares) as to principal and interest. Investors should be aware that this subordination is a primary factor behind the higher interest rate that is paid on the PIBS when compared to other investment products i.e. that there is a direct trade-off between higher interest and higher risk.
- (e) **Investor protection** — Unlike normal building society investment products, the PIBS are not protected investments for the purposes of the Building Societies Investor Protection Scheme.
- (f) **Payments of interest may be missed** — Interest in respect of the PIBS will not be payable where to make payment would result in the Society's capital falling below prescribed levels if the Directors of the Society resolve that such interest should not be paid or where the Society has not paid interest in respect of Deposits or Shares (other than deferred shares).
- (g) **Interest is not cumulative** — If the Society does not make an interest payment in respect of the PIBS in accordance with paragraph (f) above, such interest will be cancelled.
- (h) **Rights** — The rights of the PIBS holders are markedly different from those of shareholders in a company, e.g. as to voting rights and protection of minorities.

Investors should be aware that there are additional risk factors associated with the Society's position in the United Kingdom mortgage market. In particular:

- (a) **Competitiveness of mortgage market** — The United Kingdom mortgage market is expected to remain extremely competitive. Both mortgage finance and the retail savings markets have current structural excesses which have caused recent falls in net interest margins.
- (b) **Size** — The Society's size gives diseconomies of scale in marketing of the Society which makes it impractical to offer as diverse a range of savings and mortgage products as those often provided by larger retail financial institutions.
- (c) **Small management team** — The Society's management team reflects the small size of the Society with the result that the Society does not have access to the same range of experienced and specialised management as larger institutions. The performance of the Society is dependent on the performance of a small number of key individuals.

Investors' attention is drawn to the information in respect of the Society on pages 15 to 25 of this document.

## Summary of Certain Provisions of the Rules of the Society and the Act relating to the PIBS

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The rights and restrictions attaching to the PIBS will be governed by the Rules and the "Special Conditions of Issue of the PIBS" set out on pages 8 to 12 of this document. Set out below is a summary of the key provisions of the Rules and certain provisions of the Act insofar as they might affect the rights of the PIBS holders.

### 1. General

The person whose name is entered in the records of the Society as a PIBS holder is a Shareholding Member of the Society (as defined in the Society's Rules and Memorandum).

Each PIBS holder, and all Persons claiming through him or on his behalf or under the Rules, shall be bound by the Rules and by the Memorandum and, where applicable, the Additional Rules.

### 2. Register

The Society shall maintain a Register for the purposes of the PIBS (the "PIBS Register"), in which shall be entered the name and address of each PIBS holder. Each PIBS holder shall notify the Society immediately of any change of name or address and shall produce such evidence of change of name or address as the Society may require.

Transfers and other documents or instructions relating to or affecting the title to any PIBS shall also be recorded in the PIBS Register. No charge shall be made in respect of any entry in the PIBS Register. The PIBS Register shall be maintained at the Principal Office or at such other place as the Board thinks fit.

*The Society has appointed Lloyds TSB Registrars, 54 Pershore Road South, Kings Norton, Birmingham B30 3EP as its registrar for the PIBS issue.*

### 3. PIBS Certificate

Each PIBS holder, within one month after becoming entered in the PIBS Register as the holder of a PIBS, shall, if he shall make a written request to the Society at the time of applying to be so entered, be supplied by the Society with a share certificate issued under the common seal of the Society (a "PIBS Certificate"), which shall not be the property of the Society.

Each PIBS holder entered in the records of the Society who has not previously requested to be supplied by the Society with a PIBS Certificate shall within one month after making a written request to the Society be supplied by the Society with a PIBS Certificate. Save as aforesaid, nothing in these Rules shall require a PIBS to be evidenced by a PIBS Certificate or other written instrument.

*Notwithstanding these provisions of the Rules regarding the issue of PIBS Certificates, the Society will procure that a PIBS Certificate is issued to all PIBS holders who hold their shares in certificated form, regardless of whether or not one is requested, within 14 days after the lodgement of any instrument of transfer of PIBS. The PIBS will also be capable of being held in uncertificated form.*

### 4. Replacement of PIBS Certificate

A PIBS holder losing his PIBS Certificate shall immediately give notice in writing of such loss to the Society at its Principal Office. If a PIBS Certificate is damaged or alleged to have been lost, stolen or destroyed, a new PIBS Certificate representing the same PIBS shall be issued to the PIBS holder upon request, subject to delivery up of the old PIBS Certificate or (if alleged to have been lost, stolen or destroyed) subject to compliance with such conditions as to evidence and indemnity as the Board may think fit and to payment of any exceptional expenses of the Society incidental to its investigation of the evidence of such alleged loss, theft or destruction.

### 5. Transfers

A PIBS holder may transfer his PIBS to any Person and no fee shall be charged in respect of a transfer. No transfer of PIBS shall be valid unless made in a form approved by the Board and until registered in the PIBS Register, but such transferee shall be entitled to have his name entered in the PIBS Register following notice by him to the Society of such a transfer, such notice to be made or given in writing or in such other manner as the Society in its absolute discretion may permit.

*Notwithstanding the provisions of the Rules regarding the transfer of PIBS, the Directors of the Society*

The registration of transfers of the PIBS or of any class of the PIBS may be suspended at such times and for such periods as the Board may determine, but not for more than 30 days in the year, and notice of such suspension shall be given by advertisement in at least one national daily newspaper.

A fully-paid PIBS shall be free from all liens in respect of liabilities to the Society.

Two or more persons may jointly hold a PIBS. No PIBS shall be issued to the holders, or be held by them at any time, as tenants in common.

The Society may decline to issue any PIBS to more than four persons jointly. Joint holders shall be entitled to choose the order in which they are named in the records of the Society.

## 6. Meetings

As Members of the Society, the PIBS holders will, subject to the provisions of the Rules, be entitled to receive notice of, to propose resolutions, to attend, to be counted in a quorum and to vote at general meetings of the Society.

A PIBS holder is entitled to vote on a resolution (whether ordinary or special) other than a Borrowing Members' Resolution if:

- (a) being an Individual he is not a minor on the voting date or, where he is voting by proxy, on the date of the meeting at which the resolution is intended to be moved;
- (b) in the case of a joint Shareholding, he is the Representative Joint Shareholder;
- (c) he was entered in the PIBS Register as the holder of PIBS:
  - (i) at the end of the Financial Year before the voting date; or
  - (ii) if the voting date falls during that part of the Financial Year which follows the conclusion of the Annual General Meeting commenced in that year, at the beginning of the period of 56 days immediately preceding the voting date for Members voting in person at a special general meeting or a postal ballot, as the case may be; and
- (d) he has not ceased to be a PIBS holder at any time between the time referred to in (c)(i) and (ii) above (as applicable) and the voting date.

At a general meeting of the Society, each PIBS holder will have one vote regardless of the principal amount of PIBS held by that PIBS holder or whether the PIBS holder is otherwise a Member of the Society.

## 7. Winding-up and Dissolution

Upon the winding-up of the Society, or upon it being dissolved by consent, any surplus remaining after payment in full of the Society's creditors and repayment to Members (including holders of deferred shares in the Society (including the PIBS)) of the amount of their Shares (together with interest due thereon) according to their priority under their respective terms and conditions of issue, shall be applied as follows:

- (a) up to 20 per cent. to holders of all or some of the deferred shares in the Society (including the PIBS). The proportion (if any) of such 20 per cent. to which any particular issue of deferred shares (including the PIBS) is entitled shall be set forth in the terms and conditions of issue of that issue of deferred shares; and
- (b) the remainder among qualifying Members (other than holders of deferred shares (including the PIBS)) in proportion to the value of their shareholding.

***Notwithstanding these provisions of the Rules regarding the application of any surplus on a dissolution or winding-up of the Society, the PIBS holders will not be entitled to any share in any final surplus upon a winding-up or dissolution of the Society.***

If there are insufficient assets to repay all Members the amounts paid up on their Shares, other than deferred shares (including the PIBS), together with interest due thereon, no repayments shall be made in respect of any deferred shares (including the PIBS).

## 8. Disputes and Legal Proceedings

Subject to the provisions of section 1 of the Courts and Legal Services Act 1990, section 85 of and Schedule 14 to the Act provide that no court other than the High Court of Justice in England shall have jurisdiction to hear and determine disputes between a building society and a member or a

rules of a building society or the Act. Pursuant to section 1 of the Courts and Legal Services Act 1990, the High Court and County Courts Jurisdiction Order 1991 No. 724 has been made which empowers the High Court to transfer cases over which it has jurisdiction to the County Court.

#### **9. Unclaimed Interest**

In certain circumstances set out in the Rules, the Society shall be entitled to sell for the best price reasonably obtainable any PIBS in respect of which no interest has been claimed during a period of 12 years. The Society must first give written notice to the London Stock Exchange of its intention to sell the PIBS. The Society shall be obliged to account (as debtor and not as trustee) to the PIBS holder or any other Person entitled to the PIBS for the net proceeds of sale of the PIBS.

## Special Conditions of Issue of the PIBS

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*The following are the special conditions of issue of the PIBS in the form in which they will appear on the reverse of each PIBS Certificate:*

The PIBS holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of the Rules (as defined below) of the Society (as defined below). The PIBS (as defined below) are also issued subject to, and with the benefit of, these special conditions of issue (the "Conditions").

### 1. General

- (1) The "Society" means Manchester Building Society.
- (2) The "PIBS" means £5,000,000 8 per cent. Permanent Interest Bearing Shares of the Society and, unless the context otherwise requires, includes any further deferred shares issued pursuant to Condition 9 and forming a single series with the PIBS.
- (3) "PIBS holder" means a person whose name and address is entered in the PIBS Register as the holder of a PIBS or, in the case of a joint holding of a PIBS, the first person whose name is entered in the PIBS Register in respect of the joint holding of the PIBS.
- (4) "PIBS Register" means the records of the Society maintained for the purposes of the PIBS.
- (5) Terms defined in the Rules of the Society (the "Rules") will, unless the context otherwise requires, have the same meanings when used in these Conditions.
- (6) The PIBS:
  - (a) are deferred shares for the purposes of section 119 of the Building Societies Act 1986 as amended (the "Act");
  - (b) are not protected investments for the purpose of payments out of the Building Societies Investor Protection Fund provided for under the Act;
  - (c) are not withdrawable; and
  - (d) are Permanent Interest Bearing Shares for the purposes of the Rules.
- (7) The expressions "Creditors" and "Relevant Supervisory Consent" shall have the meanings given thereto in Conditions 4(2) and 4(4) respectively.
- (8) Upon a transfer of PIBS the Society will procure that the new PIBS holder is issued with a PIBS Certificate within 14 days after the lodgement of the instrument of transfer if he holds his PIBS in certificated form.
- (9) The PIBS may be held jointly by up to four Persons.

### 2. Form and Denomination

The PIBS are in registered form and are available and transferable in accordance with the Rules in amounts and integral multiples of £1,000.

### 3. Interest

- (1) The PIBS bear interest from and including 29 October, 1999 at the rate of 8 per cent. per annum payable, subject as set out below, in arrear by equal half-yearly instalments on 29 April and 29 October in each year, commencing on 29 April, 1999. Each half-yearly period is called an "Interest Period".
- (2) Interest in respect of the PIBS shall not be paid or credited in respect of any Interest Period if the Society has at any time before the date for payment of the interest cancelled the payment of any interest or dividend upon:
  - (a) any other Shares of any class (other than deferred shares (as defined in the Act)) of the Society; or
  - (b) any Deposit with the Society,

which falls, in accordance with the terms of the Shares or Deposits, to be paid or credited at any time before the end of the relevant Interest Period.



- (a) where the Society has deferred or suspended any payment it shall be taken to have cancelled the payment for so long as the payment remains outstanding; and
- (b) a payment is to be taken to fall to be paid or credited in circumstances where it would have so fallen but for any provisions relating thereto entitling the Society to cancel, defer or suspend payment.

If, and to the extent that, the payment or crediting of interest is prohibited under this paragraph (2), interest in respect of the PIBS will be cancelled and the PIBS holders will have no rights in respect of the cancelled interest.

- (3) Interest in respect of the PIBS shall not be paid or credited for any Interest Period if the Board is of the opinion that:
  - (a) there has been a failure by the Society to satisfy the second criterion of prudent management set out in section 45(3) of the Act and such failure is then continuing; or
  - (b) the payment or crediting of the interest or, as the case may be, the payment or crediting in full of the interest would cause or contribute to such a failure by the Society,

and, in such case, the Board passes a resolution cancelling or, as the case may require, reducing the interest to such extent as may be necessary to secure that there will be no failure to satisfy the first criterion of prudent management and, on the passing of the resolution, the PIBS holder shall cease to have any right to the interest for that period so cancelled or, as the case may be, any interest other than the reduced amount payable in accordance with that resolution.

