



*(Incorporated in England under the Building Societies Act 1986
and registered with the Central Office of the Registry of
Friendly Societies with registered number 500B)*

£15,000,000

8.50 per cent. Permanent Interest Bearing Shares

Issue Price: 100 per cent.

Application has been made to London Stock Exchange Limited (the "London Stock Exchange") for the issue of £15,000,000 8.50 per cent. Permanent Interest Bearing Shares (the "PIBS"), comprising 6,000 PIBS of £2,500 each, of Scarborough 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 14 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 26th April, 2000 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 26th April, 2000. 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 pages 9 and 10 of this document.

Barclays Capital

18th April, 2000

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 undertakings (together the "Group") and the PIBS. The Directors of the Society, whose names appear on pages 20 to 22 of this document (the "Directors"), 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 "FSA").

The PIBS have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), 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 66 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 and 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

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 investors 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 statutory authority responsible for regulating building societies, currently the Building Societies Commission (the “Commission”, which expression shall include any successor body performing for the time being the same or similar functions in relation to building societies). The Society is under no obligation to the investor to seek any such permission to repay the PIBS, which the Directors believe would 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 of the Society 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 the Directors of the Society resolve that to make payment would result in the Society’s capital falling below prescribed minimum levels and that accordingly 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.
- (i) **Conversion or takeover of the Society** – If the Society amalgamates with, or transfers all or part of its engagements to, another building society, the PIBS will not become repayable, but will become deferred shares in that society. If the Society transfers the whole of its business to any other body, the transfer will incorporate arrangements to secure that the PIBS are effectively converted into perpetual subordinated debt of that body, and do not become repayable.

Investors’ attention is also drawn to the information in respect of the Society appearing on pages 16 to 24 of this document.

SUMMARY OF CERTAIN PROVISIONS OF THE RULES OF THE SOCIETY AND THE ACT RELATING TO THE PIBS

The rights and restrictions attaching to the PIBS will be governed by the Rules, certain provisions of the Act and the "Special Conditions of Issue of the PIBS" set out on pages 8 to 13 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 PIBS Register as the holder of a PIBS or a fraction of a PIBS is a Shareholding Member of the Society (as defined in the Rules).

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 (which are set out in the Rules).

2. Register

The Society shall maintain a PIBS Register for the purposes of the PIBS, 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, The Causeway, Worthing, West Sussex BN99 6DA 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 duly