- (4) Any amount representing interest in respect of which no cheque or warrant has been cashed and no payment claimed shall cease to be payable after twelve years from the due date and shall revert to the Society.

#### **4. Repayment**

- (1) The PIBS constitute permanent non-withdrawable deferred shares in the Society and have no specified final maturity.
- (2) The PIBS will become repayable on the date that an instrument or order is made or an effective resolution is passed for the winding-up or, otherwise than by virtue of section 93(5), section 94(10), section 97(9) or section 97(10) of the Act, dissolution of the Society but only if and subject to the condition that all sums due from the Society to Creditors claiming in the winding-up or dissolution have been paid in full.

For the purposes of these Conditions, "Creditors" means all creditors (including all subordinated creditors) of the Society and Shareholding Members (other than holders of deferred shares (including the PIBS)) as regards the principal and interest due in respect of those Shares.

- (3) The claims of the PIBS holders in a winding-up or dissolution of the Society will be for the principal amount of their PIBS together, subject to Condition 3, with interest accrued to but excluding the date of repayment after all sums due from the Society to Creditors have been paid in full. The PIBS holders will not be entitled to any share in any final surplus upon a winding-up or dissolution of the Society.
- (4) The Society may, having obtained prior Relevant Supervisory Consent and, for so long as the PIBS are listed on London Stock Exchange Limited (the "London Stock Exchange"), subject to and in accordance with the requirements from time to time of the London Stock Exchange, purchase any of the PIBS. In the case of purchases by tender, tenders shall be made available to all PIBS holders alike.

For the purposes of these Conditions, "Relevant Supervisory Consent" means consent to the relevant purchase given by the Building Societies Commission.

- (5) All PIBS repaid or purchased by the Society as aforesaid shall be cancelled forthwith and such PIBS may not be reissued or resold.

#### **5. Payments**

All payments in respect of the PIBS will be made by sterling cheque or warrant drawn on a bank or building society in the United Kingdom, posted on the day (other than a Saturday or a Sunday) on which banks are open for business in England immediately preceding the relevant due date and made

Shareholder) appearing in the PIBS Register at the close of business on the fifteenth day before the relevant due date (the "Record Date") at the addresses shown in the PIBS Register on the Record Date. Upon application of the PIBS holder (or in the case of a joint holding of PIBS, the Representative Joint Shareholder) to the Society, in the form from time to time prescribed by the Society, not less than ten days before the due date for any payment in respect of his PIBS, the payment may be made by transfer on the due date to a sterling account with a bank or building society in the United Kingdom.

## **6. Succession and Transfers**

- (1) Upon an amalgamation by the Society with another building society under section 93 of and Schedule 16 to the Act or a transfer of its engagements to any extent to another building society under section 94 of and Schedule 16 to the Act, the PIBS shall be deferred shares in the amalgamated or transferee building society (as appropriate) without any alteration in their terms.
- (2) Upon a transfer by the Society of the whole of its business to a successor in accordance with section 97 of the Act, the successor will, in accordance with section 100(2)(a) of the Act, assume as from the vesting date a liability (subject to this paragraph (2)) to every qualifying Member of the Society as in respect of a deposit made with the successor corresponding in amount to the value of the qualifying Shares held by the Member in the Society.

The liability assumed by the successor in respect of each PIBS shall be as in respect of a non-transferable subordinated deposit carrying the same rate of interest as the PIBS (each a "Subordinated Deposit").

Each Subordinated Deposit will be applied on the vesting date (or as soon as reasonably practicable thereafter), on behalf of the holder, in the subscription of a principal amount of perpetual subordinated bonds of the successor (the "Bonds") equivalent to the principal amount of the Subordinated Deposit carrying the same rate of interest as the PIBS.

The terms of each Subordinated Deposit and the terms and conditions of the Bonds will be such as to secure in the opinion of the Board that they will be treated as capital designated perpetual subordinated debt (as referred to in Chapter CA of the Financial Services Authority "Guide to Banking Supervisory Policy" dated 30 September, 1998 as replaced, amended or supplemented from time to time) or its equivalent (if any) as determined by the auditors of the Society for the purposes of capital adequacy regulations made from time to time by the Bank of England.

The terms of the Subordinated Deposits and the terms and conditions of the Bonds will, not later than the time at which notice is given to Members of resolutions to be proposed to approve such transfer, be available for inspection by the PIBS holders at the principal office of the Society at that time and, subject as provided above, will be determined by the Board in its absolute discretion.

- (3) The Society undertakes to procure that any amalgamation or transfer referred to in paragraph (1) or (2) above will comply with the provisions of paragraph (1) or, as the case may be, (2) above.

## **7. Variations of these Conditions**

- (1) These Conditions may only be varied by the Society with the consent in writing of the PIBS holders of three-quarters in principal amount of the PIBS for the time being outstanding or with the sanction of a resolution passed at a separate meeting of the PIBS holders held in accordance with Condition 8 by a majority of three-quarters in principal amount of the PIBS holders voting in person or by proxy at such meeting.
- (2) The Society undertakes not to initiate any change to the Rules that is both (a) inconsistent with the provisions of these Conditions and (b) materially prejudicial to the interests of the PIBS holders.
- (3) These Conditions do not limit the rights of Members to change the Rules.

Any amendment to the Rules that is both (a) inconsistent with the provisions of these Conditions and (b) materially prejudicial to the interests of the PIBS holders shall not limit any rights of any PIBS holder to bring an action for breach of contract against the Society in circumstances where the Society is in breach of these Conditions nor afford the Society any defence to any claim made in any such action.

- (1) The Society alone may at any time convene a separate meeting of the PIBS holders. Every meeting shall be held at such place as the Society may approve.
- (2) At least 21 clear days' notice specifying the place, day and hour of the meeting shall be given to the PIBS holders on the PIBS Register 35 days prior to the date specified for the meeting by sending it by post to the registered addresses of the PIBS holders. The notice shall state generally the nature of the business to be transacted at the meeting and the terms of any resolution to be proposed to alter these Conditions.
- (3) Any person (who may but need not be a PIBS holder) nominated in writing by the Society shall be entitled to take the chair at every meeting but if no nomination is made or if at any meeting the person nominated shall not be present within 15 minutes after the time appointed for holding the meeting the PIBS holders present shall choose one of their number to be chairman.
- (4) At any meeting one or more persons present in person or by proxy and holding or representing in aggregate not less than one-third of the principal amount of the PIBS for the time being outstanding shall form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum shall be present at the commencement of business. Every question submitted to the meeting (other than the choosing of a chairman which will be decided by a simple majority) shall be decided by a poll of one or more persons present and holding PIBS or being proxies and representing in aggregate three-quarters of the principal amount of the PIBS represented at such meeting voting in favour of such question.
- (5) If within 15 minutes after the time appointed for any meeting a quorum is not present, the meeting shall stand adjourned for such period, being not less than 14 days nor more than 42 days and at such place as may be appointed by the chairman and if at the adjourned meeting a quorum shall not be present within half an hour from the time appointed for the adjourned meeting, the PIBS holders present in person or by proxy at the adjourned meeting shall be a quorum.
- (6) Notice of any adjourned meeting shall be given in the same manner as notice of an initial meeting but as if 10 were substituted for 21 in paragraph (2).
- (7) A poll shall be taken in such manner as the chairman directs and the result of the poll shall be deemed to be the resolution of the meeting.
- (8) The chairman may with the consent of (and shall if directed by) any meeting adjourn the same from time to time and from place to place but no business shall be transacted at any adjourned meeting except business which might lawfully (but for the lack of the required quorum) have been transacted at the meeting from which the adjournment took place.
- (9) Any director or officer of the Society and its professional advisers may attend and speak at any meeting of the PIBS holders. Save as provided above, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any such meeting unless he is a PIBS holder or is a proxy thereof.
- (10) Subject as provided in paragraph (9), at any meeting every person who is present shall have one vote in respect of each £1,000 in principal amount of the PIBS so held or in respect of which he is a proxy. Any person entitled to more than one vote need not use all his votes or cast all the votes to which he is entitled in the same way.
- (11) A PIBS holder may by an instrument in writing in the form from time to time obtainable from the Society (a "form of proxy") signed by the PIBS holder, or, in the case of a corporation, executed under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation, appoint any person (a "proxy") to act on his or its behalf in connection with any meeting or adjourned meeting. The proxies named in any form of proxy need not be PIBS holders.
- (12) The form of proxy and (if required by the Board) any authority under which it is executed or a copy of the authority, certified notarially or in some other manner approved by the Board, may be delivered to the Society at its Principal Office (or to such other place in the United Kingdom as may be specified in the notice convening the separate meeting or in any notice of any adjourned meeting or, in either case, in any accompanying document) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the form of proxy proposes to vote, or in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, not less than 24 hours before the time appointed for

given in accordance with the terms of a proxy shall be valid notwithstanding the previous revocation or amendment of the form of proxy or of any of the PIBS holder's instructions in respect thereof, provided that no intimation in writing of the revocation or amendment shall have been received by the Society at its Principal Office at any time prior to 24 hours before the time appointed for holding the meeting or adjourned meeting at which the form of proxy is used.

- (13) Any resolution passed at a meeting duly convened and held in accordance with these provisions shall be binding upon all the PIBS holders whether or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution. Notice of any resolution duly passed by the PIBS holders shall be given in writing to each PIBS holder by the Society within 14 days of the passing of the resolution, provided that the non-publication of the notice shall not invalidate the resolution.
- (14) Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Society and any minutes purporting to be signed by the chairman of the meeting at which resolutions were passed or proceedings had shall be conclusive evidence of the matters contained in the minutes and until the contrary is proved every meeting in respect of the proceedings of which minutes have been so made and signed shall be deemed to have been duly held and convened and all resolutions passed or proceedings had to have been duly passed or had.
- (15) The accidental omission to send notice of a separate meeting or to send any document required to be sent with the notice or otherwise before the meeting to, or the non-receipt of notice of a separate meeting or any such document as aforesaid by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

#### 9. Further Issues

The Society shall be at liberty from time to time without the consent of the PIBS holders to create and issue further deferred shares either:

- (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding deferred shares of any series (including the PIBS); or
- (b) upon such other special terms of issue as the Society may at the time of issue determine provided that the Society shall not issue any deferred shares ranking ahead of the PIBS.

## Certain Provisions of the Act

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### Amalgamation

Section 93 of the Act permits a building society to amalgamate with one or more building societies by establishing a building society as their successor. Amalgamation requires approval by a shareholding members' resolution and a borrowing members' resolution (each as defined in Schedule 2 to the Act) of each amalgamating society and confirmation of amalgamation by the Commission. The Act provides that on the date specified by the Central Office of the Registry of Friendly Societies (the "Central Office") all the property, rights and liabilities (which would include permanent interest bearing shares) of each of the societies shall by virtue of the Act be transferred to and vested in the successor, whether or not otherwise capable of being transferred or assigned.

### Transfer of Engagements

Section 94 of the Act permits a building society to "transfer its engagements to any extent" to another building society which undertakes to fulfil such engagements. A transfer requires approval by a shareholding members' resolution and a borrowing members' resolution of each of the transferor society and the transferee society. However, the resolutions of the transferee society are not required if the Commission consents to the transfer being approved by a resolution of its board of directors only. The transfer must be confirmed by the Commission. The Act provides that on the date specified by the Central Office and to the extent provided in the instrument of transfer, the property, rights and liabilities of the transferor society shall by virtue of the Act be transferred to and vested in the transferee society, whether or not otherwise capable of being transferred or assigned. In the event of a transfer of all or part of the property and/or all or some of the liabilities (including the PIBS) of the Society, the PIBS would, pursuant to their terms, become deferred shares in the transferee without any alteration of their terms.

### Conversion

Sections 97 to 102D of the Act permit a building society to transfer the whole of its business to a company which has been formed by the society wholly or partly for the purpose of assuming and conducting the society's business in its place or is an existing company which is to assume and conduct the society's business in its place. The transfer must be approved by a shareholding members' resolution and by a borrowing members' resolution and the society must obtain the confirmation of the Commission to the transfer and its terms. If the Commission confirms the transfer, then the Act provides that on the vesting date (as defined in the Act) all the property, rights and liabilities of the society making the transfer, whether or not capable of being transferred or assigned, shall by virtue of the Act and in accordance with transfer regulations (then in force) be transferred to and vested in the successor. Pursuant to section 100(2)(a) of the Act, permanent interest bearing shares would be converted into deposits with the successor. The terms of the PIBS provide that the deposits will be subordinated and will be applied in the subscription of perpetual subordinated bonds of the successor subject as provided therein.

Where, in connection with any transfer, rights are to be conferred on members of the society to acquire shares in priority to other subscribers, the right is restricted to shareholding members of the society who have held their shares throughout the period of two years expiring on a qualifying day specified by the society in the transfer agreement. Also, all shareholding members' shares (including permanent interest bearing shares) are, as explained above, converted into deposits with the successor. On any such transfer, shareholding members of the society who were members on the qualifying day but not entitled to vote on the shareholding members' resolution will receive a cash bonus equal to their notional share of reserves of the society. If the transfer is to an existing company, any distribution of funds (apart from the statutory cash bonus referred to above) may only be made to those shareholding members of the society who have held their shares for at least two years expiring on a qualifying day specified by the society in the transfer agreement. No distribution of funds (apart from the statutory cash bonus) may be made if the transfer is to a specifically formed company.

### General

The Society may, as a result of an amalgamation, transfer of engagements or transfer of business as described above, be replaced, as the principal debtor under all or some of the PIBS, by an entity substantially different in nature from the Society at present or with a substantially different capital position. In all cases, the confirmation of the Commission is required before any such change can take

The Commission is required to have regard to the position of the PIBS holders pursuant to the provisions of section 1(4) of the Act which requires the Commission to promote the protection by each building society of the investments of that building society's "shareholders", for which purpose the expression "shareholders" includes PIBS holders.

The Financial Services and Markets Bill, which is currently before Parliament, makes provision for the regulatory powers of the Commission to be transferred to the Financial Services Authority.

## Manchester Building Society

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### History and Description of the Society

The Society was established and incorporated in England in 1922 under the name Manchester City Permanent Benefit Building Society but only began operating actively as a building society after the Second World War. In 1950 the Society's name was changed to the present title of Manchester Building Society.

The following table shows the development of the Society in monetary terms in the fifty years to 31 December, 1998:

Balance Sheet date	Group Total Assets	General Reserves
	£000	£000
31 December, 1948	12.5	0.3
31 December, 1973	5,547.1	220.5
31 December, 1988	39,228.0	1,794.0
31 December, 1993	86,759.0	3,700.8
31 December, 1998	180,088.0	8,888.0

It can be seen from this table that within the last five years Group total assets and reserves have both more than doubled in size. This has been achieved in a low inflationary and highly competitive commercial environment.

Over the five year period to 31 December, 1998, the growth of the Group balance sheet was ranked the third highest of all building societies in the United Kingdom in percentage terms, excluding those former societies that converted into companies during this period.

During the 1990s, the Society's strategy has been to achieve consistent rates of mortgage growth and asset growth which exceed the building society sector average and to contain costs. With limited capital resources, heavy emphasis was placed on achieving sufficient profitability to fund the levels of capital adequacy required for the targeted growth. Capital and resource intensive strategies, such as a branch expansion programme, were not considered appropriate.

The Society maintains only one branch office additional to its head office premises and has no current intention to establish a more extensive branch network. Retail funds are raised primarily through a commission based agency network and through the maintenance of a competitive range of savings accounts operated by post. The Society therefore has a nationwide shareholding membership base. Mortgage activity is by contrast far more locally based with most borrowers being introduced to the Society by a network of intermediaries with strong concentration within easy reach of Manchester.

At 31 December, 1998, the Group had approximately 18,500 Shareholding Members and depositors. It also had approximately 3,700 Borrowers, the loans having been made by the Society or acquired by the Society's lending wholly-owned subsidiary undertaking, MBS (Mortgages) Limited, whose registered office is at Queens Court, 24 Queen Street, Manchester M2 5AH. Approximately 2,900 of those Borrowers, being Borrowers of the Society, held membership rights in the Society.

During 1998, the average number of persons employed by the Society was 44. Comparative figures for 1997 and 1996 were 41 and 38 respectively.

### Form, Status and Ownership

The Society is incorporated under the Act for an unlimited duration. It operates in accordance with the Act, regulations made thereunder and the Rules and the Memorandum. The Society is a building society within the meaning of the Act and is registered with the Central Office of the Registry of Friendly Societies in London with registered number 356B.

The Society is a mutual organisation with both Shareholding Members and Borrowing Members. A Member is entitled to vote (subject to certain conditions). It is, therefore, possible for one person to have both a Shareholding Member's vote and a Borrowing Member's vote. A PIBS holder who is a Shareholding Member, other than by virtue of his PIBS holding, will have only one Shareholding

## **Business of the Society**

The Society's principal purpose as set out in clause 3 of its Memorandum is to make loans which are secured on residential property and are funded substantially by its Members.

The Society's principal purpose is reflected in the structure of the Group balance sheet. Mortgage loans represented 79 per cent. of the Group's total assets at 31 December, 1998 and at that date share account funding from Members represented 83 per cent. of all Shares, Deposits and Loans with the Society.

The Society's core business strategy in accordance with this principal purpose is to continue to develop both sides of the balance sheet by consistent growth in retail funding and in new mortgage lending primarily in respect of owner occupied residential property.

The Society intends to continue to be an independent regional building society, seeking profitable growth through the provision of a wide range of mortgage, investment and general financial service related products.

## **Regulation**

The Society's business is regulated by the Commission whose powers are provided under the Act.

The Financial Services and Markets Bill, which is currently before Parliament, makes provision for the regulatory powers of the Commission to be transferred to the Financial Services Authority.

With effect from 1 January, 1999, the Commission staff have joined the Financial Services Authority and the regulatory role of the Commission is now contracted to the Financial Services Authority.

A recent risk review assessment of the Society, which is now standard regulatory practice, was conducted in June to September 1999. The risk review assessment resulted in the Commission identifying certain weaknesses in the manner in which the Society conducted its mortgage business. In response, various changes have been made to and further changes have been proposed for the Society's underwriting and mortgage arrears administration. Many of the changes and proposed changes reflect the need to separate the functions and formalise policies and procedures which are now appropriate in view of the increased scale of the Group's operations following its rapid growth in the last few years.

For example, the functions of underwriting and processing mortgage applications have formally been separated so that different teams now carry out each of these functions and it is intended to automate mortgage application processing during the second half of next year. In addition, the Society has recently employed an experienced banker on a part-time basis to review new commercial lending propositions and revise commercial lending procedures by 31 December, 1999. The Society is in the process of recruiting an experienced Credit Risk Manager at Executive Director level reporting to the Chief Executive to take overall responsibility for mortgage lending, mortgage administration and arrears management.

Other changes will be designed to increase business controls over the lending and arrears management processes by more sophisticated application of risk management techniques and by enhanced reporting and analysis by the Board.

The Commission has indicated that it is content with the Society's response and the actions proposed to be taken on the basis that the timetable for their implementation be accorded high priority and monitored closely by the Board. The Society has agreed with the Commission that it would be appropriate for an independent review of the lending area to be carried out by a firm of accountants once the remedial action has been completed which is expected to be in the first half of the year 2000.

## **Mortgage Market**

The mortgage market has been subject to permanent structural change during the 1990s. House price deflation and lower interest rates plus a fall back in the volume of property transactions from its peak in 1988 have led to excess capacity in mortgage finance. This has been exacerbated by new entrants into the market, drawn in by the relatively low risk ascribed to mortgage-backed finance and the relative low cost of set up and entry to the mortgage market.

Many of these new entrants have also established deposit-taking operations. All institutions in the mortgage market and retail savings sector are increasingly having to recognise that erosion of net interest margins, with building society average margins having fallen in the past six years from 2.2 per cent. to 1.6 per cent., is likely to prove permanent.



continue to compete successfully because of its lack of reliance on a branch network and the associated cost structure.

### **Mortgage Lending**

The major part of the Group's mortgage lending activity is the granting of advances to individuals for the purchase or remortgage of residential property secured by a first legal charge over the property. At 31 December, 1998, loans fully secured on residential property amounted to £128.6 million, comprising 90.3 per cent. of all mortgage assets. There were also loans amounting to £13.8 million secured on commercial property.

### **Existing Mortgage Book**

The Society's residential mortgage book primarily comprises loans on administered variable rates. Less than 3 per cent. of the residential book is at fixed or capped interest rates and a further 17 per cent. of the remaining residential loan book is at discounted rates. Whilst the Society's lending policy allows for lending throughout England and Wales, the mortgage book has a pronounced North West concentration with over 70 per cent. of the mortgage book being within Greater Manchester, Lancashire, Merseyside and West Yorkshire.

### **New Mortgage Lending**

In the three years ended 31 December, 1998, 31 December, 1997 and 31 December, 1996, the Society made mortgage loans and advances to Members totalling £31.9 million, £30.3 million and £23.6 million respectively. In addition, the cost of mortgage books acquired over the same period was £8.1 million, £4.7 million and £0.4 million respectively.

Over the past three years, over 90 per cent. of the Society's new lending has originated from referrals by mortgage intermediaries, most of whom are based in Greater Manchester, with an increasing reliance being placed on those intermediaries who can bring a significant level of loan applications to the Society.

Of total Group mortgage loans of £142.4 million outstanding at 31 December, 1998, £129.4 million were held by the Society and a further £13.0 million were held by the Society's wholly-owned subsidiary undertaking, MBS (Mortgages) Limited. This subsidiary undertaking has operated only as a vehicle to acquire the ownership of mortgage loans from other lenders as this activity had not originally been prescribed under the Act. Under statutory changes included in the 1997 revision of the Act, the Society is now able to acquire mortgage assets from other lenders through its own balance sheet and any future acquisitions are therefore unlikely to be acquired through the subsidiary undertaking.

### **Lending Policy**

The Society maintains quality assurance procedures for the underwriting and processing of all mortgage applications. Lending policy parameters are set by the Board and all applications accepted for processing are required to comply with the policy parameters. All loans are processed at the Society's head office. For all loan applications, the Society obtains an inspection and valuation of the property by one of a panel of independent qualified surveyors. The Society also reserves the right, for loans in excess of £100,000, to obtain separate inspections and valuations by two independent qualified surveyors. In addition to the surveyor's report, the Society will also assess other underwriting factors relating to the application such as the credit status and income of the applicant. Subject to satisfactory assessment of these factors, the Society may make an offer of advance.

The Society's procedure on commercial loans is similar to that for residential loans, although the lending policy parameters and loan terms are different. Aggregate limits are set for the categories of commercial property on which the Society is prepared to lend and there is also an overall policy ceiling set by the Board, currently at 12.5 per cent. of total mortgage assets. The statutory ceiling for loans other than those secured on residential property is 25 per cent. of total mortgage assets. The Society's criteria for commercial lending are more restrictive than residential lending criteria and lower loan to valuation ratio limits are applied.

The present lending policy excludes the provision of unsecured loans and the current position of the Board is to maintain this policy.

The Society has made arrangements with a third party insurer for mortgage indemnity cover for certain types of new residential advances under which the Society can recover any loss incurred in realisation of the loan up to a limit of 25 per cent. of the property valuation at the time of the advance. The Society also maintains a "self-insured scheme" for deferring income charged as added risk fees for

third party insurer. Mortgage indemnity cover both with the third party insurer and under the self-insured scheme is applied on loans over 80 per cent. of the valuation of the property (on residential loans) and over 65 per cent. of the valuation of the property (on commercial loans) and is taken from 75 per cent. of the valuation of the property (for residential loans) and from 65 per cent. of the valuation of the property (for commercial loans). Total self insurance fees charged under the scheme since its introduction in April 1995 amount to £300,000 against which there has been one claim to date of £10,000.

### **Mortgage Arrears**

Arrears are reported for regulatory purposes where the arrears on the account represents 2.5 per cent. or more of the total debt outstanding. At 30 September, 1999, the aggregate value of all Group mortgage loans with an arrears balance representing 2.5 per cent. or more of the mortgage balance outstanding amounted to 3.06 per cent. of the value of all Group mortgage loans outstanding.

Loans fully secured on residential property and originated by the Society accounted for 85 per cent. of the value of all Group mortgage assets at 30 September, 1999. Of those loans, 2.76 per cent. by value of the loans had arrears of 2.5 per cent. or more of the total loan outstanding.

Reported sector average arrears at 30 June, 1999 indicate that between one in 45 and one in 50 borrowers are in arrears whereas comparable Society figures for loans fully secured on residential property as at the end of September 1999 equate to one borrower in 36 being in arrears.

The Directors believe that the Society's loans which are fully secured on residential property provide a more direct comparison in terms of arrears performance with the building society sector as a whole than the Group's commercial lending and residential lending made through MBS (Mortgages) Limited. A higher level of arrears is experienced on commercial lending and residential loan books acquired by MBS (Mortgages) Limited from third parties and in both instances the interest yield on these loans is commensurately higher. In addition, the terms of acquisition of loan books from third parties reflect the nature of those loans. For example, in March 1997 MBS (Mortgages) Limited acquired a loan book of just over £4 million with a high proportion of arrears and the vendor, an insurance company, provided a full financial indemnity against loss on the impaired element of the book. In another case, in December 1998 a £2.2 million sub-prime loan book was acquired at a discount of £0.4 million.

### **Provisioning on Mortgage Lending**

The Society, as standard provisioning procedure, reviews every mortgage account three months or more in arrears on a quarterly basis in order to assess the likely risk of loss on each account. Where it is considered that a loss is likely to be incurred, a specific provision is made against that account. In addition, the Society makes general provision for the statistical probability that there may be some loans that are impaired but are less than three months in arrears. This policy for mortgage loss provisioning has been consistently applied in recent years. Larger societies normally calculate specific provisions against accounts using a statistical propensity methodology. It is intended to move to such a basis in the 1999 Group and Society Accounts and, from a review of provisioning requirements as at the end of September 1999, the new basis is likely to require a marginal increase in overall provisioning.

The Group's mortgage loss provisionings in the three years ended 31 December, 1998, 31 December, 1997 and 31 December, 1996 were £0.313 million, £0.372 million and £0.364 million respectively. The Group also suspended interest of £91,000, £124,000 and £72,000 respectively over the same periods. At 31 December, 1998, the Group carried forward mortgage loss provisions of £1.528 million, including suspended interest, of which general provisions totalled £0.24 million. At that date, the total value of all accounts with arrears of more than 2.5 per cent. of the total balance outstanding amounted to £5.376 million, representing 4.91 per cent. of the value of all mortgage accounts. Loss provisioning requirements charged against the profit and loss account in 1998, representing 0.24 per cent. of mean total assets, were at their lowest level since 1990.

The number of mortgage accounts 12 months or more in arrears as at 31 December, 1998, 31 December, 1997 and 31 December, 1996 were 21, 26 and 25 respectively.

In the two years ended 31 December, 1998 and 31 December, 1997, the number of properties taken into possession was 24 and 16 respectively. Losses have normally been incurred on disposals with the loss usually being very close to the provisioning level previously made.

### **Sources of Income**

totalled £12.1 million for the year ended 31 December, 1998.

#### ***Income from Liquid Assets***

Income from liquid assets of the Group for the year ended 31 December, 1998 was £2.9 million.

#### **Other Sources of Income**

The business of mortgage lending enables the Society to generate income from general insurance commissions and from arrangement and administration fees. Total income from these sources in the year ended 31 December, 1998 amounted to £0.41 million.

General insurance arrangements for residential buildings insurance are maintained on a block basis with a panel of three different insurers. A separate scheme for commercial general insurance is maintained by the Society, also on a block basis, with an insurance syndicate at Lloyds.

The Society does not offer life assurance products and is therefore not required to be authorised under the Financial Services Act 1986.

#### **Funding Activities**

Building societies have a statutory requirement to obtain the majority of their funds in the form of share investments from the personal savings sector. The Commission also sets further parameter funding limits depending on a society's approach to treasury management. The Society has adopted a matched approach under which share account funding has to represent at least 75 per cent. of all funding. In addition to share accounts, the Society also raises funds by taking deposits from small companies and businesses and from the wholesale money markets in the form of time deposits.

The breakdown of the Society's funding position as at 31 December, 1998 was as follows:

	<i>£ million</i>
Shares accounts	137.7
Amounts owed to credit institutions	10.0
Amounts owed to other customers	18.7
	<hr/>
	166.4

#### **Retail Savings**

The Society has a very small share of a retail savings market that has become increasingly price competitive in recent years. During this time, the Society has been able to increase its market share, by identifying the appropriate saving product and interest rate necessary to attract more Shareholding Members to the Society. The Society primarily obtains its retail funding accounts direct from the public by post with a smaller proportion, normally between 35 per cent. and 40 per cent., being originated through the Society's branch and network of over 40 agents.

#### **Subordinated Loan**

The £1.5 million subordinated loan agreement which was originally repayable between 2000 and 2004 was rescheduled on 9 March, 1999 and is now repayable in 2015. The Society has an option to make early repayment of the loan on 9 March, 2010. The loan is at a fixed rate of 7.362 per cent. per annum until the repayment option date when the rate, unless the option is exercised, will be recalculated at the higher of 7.362 per cent. per annum or a margin of 2.75 per cent. above the 8 per cent. 2015 benchmark Gilt.

#### **Net Interest Receivable**

After payment of interest to Shareholding Members and depositors, total Group net interest receivable for the year ended 31 December, 1998 was £4.5 million.

#### **Interest Margins**

The Group net interest margins in the three years ended 31 December, 1998, 31 December, 1997 and 31 December, 1996 were respectively 2.85 per cent., 2.82 per cent. and 2.73 per cent. expressed as a percentage of mean total assets. The net interest margin has consistently been one of the highest achieved in the building society sector, reflecting a greater proportion of commercial lending and a more selective approach to margins achieved on residential lending. Given the degree of competition

will reduce towards and ultimately stabilise at a level below 2.0 per cent.

### **Administrative Costs**

The Group's expense ratios in the three years ended 31 December, 1998, 31 December, 1997 and 31 December, 1996, expressed as a percentage of the mean total assets of the Group, were respectively 1.24 per cent., 1.43 per cent. and 1.50 per cent. Approximately half the reduction in the ratio achieved in 1998 reflected reclassification of rents payable on the Society's former premises as other income and charges rather than as administrative charges. The Society has achieved year on year reductions in its expense ratio for 10 consecutive years.

Progressive reduction in the expense ratio has been a major policy target of the Board and will continue to be so in the foreseeable future.

The Group's cost income ratios in the three years ended 31 December, 1998, 31 December, 1997 and 31 December, 1996 were respectively 45.05 per cent., 48.94 per cent. and 50.10 per cent.

### **Head Office and Retail Branch**

The Society relocated to its City Centre freehold Head Office at Queens Court, 24 Queen Street, Manchester in December 1996. The Head Office, which has an approximate floor area of 11,400 square feet, is considered by the Board to be of sufficient size to cater for the Society's foreseeable development plans.

The Society's retail branch outlet is situated in leasehold premises in Cross Street, Manchester. These premises are held on a lease which expires in October 2015 with a break option exercisable by the Society in February 2001.

The Society continues to pay aggregate rent of £141,000 per annum under two leases at the location of its former head office in Bridge Street, Manchester. These premises are partly sub-let at a current rent receivable of £84,000 per annum. The two head leases expire in December 2011 but the sub-leases are subject to break options exercisable by the sub-tenants in 2000.

### **Year 2000**

Year 2000 computer system compliance has been a major project priority of the Society since mid-1997.

A comprehensive survey of the Year 2000 compliance status of the Group's IT systems equipment and software was carried out early in the project and a programme of replacing equipment and software which was not Year 2000 compliant had largely been completed by the end of 1998.

The Society has one main business critical system. This system is also employed by over 25 other financial institutions and the system was tested extensively on a user group basis during 1998. The Society has carried out detailed Year 2000 testing on its own main business system configuration and the testing was completed by the end of June 1999. Other non-business critical compliance testing was also completed by the end of June 1999. The Society has also established a contingency plan, the testing and finalisation of which has now been completed.

Additionally, the Society is actively engaged in reviewing the Year 2000 compliance status of its counterparties and major suppliers so as to ensure that, as far as possible, it is not vulnerable to disruption caused by any Year 2000 failures in those parties' systems.

In view of the complexity of the Year 2000 issue, it is not possible for any organisation to warrant that no Year 2000 system problem will occur. The Society is, however, committed to ensuring that these risks are minimised. The revenue costs incurred on the project consist mainly of internal staff costs. These costs have been absorbed within the ordinary administrative expenditure of the Society during 1998 and this will continue to apply in 1999.

### **Current Trading**

Share account balances have increased in the first nine months of 1999 by 22.1 per cent. The Society achieves most of its net retail funding requirement by the periodic issue of new share accounts. Two new share account products were launched in March 1999 and have been featured in best buy tables and provided the Society by the end of June with its total overall net funding requirements for the remainder of 1999.

Mortgage lending in the first nine months of 1999 is 16.8 per cent. up on levels achieved during the first nine months of 1998. Total mortgage balances have increased by 6.4 per cent. in the first nine

to competing effectively in this market both in terms of product pricing and service standards to its mortgage intermediaries. The Society's business plan provides for this commitment.

Internal unaudited Group results for the nine months ended 30 September, 1999 are as follows (1998 comparatives in brackets):

Group Total Assets at 30 September, 1999:	£201.16 million (£175.23 million)
Group Pre-Tax Profits to 30 September, 1999:	£1.83 million (£1.71 million)
Mortgage Advances in the period to 30 September, 1999:	£25.89 million (£22.18 million)

Unaudited interim financial information for the Group for the six months ended 30 June, 1999 is set out on pages 44 and 45 of this document.

## Management

The business of the Society is under the control of the Board who are elected and who serve in accordance with the Memorandum and the Rules. The Board is responsible to the Members for the proper conduct of the affairs of the Society and appoints and supervises executives who are responsible to the Board for the daily management of the Society. There are currently two Executive Directors, David Barron, the Chief Executive, and David Cowie, the Chief Financial Officer and Secretary. In addition, the Chief Accountant, Sales and Marketing Manager and IT Manager, although they are not Directors of the Society, attend Board meetings when operational matters are discussed.

David Barron, the Chief Executive, is due to retire in July 2000 and the Chief Financial Officer and Secretary, David Cowie, has been nominated by the Board to succeed him. It is intended that David Barron will continue to serve after July 2000 as a Director in a non-executive capacity.

As referred to on page 16 of this document, it is intended to appoint an additional Executive Director in a senior credit risk role from outside the Society's present management team.

The names of the Directors of the Society, their responsibilities within the Society, their business occupation and other principal directorships as at the date of this document are detailed below. The business address of each of the Directors is that of the Society given at the back of this document.

<i>Name</i>	<i>Responsibilities within the Society</i>	<i>Business occupation</i>	<i>Other directorships</i>
Michael Fawcett Dunham	chairman (non-executive)	chartered Accountant	Ebor Equipment Ltd Ebor Machinery Ltd Ebor International Ltd CR. Laurence Ltd D&I Air conditioning Services Ltd Oakwood Ltd D Dunhams Ltd Redlock Ltd Business Training for Accountants Ltd ELA Marketing Ltd Dunhams Financial Services Ltd
James Beswick	Vice Chairman (non-executive)	Solicitors' Clerk	Danestone Ltd Redlock Ltd Kilim Company Ltd MBS (Mortgages) Ltd Industrial & Commercial Credit Management Ltd
David Barron	Director and Chief Executive	Building Society Executive	Danestone Limited MBS

David Edward Cowie	Director, Chief Financial Officer and Secretary	Building Society Executive	
David William Millington	Director (non-executive)	Chartered Surveyor	Dunlop Heywood Ltd Manchester Diocesan Church House Company Limited
Anthony Keith Snape	Director (non-executive)	Chartered Surveyor	Tony Snape Ltd Quayside Management Ltd

### Directors' Management Histories

Detailed below are the names of all companies and partnerships where the Society's Directors have held a position as director or partner over the past five years but are not directors or partners as at the date of this document. Any other relevant information regarding the Directors' management histories is also disclosed below.

<i>Name</i>	<i>Past positions</i>	<i>Other information</i>
Michael Fawcett Dunham	Even Finance Limited JM Roberts Limited Genesis 2000 Limited	D&J Air conditioning Contracts Limited (a subsidiary of D&J Air Conditioning Services Limited) went into creditors' voluntary liquidation in December 1995
Anthony Keith Snape	The Snape Group Limited Snape Limited Snape Holdings Limited Snape Parkway Limited	

At the date of this document, none of the Directors has any unspent convictions in respect of indictable offences, has had a bankruptcy or receivership order made against him, has been a party to an individual voluntary arrangement, has been subject to any public criticisms by statutory or regulatory authorities or has been disqualified by a court from acting as a director of or from acting in the management or conduct of the affairs of a company, a bank or building society. Save as disclosed above, none of the Directors has been a director with an executive function of a company, bank or building society which has been placed in receivership, liquidation or administration or has been a party to a voluntary arrangement or a composition or arrangement with its creditors while he was a director with an executive function of that company, bank or building society or within the twelve months after he ceased to be a director with an executive function of that company, bank or building society.

### Final Salary Pension Scheme

The Society currently operates a final salary pension scheme, which is under review. An interim valuation of the present scheme was carried out at 1 November, 1998 and indicated that the scheme surplus measured at the last full valuation on 1 November, 1996 had moved to an 11 per cent. shortfall at 1 November, 1998. Subsequent to this latest interim valuation, the scheme insurers announced an additional bonus on funding withdrawals, which will be reflected in the next scheme valuation. It is believed there is likely to be a scheme shortfall of between 5 per cent. and 10 per cent. (equivalent to between £75,000 and £150,000) at the next full valuation on 1 November, 1999 which the Society as employer will be required to cover by increased contributions of up to £30,000 per annum over a five year period.

### Certain Provisions of the Rules Relating to the Directors

The Rules contain, *inter alia*, the following provisions in relation to the Directors.

The Board may determine from time to time the annual remuneration of the Directors as members of the Board which shall be paid at a rate not exceeding 10p per £100 of total assets of the Society as at the first date of the financial year in which payment is made, together with such reasonable travelling, accommodation and other expenses as might be incurred while attending business of the Society, with the approval of the Board. The Board may also resolve that a Director may be paid for professional or other work done by him on behalf of the Society in addition to his usual services as a Director.

he retires from service as a Director having attained the age of 70 years or retires on the grounds of ill health or dies in such service. If a non-executive Director retires from service as a Director prior to having attained the age of 70, no pension will be payable before he has attained the age of 50. The Board shall determine the amount of the pension and the terms and conditions on which it is paid which shall be no more advantageous than those of the Society's staff pension and life assurance schemes.

A Director shall cease to hold office upon the conclusion of the Annual General Meeting next following the date at which he attains 70 years of age.

## Capitalisation and Indebtedness

*The following table is a summary of the Group's unaudited shareholders' funds and indebtedness as at 30 September, 1999, as adjusted to reflect the issue of the PIBS:*

	<i>£ million</i>
<b>Shareholders' funds</b>	
Shares	168.2
PIBS (now being issued)	5.0
General Reserve	10.1
<b>Total Shareholders' Funds</b>	<b>183.3</b>
<b>Indebtedness</b>	
Amounts owed to Credit Institutions	3.0
Amounts owed to Other Customers	15.9
Subordinated Liabilities	2.5
<b>Total indebtedness</b>	<b>21.4</b>
<b>Total Capitalisation</b>	<b>204.7</b>

Save for the issue of the PIBS, at the date of this document there has been no material change in the capitalisation and indebtedness of the Society and its subsidiary undertaking since 30 September, 1999.

Save for the information detailed above and in the accounts on pages 26 to 41 of this document, neither the Society, nor its subsidiary undertaking, has any other loan capital, borrowings, indebtedness or contingent liabilities.

So far as is known to the Society, no persons, directly or indirectly, or jointly and severally, exercise or could exercise control over the Society or are interested, directly or indirectly, in 3 per cent. or more of the Society's capital.

No capital of the Society or of its subsidiary undertaking is under any option or has been agreed to be put under any option to any person.

In the Society's opinion, the working capital available to the Group is sufficient for the Group's present requirements.



## Financial Summary

### Financial Results: 1993—1998

<i>Balance Sheet</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Total assets	86.76	98.94	111.33	127.55	151.91	180.09
Mortgage balances	69.29	76.51	84.59	97.55	120.56	142.39
Shares and deposits	80.07	91.59	102.22	116.99	140.12	166.35
Reserves	3.70	4.38	5.26	6.15	7.37	8.89
<b><i>Balance Sheet Ratios</i></b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>% of Total Assets</b>						
Liquidity	19.20	22.09	23.47	21.92	19.19	19.65
Reserves	4.27	4.43	4.73	4.82	4.85	4.94
Gross capital	5.99	5.94	6.07	6.39	6.49	6.32
Free capital	5.46	5.54	5.74	4.95	5.21	5.25
<b><i>Profitability</i></b>	<b><i>£m</i></b>	<b><i>£m</i></b>	<b><i>£m</i></b>	<b><i>£m</i></b>	<b><i>£m</i></b>	<b><i>£m</i></b>
Interest margin	2.22	2.72	3.32	3.40	3.94	4.54
Pre-tax profit	0.71	1.01	1.36	1.36	1.71	2.19
<b><i>Financial Performance Ratios</i></b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Return on mean total assets (M.T.A.)	0.58	0.73	0.84	0.74	0.87	0.92
Return on mean total reserves	13.61	16.80	18.30	15.56	17.99	18.73
Management expenses: % of M.T.A.	1.76	1.66	1.57	1.50	1.43	1.24
Cost income ratio	58.68	53.37	47.29	50.10	48.94	45.05
Mortgage provisions: % of M.T.A.	0.63	0.45	0.54	0.37	0.36	0.24
<b><i>Growth Ratios</i></b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Total assets	13.01	14.04	12.52	14.58	19.10	18.55
Mortgage balances	11.80	10.43	10.56	15.32	23.59	18.11
Reserves	14.60	18.34	20.15	16.88	19.77	20.66
Increase in pre-tax profit	37.37	43.43	34.02	0.33	25.95	27.85

## Group and Society Financial Information

*The following financial information is extracted without material adjustment from the Society's consolidated audited accounts for the three years ended 31 December, 1998:*

### Group and Society

#### Income and Expenditure Accounts

*For the years ended 31 December*

	Note	Group			Society		
		1998	1997	1996	1998	1997	1996
		£000	£000	£000	£000	£000	£000
Interest receivable and similar income	2	14,998	11,449	9,162	14,742	11,288	9,066
Interest payable and similar charges	3	10,459	7,513	5,759	10,459	7,513	5,759
Net interest receivable		4,539	3,936	3,403	4,283	3,775	3,307
Fees and commissions receivable		405	404	323	386	397	315
Fees and commissions payable		(233)	(271)	(207)	(233)	(271)	(206)
Other operating income	4	185	113	62	185	108	61
<b>Total income</b>		<b>4,896</b>	<b>4,182</b>	<b>3,581</b>	<b>4,621</b>	<b>4,009</b>	<b>3,477</b>
Administrative expenses	5	1,892	1,867	1,742	1,892	1,867	1,742
Depreciation	15	160	131	115	160	131	115
Other operating charges	4	341	99	-	198	70	-
Provisions for bad and doubtful debts	13	313	372	364	313	372	364
<b>Profit on ordinary activities before tax</b>		<b>2,190</b>	<b>1,713</b>	<b>1,360</b>	<b>2,058</b>	<b>1,569</b>	<b>1,256</b>
Tax on profit on ordinary activities	8	668	497	472	626	465	447
<b>Profit for the financial year</b>	<b>23</b>	<b>1,522</b>	<b>1,216</b>	<b>888</b>	<b>1,432</b>	<b>1,104</b>	<b>809</b>

The notes on pages 28 to 41 of this document form part of this financial information.

The above results are all derived from continuing operations.

#### Statement of Total Recognised Gains and Losses

There were no recognised gains or losses other than the profit for the year.

### Group and Society

#### Balance Sheets

As at 31 December

	Note	Group			Society		
		1998	1997	1996	1998	1997	1996
		£000	£000	£000	£000	£000	£000
<b>ASSETS</b>							
<b>Liquid assets</b>							
Cash in hand		54	47	52	54	47	52
Loans and advances to credit institutions	9	29,244	19,885	16,112	29,244	19,885	16,112
Debt securities	10	4,580	7,183	8,768	4,580	7,183	8,768
Other liquid assets	11	1,517	2,032	3,032	1,517	2,032	3,032
		<b>35,395</b>	<b>29,147</b>	<b>27,964</b>	<b>35,395</b>	<b>29,147</b>	<b>27,964</b>

Loans and advances to customers

Loans fully secured on land	12	13,813	7,314	7,169	8,963	6,678	6,798
		142,394	120,565	97,552	129,418	114,047	94,603
<b>Investments</b>							
Participating interests	14	-	-	-	12,439	6,135	2,692
Tangible fixed assets	15	1,929	1,956	1,832	1,929	1,956	1,832
Other assets	16	102	55	52	102	55	52
Prepayments and accrued income		268	186	152	268	186	152
Total assets		180,088	151,909	127,552	179,551	151,526	127,295
<b>LIABILITIES</b>							
Shares	17	137,706	113,248	91,148	137,706	113,248	91,148
Amounts owed to credit institutions	18	9,986	9,423	8,420	9,986	9,423	8,420
Amounts owed to other customers	19	18,659	17,449	18,311	18,659	17,449	18,311
Other liabilities	20	1,528	1,244	964	1,486	1,214	939
Accruals and deferred income	21	821	679	559	755	665	554
Subordinated liabilities	22	2,500	2,500	2,000	2,500	2,500	2,000
		171,200	144,543	121,402	171,092	144,499	121,372
General reserve	23	8,888	7,366	6,150	8,459	7,027	5,923
Total liabilities		180,088	151,909	127,552	179,551	151,526	127,295
<b>MEMORANDUM ITEMS</b>							
Commitments	24	1,144	1,254	397	1,144	1,254	397

## Consolidated Source and Application of Funds

For the years ended 31 December

	<i>1998</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Source of Funds</b>			
Increase/(decrease) in free capital	2,026	1,755	(180)
Loans and advances repaid by customers	17,699	11,864	11,055
Net receipts from shares	24,458	22,597	10,801
Net receipts/(withdrawals) from deposits and other borrowings	1,773	(356)	3,756
Other items	297	363	315
Total source of funds	46,253	36,223	25,747
<b>Application of Funds</b>			
Increase in liquid assets	6,248	1,183	1,836
Loans and advances made to customers	31,908	30,293	23,556
Cost of mortgage books acquired	8,097	4,747	355
Total application of funds	46,253	36,223	25,747
<b>Analysis of Increase/(Decrease) in Free Capital</b>			
Source of funds			
Profit for the financial year	1,522	1,216	888
Adjustments for items not involving the movement of funds			
Depreciation	160	131	115
Increase/(decrease) in commercial asset provisions	477	163	(103)
(Profit)/loss on disposal of tangible fixed assets	—	(5)	178
Funds generated from operations	2,159	1,505	1,078

Disposal of tangible fixed assets	4	9	2
Increase in subordinated debt	—	500	500
Application of funds			
Purchase of tangible fixed assets	(137)	(259)	(1,760)
<b>INCREASE/(DECREASE) IN FREE CAPITAL</b>	<b>2,026</b>	<b>1,755</b>	<b>(180)</b>

## Notes to the Financial Information

For the years ended 31 December

### 1. *Principal Accounting Policies*

#### (i) *Accounting standards*

The financial information has been prepared in accordance with The Building Societies (Accounts and Related Provisions) Regulations 1998 (the "New Regulations") and applicable accounting standards of the United Kingdom. As a result of the implementation of the New Regulations, comparative figures have been amended. Summarised below are the main accounting policies which have been applied consistently. The financial information is prepared in accordance with the historical cost convention.

#### (ii) *Basis of consolidation*

The Group income and expenditure account and balance sheet include the accounts of the Society and its subsidiary undertaking MBS (Mortgages) Limited. The Society's balance sheet includes the investment in the subsidiary undertaking at cost.

#### (iii) *Corporation tax*

Corporation tax is based on taxable profit for the year and is calculated at the current rate.

#### (iv) *Deferred taxation*

Provision is made for deferred taxation using the liability method in respect of items where there is a material timing difference between their treatment for accounts and taxation purposes and where, in the opinion of the Directors, it is likely that such taxation will become payable in the foreseeable future. The provision is based on the tax rates estimated to arise when the timing differences reverse. No provision was necessary in 1996, 1997 or 1998.

#### (v) *Fixed assets*

Fixed assets are taken into account at cost less depreciation and are depreciated on a straight-line basis according to the estimated useful lives of respective assets as follows:

Freehold office premises:	over 50 years
Office fixtures and fittings:	over 10 years
Office and computer equipment:	over 5 years
Other assets:	over 4 years.

#### (vi) *Liquid assets*

Investments held as financial fixed assets are shown at maturity value plus any premium and less any discount not yet amortised.

Investments held for trading purposes are shown at the mid-market value prevailing at the close of business at the end of the financial year.

#### (vii) *Provisions for losses on advances*

Individual assessments are made on all advances secured on properties in possession and mortgages three months or more in arrears. Specific provision is made against those advances which are considered to be impaired and interest income on non-performing loans is also suspended where the income is unlikely to be recoverable.

A general provision is made to cover potential losses which, although not yet specifically

(viii) **Mortgage incentives**

Mortgage incentives to borrowers are written off in the year in which they are incurred.

(ix) **High loan to value advances**

It is the Group's policy, where a mortgage advance results in a loan to value ratio in excess of a certain level, either to obtain mortgage guarantee insurance from a third party insurer or to make an appropriate charge to the borrower for the risk incurred. Such charges are treated as deferred income.

The fund of deferred income is released over ten years to match the estimated risk duration profile of loans covered by the fund. The funds released are matched to claims with any overall surplus for the year credited to other income and charges whilst any overall shortfall is included in provisions for bad and doubtful debts.

(x) **Acquisition of mortgage portfolios**

The costs of acquisition and premiums paid on mortgage portfolios are written off when incurred through other operating charges.

(xi) **Pension costs**

The Group operates a defined benefit pension scheme under which contributions by the employees and the Group are administered by an insurance company in a fund independent from the Group's assets.

Contributions are charged against income to cover the cost of benefits arising from the current length of service of employees. This cost is determined by actuarial valuation. Adjustments relating to past service are charged to income and expenditure account over the remaining estimated working life of employees.

Full actuarial valuations are made regularly at three year intervals and contribution levels reviewed in the light of those valuations.

(xii) **Operating leases**

Payments under operating leases are charged to the income and expenditure account on a straight line basis over the lease term.

**2. Interest Receivable and Similar Income**

	<i>Group</i>			<i>Society</i>		
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
On loans fully secured on residential property	11,039	8,773	6,774	10,491	8,304	6,557
On other loans						
Connected undertakings	—	—	—	447	360	167
Other	1,073	781	732	918	729	686
On debt securities	589	584	451	589	584	451
On other liquid assets	2,297	1,311	1,205	2,297	1,311	1,205
	<u>14,998</u>	<u>11,449</u>	<u>9,162</u>	<u>14,742</u>	<u>11,288</u>	<u>9,066</u>

Interest receivable on 'other loans' includes Group £206,000 (1997: £122,000, 1996: £80,000) Society £126,000 (1997: £82,000, 1996: £68,000) on loans which are fully secured on residential property and which were made to corporate bodies prior to 1 September, 1998 or were second charges on residential property made before that date.

The classification adopted for such amounts is consistent with the balance sheet classification of the related loan in accordance with the Building Societies Act 1997. (See Note 12.)

All interest receivable and similar income has been generated within the United Kingdom.

Interest which is considered irrecoverable, where the property has been taken into possession or the normal lending relationship has ceased, has been suspended from the appropriate assets in the balance sheet

	<i>Group</i>			<i>Society</i>		
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January	251	181	172	251	181	172
Interest now considered receivable	(18)	(32)	(28)	(18)	(32)	(28)
Amounts recovered previously written off	—	4	—	—	4	—
Interest written off during the year	(144)	(58)	(63)	(144)	(58)	(63)
Interest suspended during the year	109	156	100	109	156	100
At 31 December	198	251	181	198	251	181

### 3. *Interest Payable and Similar Charges*

	<i>Group</i>			<i>Society</i>		
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
On shares held by individuals	8,630	5,936	4,478	8,630	5,936	4,478
On deposits and other borrowings						
Subordinated liabilities	247	211	148	247	211	148
Other	1,582	1,366	1,133	1,582	1,366	1,133
	10,459	7,513	5,759	10,459	7,513	5,759

### 4. *Other Operating Income and Charges*

	<i>Group</i>			<i>Society</i>		
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Income</b>						
Rents receivable	170	52	11	170	52	11
Other	15	61	51	15	56	50
	185	113	62	185	108	61
<b>Charges</b>						
Rent payable	167	—	—	167	—	—
Mortgage book acquisition costs	174	99	—	31	70	—
	341	99	—	198	70	—

### 5. *Administrative Expenses*

	<i>Group</i>			<i>Society</i>		
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Employee costs</b>						
Wages and salaries	823	738	667	823	738	667
Social security costs	69	59	55	69	59	55
Other pension costs	75	58	51	75	58	51
	967	855	773	967	855	773
Other administrative expenses	925	1,012	969	925	1,012	969
	1,892	1,867	1,742	1,892	1,867	1,742

## Auditors' remuneration

— Audit fees	35	34	31	35	34	31
— Non-audit fees	6	12	3	6	12	3

**6. Employees**

The average number of persons employed during the year was:

	<i>Group and Society</i>		
	1998	1997	1996
Full-time	41	39	36
Part-time	3	2	2
	44	41	38
Central administration	41	38	35
Branch	3	3	3
	44	41	38

**7. Directors' Emoluments**

(i)	Salary	Bonus	Benefits	Sub-total	Increase in Accrued Pension	1998 Total	1997 Total	1996 Total
<b>Executive Directors</b>								
D. Barron	72	8	7	87	3	90	81	73
D. Cowie	66	7	3	76	3	79	74	66
	138	15	10	163	6	169	155	139

	Fees	Bonus	Benefits	Sub-total	Increase in Accrued Pension	1998 Total	1997 Total	1996 Total
<b>Non-executive Directors</b>								
M. F. Dunham	22	—	—	22	—	22	22	18
R. Allen	—	—	—	—	—	—	—	5
J. Beswick	16	—	—	16	—	16	17	14
D. Robinson	18	—	—	18	—	18	18	14
D.W. Millington	16	—	—	16	—	16	16	14
A.K. Snape	17	—	—	17	—	17	16	—
	89	—	—	89	—	89	89	65

The Society operates a profit related pay scheme whereby all eligible members of staff receive bonuses directly related to the pre-tax profits of the Society. Messrs Barron and Cowie are included in the scheme and received bonuses equivalent to 11 per cent. of basic salary in 1998.

**(ii) Directors' Loans and Transactions:**

The aggregate balances on mortgage loans made in the ordinary course of business to the two Executive Directors amounted to £95,135 as at 31 December, 1998. The Board's continuing policy is not to provide mortgage loans to non-executive Directors. A register of transactions is maintained at the Society's head office which shows details of all loans, transactions and

head office for a period of 15 days up to and including the date of the annual general meeting.

Mr Beswick is a solicitors' clerk with Lyons Wilson who act as solicitors to the Society. Fees for 1998 of £46,135 inclusive of VAT (1997: £39,000, 1996: £45,000) were charged by Lyons Wilson in the normal course of business for services rendered. Mr Millington is a director of Dunlop Heywood Limited. No fees for 1998 (1997: £3,000, 1996: £nil) were charged by Dunlop Heywood Limited in the normal course of business for services rendered.

#### 8. Tax on Profit on Ordinary Activities

	Group			Society		
	1998	1997	1996	1998	1997	1996
<i>UK. Corporation tax charge for the year at 31% (1997: 31.5%, 1996: 33%)</i>						
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Current taxation	669	516	474	627	484	449
Overprovision in previous years	(1)	(19)	(2)	(1)	(19)	(2)
	668	497	472	626	465	447

#### 9. Loans and Advances to Credit Institutions

	Group			Society		
	1998	1997	1996	1998	1997	1996
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Accrued interest	404	317	318	404	317	318
Repayable on demand	6,116	4,418	3,943	6,116	4,418	3,943
Other loans and advances by residual maturity repayable:						
In not more than three months	17,724	10,650	9,101	17,724	10,650	9,101
In more than three months but not more than one year	5,000	4,500	2,750	5,000	4,500	2,750
	29,244	19,885	16,112	29,244	19,885	16,112

#### 10. Debt Securities

	Group			Society		
	1998	1997	1996	1998	1997	1996
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Issued by borrowers other than public bodies	4,580	7,183	8,768	4,580	7,183	8,768
Debt securities have remaining maturities as follows:						
Accrued interest	36	149	169	36	149	169
In not more than one year	4,544	7,034	8,599	4,544	7,034	8,599
	4,580	7,183	8,768	4,580	7,183	8,768
Transferable debt securities comprise:						
Listed	4,580	7,183	8,768	4,580	7,183	8,768

Listed transferable debt securities are shown at cost in the Society's books.

The Directors of the Society consider that the primary purpose of holding debt securities is prudential.

The securities are held as liquid assets with the intention of use on a continuing basis in the Group's activities and are therefore classified as financial fixed assets rather than current assets.

Movements during the year of debt securities held as financial fixed assets are analysed as follows:

<i>Cost (excluding accrued interest)</i>	Group	Society
--	-------	---------



At 31 December 1997	8,599	8,599
Additions	21,303	21,303
Disposals	(22,868)	(22,868)
At 31 December, 1997	7,034	7,034
Additions	28,233	28,233
Disposals	(30,723)	(30,723)
At 31 December, 1998	4,544	4,544

### 11. Other Liquid Assets

	Group			Society		
	1998	1997	1996	1998	1997	1996
	£000	£000	£000	£000	£000	£000
Accrued Interest	17	32	32	17	32	32
Other loans and advances secured by residential maturity repayable:						
In not more than one year	500	1,000	1,000	500	1,000	1,000
In more than one year but not more than five years	1,000	1,000	1,000	1,000	1,000	1,000
In more than five years	—	—	1,000	—	—	1,000
	1,517	2,032	3,032	1,517	2,032	3,032

### 12. Loans and advances to customers

	Group			Society		
	1998	1997	1996	1998	1997	1996
	£000	£000	£000	£000	£000	£000
Loans fully secured on residential property	128,581	113,251	90,383	120,455	107,369	87,805
Loans fully secured on land	13,813	7,314	7,169	8,963	6,678	6,798
	142,394	120,565	97,552	129,418	114,047	94,603

Other loans fully secured on land include Group £1.75 million (1997: £1.32 million, 1996: £806,000) Society £1.25 million (1997: £1.02 million, 1996: £710,000) of loans which are fully secured on residential property and which were made to corporate bodies or were second charges on residential property. These loans were made or acquired prior to 1 September, 1998, the date on which the regulatory and reporting framework of the Building Societies Act 1997 became effective. The classification of these assets is not consistent with the treatment of similar loans made from 1 September, 1998 which are included in "loans fully secured on residential property" but is necessary to comply with the requirements of the Building Societies Act 1997.

### Maturity analysis

The remaining maturity of loans and advances to customers from the date of the balance sheet is as follows:

	Group			Society		
	1998	1997	1996	1998	1997	1996
	£000	£000	£000	£000	£000	£000
Repayable on demand	1,603	1,216	913	1,564	1,196	913
Other loans and advances secured by residual maturity repayable:						
In not more than three months	663	473	403	579	439	367
In more than three months but not more than one year	2,119	1,517	1,261	1,832	1,398	1,154

In more than five years	124,589	107,626	87,011	113,204	101,950	84,769
	143,922	121,616	98,440	130,341	115,098	95,491
Less						
Provisions and suspended interest	1,528	1,051	888	923	1,051	888
	142,394	120,565	97,552	129,418	114,047	94,603

### 13. Provision for Bad and Doubtful Debts

	<i>Loans fully secured on residential property</i>		<i>Other loans fully secured on land</i>		Total	
	<i>Specific</i>	<i>General</i>	<i>Specific</i>	<i>General</i>	<i>Specific</i>	<i>General</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Group</b>						
At 1 January, 1997	380	95	177	55	557	150
Charge to income and expenditure Account	197	45	85	45	282	90
Amounts written off during the Year	(244)	—	(35)	—	(279)	-
At 31 December, 1997	333	140	227	100	560	240
Charge to income and expenditure account	268	—	45	—	313	—
Provided on acquisition of mortgage books	416	—	189	—	605	—
Amounts recovered during the year	45	—	—	—	(433)	—
Amounts written off during the year	(298)	—	(135)	—	(433)	—
At 31 December, 1998	764	140	326	100	1,090	240

The provisions on acquisition of mortgage books have originated from the discounts the subsidiary undertaking received against the carrying value of individual mortgage loans when they were acquired.

	<i>Loans fully secured on residential property</i>		<i>Other loans fully secured on land</i>		Total	
	<i>Specific</i>	<i>General</i>	<i>Specific</i>	<i>General</i>	<i>Specific</i>	<i>General</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Society</b>						
At 1 January, 1997	380	95	177	55	557	150
Charge to income and expenditure Account	197	—	85	45	282	90
Amounts written off during the Year	(244)	45	(35)	—	(279)	—
At 31 December, 1997	333	140	227	100	560	240
Charge to income and expenditure account	268	—	45	—	313	—
Amounts recovered during the year	45	—	—	—	45	—
Amounts written off during the year	(298)	—	(135)	—	(433)	—
At 31 December, 1998	348	140	137	100	485	240

### 14. Investments

Investments in subsidiary undertakings are financial fixed assets.

Movements during the year are analysed as follows:

	<i>Shares</i>	<i>Loans</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Investment in subsidiary undertaking			
As at 1 January, 1997	1	2,691	2,692

Repayments	—	(2,079)	(2,079)
As at 31 December, 1997	1	6,134	6,134
Additions	—	8,599	8,599
Repayments	—	(2,295)	(2,295)
As at 31 December, 1998	1	12,438	12,438

The consolidated accounts contain the results of MBS (Mortgages) Limited, a wholly-owned subsidiary undertaking of the Society.

### 15. Tangible Fixed Assets — Group and Society

	<i>Freehold Land and Buildings</i>	<i>Equipment, fixtures, fitting and vehicles</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Cost</b>			
At 1 January, 1997	1,518	687	2,205
Additions	—	259	259
Disposals	—	(17)	(17)
At 31 December, 1997	1,518	929	2,447
Additions	—	137	137
Disposals	—	(9)	(9)
At 31 December, 1998	1,518	1,057	2,575
<b>Depreciation</b>			
At 1 January, 1997	30	373	373
Charge for the year	—	101	131
Disposals	—	(13)	(13)
At 31 December, 1997	30	461	491
Charge for the year	30	130	160
Disposals	—	(5)	(5)
At 31 December, 1998	60	586	646
<b>Net Book Value</b>			
At 31 December, 1998	1,458	471	1,929
At 31 December, 1997	1,488	468	1,956
At 31 December, 1996	1,518	314	1,832
	<i>1998</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Net Book Value of land and buildings occupied by the Group/Society for its own activities	1,458	1,488	1,518

### 16. Other Assets

	<i>Group and Society</i>		
	<i>1998</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Amounts due within one year	102	55	52

### 17. Shares

*Group and Society*

	<i>£000</i>	<i>£000</i>	<i>£000</i>
Held by individuals	137,706	113,248	91,148
Shares are repayable from the balance sheet date in the ordinary course of business as follows:			
Accrued interest	2,093	657	740
Repayable on demand	23,255	27,813	37,702
Other shares by residual maturity payable:			
In not more than three months	97,867	75,955	38,148
In more than three months but not more than one year	6,920	1,626	3,243
In more than one year but not more than five years	7,571	7,197	11,315
<b>Total</b>	<b>137,706</b>	<b>113,248</b>	<b>91,148</b>

## 18. Amounts Owed to Credit Institutions

	<i>Group and Society</i>		
	<i>1998</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:			
Accrued interest	86	123	70
Other amounts owed to credit institutions by residual maturity repayable:			
In not more than three months	4,200	4,800	4,150
In more than three months but not more than one year	5,200	3,500	2,200
In more than one year but not more than five years	500	1,000	2,000
<b>Total</b>	<b>9,986</b>	<b>9,423</b>	<b>8,420</b>

## 19. Amounts Owed to Other Customers

Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:

	<i>Group and Society</i>		
	<i>1999</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Accrued interest	72	90	83
Repayable on demand	7,190	9,228	10,298
Other amounts owed to other customers by residual maturity repayable:			
In not more than three months	9,607	6,131	4,680
In more than three months but not more than one year	1,790	1,500	2,750
In more than one year but not more than five years	—	500	500
<b>Total</b>	<b>18,659</b>	<b>17,449</b>	<b>18,311</b>

## 20. Other Liabilities

	<i>Group</i>			<i>Society</i>		
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Amounts falling due within one year:						
Income tax	746	607	324	746	607	324
Corporation tax	618	466	474	576	435	449

Other creditors	122	151	150	122	152	150
	1,528	1,244	964	1,486	1,214	939

## 21. Accruals and Deferred Income

	<i>Group</i>			<i>Society</i>		
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Interest accrued on subordinated liabilities	2	2	1	2	2	1
Deferred mortgage guarantee income	320	179	94	261	179	94
Other	499	498	464	492	484	459
	821	679	559	755	665	554

## 22. Subordinated Liabilities

	<i>Group and Society</i>		
	<i>1998</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Loan repayable 2000 — 2004	1,500	1,500	1,500
Loan repayable 2011	500	500	500
Loan repayable 2012	500	500	—
	2,500	2,500	2,000

Interest is payable on the subordinated loan repayable in 2000 — 2004 at a margin of 1.875 per cent. above LIBOR for six month deposits. The liabilities are repayable in five equal annual instalments from 2000 to 2004.

Interest is payable on the subordinated loan repayable in 2011 at the rate of 10.765 per cent. per annum fixed until June 2006. Interest thereafter will be payable at a margin of 2.5 per cent. above the 8 per cent. 2015 gilt stock.

Interest is payable on the subordinated loan repayable in 2012 at the rate of 9.657 per cent. per annum fixed until June 2007. Interest thereafter will be payable at a margin of 2.5 per cent. above the 8 per cent. 2015 gilt stock.

The subordinated loans were taken to assist the financing of future development.

## 23. General Reserve

	<i>Group</i>			<i>Society</i>		
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January	7,366	6,150	5,262	7,027	5,923	5,114
Profit for the financial year	1,522	1,216	888	1,432	1,104	809
At 31 December	8,888	7,366	6,150	8,459	7,027	5,923

## 24. Memorandum Items

	<i>Group</i>			<i>Society</i>		
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Irrevocable undrawn loan facilities	1,144	1,254	397	1,144	1,254	397

## 25. Financial Commitments

	<i>Group</i>			<i>Society</i>		
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Capital expenditure contracted for but not provided for	6	18	99	6	18	99

**(ii) Rental obligations**

The Society has ongoing obligations to pay rent totalling £165,000 per annum, subject to reviews at five year intervals, until December 2011 on its leasehold interests in Manchester House, Bridge Street, Manchester, formerly the Society's head office. Over 75 per cent. of the rental space is currently sub-let and a provision to cover the estimated shortfall from the rental voids was made in 1996, of which £130,000 has been carried forward at 31 December, 1998.

**(iii) Pension scheme**

The staff pension scheme provides defined benefits to members. The last actuarial valuation was carried out as at 1 November, 1996 when the market value of the scheme assets was £865,000. The actuarial value of those assets was sufficient to cover 114 per cent. of the benefits that had accrued, after allowing for expected future increases in earnings. An interim valuation as at 1 November, 1998 indicated that the actuarial value of the scheme assets was sufficient to cover 89 per cent. of the accrued benefits, after allowing for expected future increases in earnings.

**(iv) Contingent liabilities**

The Society has a contingent liability in respect of contributions to the Building Societies Investor Protection Fund required by the Building Societies Act 1986.

## Annual Business Statement

### Annual Business Statement

*For the year ended 31 December, 1998*

#### 1. Statutory Percentages

	1998 %	Statutory Limit
Lending limit	9.9	25.0
Funding limit	17.2	50.0

The above percentages have been calculated in accordance with the provisions of sections 6 and 7 of the Building Societies Act 1986 as amended by the Building Societies Act 1997.

The Lending limit measures the proportion of business assets not in the form of loans fully secured on residential property and is calculated as  $(X - Y) \div X$  where:

X = business assets, being the total assets of the Group plus provisions for bad and doubtful debts less liquid assets, tangible and intangible fixed assets and long term life assurance business assets as shown in the Group's consolidated accounts.

Y = the principal of, and interest accrued on, loans owed to the Group which are fully secured on residential property. The value of Y used is the value at 31 December, 1998.

The Funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals and is calculated as  $(X - Y) \div X$  where:

X = shares and borrowings, being the aggregate of:

- (i) the principal value of, and interest accrued on, shares in the Society;
- (ii) the principal of, and interest accrued on, sums deposited with the Society or any subsidiary undertaking of the Society; and
- (iii) the principal value of, and interest accrued under, bills of exchange, instruments or agreements creating or acknowledging indebtedness and accepted, made, issued or entered into by the Society or any such undertaking less any amounts qualifying as own funds.

Y = the principal value of, and interest accrued on, shares in the Society held by individuals otherwise than as bare trustees (or, in Scotland, simple trustees) for bodies corporate or for persons who include bodies corporate. The value of Y used is the value at 31 December, 1998.

The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

#### 2. Other Percentages

	1998 %	1997 %
As percentage of shares and borrowings		
Gross capital	6.8	7.0
Free capital	5.8	5.8
Liquid assets	21.3	20.8
Profit after taxation for the financial year as a percentage of mean total assets	0.92	0.87
Management expenses as a percentage of mean total assets	1.24	1.43

The above percentages have been prepared from the Society's consolidated accounts and in particular:

"gross capital" represents the aggregate of general reserve, revaluation reserve and subordinated liabilities;

"free capital" represents the aggregate of gross capital and general loss provisions for bad and doubtful debts less tangible fixed assets;

"mean total assets" represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year;

"liquid assets" represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities; and

"management expenses" represent the aggregate of administrative expenses, depreciation and amortisation.

### 3. Information Relating to the Directors and Officers

<i>Name Directors</i>	<i>Date of birth</i>	<i>Date appointment</i>	<i>of Occupation</i>	<i>Other directorships</i>
M.F. Dunham	5.6.1935	June 1976	Chartered Accountant	Ebor Equipment Ltd. Ebor International Ltd. C.R. Laurence Ltd. D&J Air Conditioning Services Ltd. Oakwood Ltd. TFD Dunhams Ltd. Redlock Ltd. Business Training for Accountants Ltd. ELA Marketing Ltd. Dunhams Financial Services Ltd.
J. Beswick	29.6.1936	Oct. 1964	Solicitors' Clerk	Danestone Ltd. Redlock Ltd. Kilim Company Ltd. MBS (Mortgages) Ltd. Industrial & Commercial Credit Management Ltd.
D. Barron	24.7.1941	Sept. 1984	Building Society Executive	Danestone Ltd. MBS (Mortgages) Ltd.
D. Robinson	2.12.1945	Oct. 1986	Company Director	Rosehead Ltd. Star Floral Imports and Novelties Ltd.
D.E. Cowie	17.10.1951	July 1991	Building Society Executive	
D.W. Millington	19.8.1940	April 1995	Chartered Surveyor	Dunlop Heywood Ltd Manchester Diocesan Church House Company Ltd.
A.K. Snape	24.5.1948	Dec. 1996	Chartered Surveyor	Tony Snape Ltd. Quayside Management Ltd.
<i>Officers</i>	<i>Position</i>			
D. Barron	Chief Executive			
D.E. Cowie	Chief Financial Officer and Secretary			

Any documents may be served on the above named Directors at the following address:

Lyons Wilson, 1 Central Street, Manchester M2 5WR.



During the year the Society has not exercised any new powers.

## Unaudited Interim Financial Information

*The Society does not publish interim financial results. It does, however, prepare detailed management accounts monthly and it reports balance sheet data monthly and both balance sheet and profit and loss account data quarterly to its regulator, the Commission.*

*The following unaudited interim financial information extracted from such management accounts shows a comparison of the Society's consolidated accounts for the six months ended 30 June, 1999 and 1998:*

### Group

#### Income and Expenditure Accounts

For the six months ended 30 June

	<i>Group</i>	
	<i>1999</i>	<i>1998</i>
	<i>£000</i>	<i>£000</i>
Interest receivable and similar income	6,905	7,152
Interest payable and similar charges	4,564	5,046
Net interest receivable	2,341	2,106
Fees and commissions receivable	125	118
Fees and commissions payable	(126)	(130)
Other operating income	169	164
<b>Total income</b>	<b>2,509</b>	<b>2,258</b>
Administrative expenses	987	927
Depreciation	85	79
Other operating charges	83	83
Provisions for bad and doubtful debts	153	137
<b>Profit on ordinary activities before tax</b>	<b>1,201</b>	<b>1,032</b>
Tax on profit on ordinary activities	372	320
<b>Profit for the financial year</b>	<b>829</b>	<b>712</b>

*The above results are all derived from continuing operations.*

### Group

#### Balance Sheets

As at 30 June

	<i>Group</i>	
	<i>1999</i>	<i>1998</i>
	<i>£000</i>	<i>£000</i>
<b>ASSETS</b>		
<b>Liquid assets</b>		
Cash in hand	54	53
Loans and advances to credit institutions	47,122	34,123
Debt securities	10,768	8,146
Other liquid assets	1,017	1,016
	58,961	43,338
<b>Loans and advances to customers</b>		
Loans fully secured on residential property	133,440	117,660

	147,806	126,197
<b>Investments</b>		
Tangible fixed assets	1,936	1,967
Other assets	64	31
Prepayments and accrued income	201	207
<b>Total assets</b>	<b>208,968</b>	<b>171,740</b>
<b>LIABILITIES</b>		
Shares	170,279	137,774
Amounts owed to credit institutions	6,451	5,705
Amounts owed to other customers	18,057	16,130
Other liabilities	1,380	927
Accruals and deferred income	584	626
Subordinated liabilities	2,500	2,500
	199,251	163,662
General reserve	9,717	8,078
<b>Total liabilities</b>	<b>208,968</b>	<b>171,740</b>
<b>MEMORANDUM ITEMS</b>		
Commitments	1,832	1,860

## Use of Proceeds

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The net proceeds of the issue of the PIBS (estimated to be approximately £4.75 million) will be used to strengthen the Society's capital base and to continue the ongoing development of the Society's business. In particular, the proceeds of the issue of the PIBS will significantly increase the Society's Tier 1 capital and will reduce the Society's short to medium term requirement for additional subordinated debt resources. The additional capital will primarily be used to fund average growth at higher rates than would have been possible without the stronger capital position and will be available to support the acquisition of mortgage books, if they are available on appropriate terms.

## United Kingdom Taxation

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The following is a summary of the Society's understanding of current law and practice in the United Kingdom relating to the taxation of the PIBS. The summary relates only to the position of persons who are the absolute beneficial owners of the PIBS and the interest on them and some aspects do not apply to certain classes of taxpayer (such as dealers). **Prospective PIBS holders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.**

### Interest on the PIBS

1. On payment of interest on the PIBS an amount must currently be withheld by the Society on account of United Kingdom income tax at the lower rate (currently 20 per cent.). Certain classes of taxpayer (such as tax exempt investors and individuals whose taxable income is below their personal allowance) may be able to reclaim all or part of any tax deducted. PIBS holders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted pursuant to the provisions of an applicable double taxation convention and may be able to make an individual claim to the relevant tax authorities for payment of interest gross.
2. Notwithstanding that interest is received net of a lower rate income tax deduction, PIBS holders who are individuals or companies resident in the United Kingdom or who carry on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency with which the holding of the PIBS is connected may, depending on the circumstances, be liable to pay further United Kingdom tax on the interest received (see further below).
3. The Society is required each year to supply to the Inland Revenue particulars of all interest paid or credited in relation to the PIBS.

### Corporation Tax Payers

4. PIBS holders who are subject to United Kingdom corporation tax will be charged to tax on income arising on the PIBS under the "loan relationships" regime in the Finance Act 1996, broadly in accordance with their accounting treatment. However, the PIBS are not generally assets within the loan relationships regime (and are not "qualifying corporate bonds" for the purposes of corporation tax) and therefore on any disposal of the PIBS a holder subject to United Kingdom corporation tax may realise a gain or loss for the purposes of corporation tax on chargeable gains, depending upon that holder's particular circumstances.

### Other United Kingdom Tax Payers

5. The rules allowing certain United Kingdom resident individual investors to receive building society interest gross on certification that such investors are unlikely to be liable to pay any amount by way of income tax for the year in which the interest is paid do not apply to interest paid on the PIBS. Individuals who are non-taxpayers may claim a repayment of the tax deducted from the Inland Revenue. Individuals whose taxable income falls within the basic rate band of 23 per cent. will have no more tax to pay on their interest as the tax deducted from it at 20 per cent. will satisfy the tax due. Individuals who are higher rate taxpayers will have to pay the extra tax due on their interest (the difference between tax deducted at 20 per cent. and the higher rate of 40 per cent.).
6. PIBS are within the accrued income scheme. Accordingly, a disposal of PIBS by a PIBS holder who is resident or ordinarily resident in the United Kingdom, or who carries on a trade in the United Kingdom through a branch or agency to which the PIBS are attributable, may give rise to a charge to tax on income in respect of an amount representing interest on the PIBS which has accrued since the preceding interest payment date. However, the accrued income scheme does not apply, *inter alia*, to individuals who do not hold securities with a nominal value of more than £5,000 at any time in both the year of assessment in which the relevant interest period on the PIBS ends and the preceding year of assessment.
7. The PIBS will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a PIBS holder will not give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of capital gains.
8. The PIBS will be eligible for inclusion in the stocks and shares component of an Individual

### Stamp Duty

9. No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue or transfer of the PIBS or on their purchase by the Society.

## Marketing Arrangements

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The Manager has, pursuant to a subscription agreement dated 26 October, 1999 (the "Subscription Agreement"), agreed with the Society, subject to the satisfaction of certain conditions (including, without limitation, the admission of the PIBS to the Official List becoming effective by not later than 1 November, 1999 or such later date as the Society and the Manager may agree), to subscribe for, or procure subscribers for, the PIBS at the issue price of 100 per cent. of their principal amount. The Society has agreed to pay the Manager a combined management and underwriting commission of 2 per cent. of such principal amount if the conditions to which the issue of the PIBS is subject are satisfied or waived by the Manager. The Manager is entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Society. The Society has agreed to indemnify the Manager against certain liabilities in connection with the issue of the PIBS.

The PIBS have not been and will not be registered under the United States Securities Act of 1933 (the "Securities Act") and may not be offered or sold within the United States or to United States persons otherwise than in accordance with applicable United States securities laws and regulations. The Manager has agreed that it will not offer or sell a PIBS within the United States or to United States persons otherwise than in accordance with applicable United States securities laws and regulations.

In addition, until 40 days after the commencement of the offering, an offer or sale of a PIBS within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Manager has represented that (1) it has not offered or sold and will not offer or sell any PIBS to persons in the United Kingdom prior to admission of the PIBS to listing in accordance with Part IV of the Financial Services Act 1986 (the "FSA") except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) or the FSA (2) it has complied and will comply with all applicable provisions of the FSA with respect to anything done by it in relation to the PIBS in, from or otherwise involving the United Kingdom and (3) it has only issued or passed on and will only issue or pass on to any person in the United Kingdom any document received by it in connection with the issue of the PIBS (other than any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by the listing rules) if that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom the document may otherwise lawfully be issued or passed on.

Save for having obtained approval of this document by the London Stock Exchange pursuant to listing rules made under Part IV of the FSA and having delivered copies thereof to the Registrar of Companies in England and Wales, no action has been or will be taken by the Society or the Manager that would, or is intended to, permit a public offer of the PIBS in any country or jurisdiction where action for that purpose is required. The PIBS may not be, directly or indirectly, offered or sold in any country or jurisdiction where action for that purpose is required. Accordingly, the PIBS may not, directly or indirectly, be offered or sold and neither this document nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from, or published in, any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Neither the Society nor the Manager represents that the PIBS may at any time lawfully be sold in or from any jurisdiction (other than in or from the United Kingdom) in compliance with any applicable registration requirements or pursuant to an exception available thereunder or assumes any responsibility for facilitating such sales.

## General Information

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### Material Change

Save as disclosed in this document, there has been no significant change in the financial or trading position of the Society or its subsidiary undertaking or any material adverse change in the prospects of the Society or its subsidiary undertaking since 31 December, 1998, being the date to which the latest published audited accounts were made up.

### Litigation

Neither the Society nor its subsidiary undertaking is or has been involved in any legal or arbitration proceedings or is aware of any pending or threatened legal or arbitration proceedings which may have, or have had during the past twelve months, a significant effect on the financial position of the Society and its subsidiary undertaking taken as a whole.

### Auditors

The consolidated accounts of the Society for the three years ended 31 December, 1998 have been audited in accordance with United Kingdom auditing standards by Grant Thornton, Chartered Accountants and Registered Auditors of Heron House, Albert Square, Manchester M60 8GT and have been reported upon without qualification.

### Authorisation

The issue of the PIBS was authorised by a resolution of the Board on 7 October, 1999.

### Expenses

The overall cost of the issue of the PIBS by the Society, including all commissions and expenses, is estimated to amount to approximately £0.25 million (exclusive of VAT).

### Material Contracts

The Group has entered into the following contracts (other than in the ordinary course of business) within the two years immediately preceding the date of this document which are or may be material:

- (a) the Subscription Agreement dated 26 October, 1999 between the Manager and the Society; and
- (b) the Registrar's Agreement dated 26 October, 1999 between Lloyds TSB Registrars (the "Registrar") and the Society appointing the Registrar as registrar for the issue.

### Directors' Interests

The Directors of the Society have no interest in any transactions which are or were unusual in their nature or conditions or significant to the business of the Society and which were effected by the Society during the current or immediately preceding financial year or were effected by the Society during an earlier financial year and remain in any respect outstanding or unperformed.

Neither any Director of the Society nor any child, stepchild (in each case under the age of 18), spouse or connected person of any Director of the Society has any interest in any PIBS or any other debentures of the Society.

### Guarantees and Loans

At 31 December, 1998 advances secured on residential property include mortgage loans made to Directors of the Society and persons connected with them as defined by section 70 of the Act under the Society's staff mortgage scheme, the balances on which totalled £95,135 (of which £35,047 was attributable to Mr Barron and £60,088 to Mr Cowie). Under the scheme, the interest charged is currently linked to the standard variable mortgage rate of Nationwide Building Society. The first £60,000 of any loan is charged at a rate of 1 per cent. below that of Nationwide Building Society and any loan in excess of that amount is charged at the full rate (which was 6.45 per cent. as at 1 September, 1999).

No guarantees have been provided by the Society for the benefit of any Director of the Society.

### Employee Schemes



## **Directors' Service Agreements**

The Society has entered into the following service agreements with its executive Directors:

- (a) Mr Barron is employed by the Society as its Chief Executive under an agreement dated 31 December, 1998. The agreement continues until Mr Barron reaches his normal retirement age on 24 July, 2001 unless terminated earlier by the Society by 12 months' notice or by Mr Barron by 12 months' notice. Although Mr Barron was due to retire on 24 July, 2001, he has exercised an option under the terms of the agreement to retire a year earlier on 24 July, 2000. Mr Barron is paid a basic salary of £82,000 per annum and is entitled to a company car, to participate in a contributory final salary pension scheme and to receive private health insurance. Mr Barron (together with all the Society's staff) participates in an Inland Revenue approved profit related pay scheme. The bonus paid to each employee for the financial year ended 31 December, 1998 was 11 per cent. of basic salary. The scheme will continue to apply in 1999 but is under review for 2000 and thereafter. Mr Barron's profit related pay bonus in 1998 was £7,856.
- (b) Mr Cowie is employed by the Society as its Chief Financial Officer and Secretary under a letter of appointment dated 23 February, 1989. The Society is required to give Mr Cowie 12 months' notice of termination of his employment and Mr Cowie is required to give the Society three months' notice of termination of his appointment. Mr Cowie is paid a salary of £72,000 per annum and is entitled to a company car, to participate in the contributory final salary pension scheme and to receive private health insurance. Mr Cowie participates in the Inland Revenue approved profit related pay scheme mentioned in paragraph (a) above and received a profit related pay bonus of £7,196 in 1998.

Save as disclosed above, no Director of the Society or its subsidiary undertaking has a service agreement with either the Society or its subsidiary undertaking.

## **Amounts Payable to the Directors**

Total aggregate remuneration and benefits in kind of £258,000 were paid to Directors of the Society by the Group in respect of the financial year ended 31 December, 1998. It is estimated that an aggregate sum of approximately £285,000 will be payable to the Directors of the Society by the Group in respect of remuneration and benefits in kind during the financial year ending 31 December, 1999.

## **Registrar**

The Society has appointed Lloyds TSB Registrars at its specified office at 54 Pershore Road South, Kings Norton, Birmingham B30 3EP to maintain the PIBS Register at such specified office. It is intended that the Registrar will act as agent of the Society for the purposes of maintaining the PIBS Register, accepting instructions for, and effecting, transfers of PIBS, issuing PIBS Certificates to new PIBS holders, receiving requests for the replacement of, and replacing, defaced, damaged, stolen, worn-out, lost or destroyed PIBS Certificates and making payments in respect of the PIBS as they fall due.

## **PIBS Certificates**

No temporary documents of title shall be issued by the Society. The Registrar will commence despatching the PIBS Certificates to all PIBS holders who decide to hold their PIBS in certificated form at the risk of the person entitled thereto by first class post from 1 November, 1999 to the address detailed on the Members' application form.

## **Payment for the PIBS**

Payment for the PIBS subscribed for by the Manager or by persons procured by the Manager will be made by telegraphic transfer (or other approved means) to the account nominated by the Society in accordance with the Subscription Agreement.

## **Documents for Inspection**

Copies of the following documents may be inspected at the offices of Garretts at 180 Strand, London WC2R 2NN during normal business hours on any weekday (Saturdays and public holidays excepted) during the period of 14 days from the date of this document:

- (a) the Rules and the Memorandum;
- (b) the audited consolidated accounts of the Society for each of the three years ended 31 December, 1996, 1997 and 1998;

- (d) a draft (subject to modification) of a PIBS Certificate (including the special conditions of issue of the PIBS);
- (e) the Directors' service agreements referred to above; and
- (f) the material contracts referred to above.

**PRINCIPAL OFFICE OF THE SOCIETY**

Queens Court  
24 Queen Street  
Manchester M2 5AH

**REGISTRAR**

Lloyds TSB Registrars  
54 Pershore Road South  
Kings Norton  
Birmingham B30 3EP

**LEGAL ADVISERS**

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Manchester M1 4EU

*To the Manager*  
**Allen & Overy**  
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**AUDITORS**

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Albert Square  
Manchester M60 8GT

**BANKERS**

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1 Balloon Street  
Manchester M60 4ER

**MANAGER AND SPONSOR FOR LISTING**

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5 The North Colonnade  
Canary Wharf  
London E14 4BB

**FINANCIAL ADVISERS TO THE SOCIETY**

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London EC1Y 4HP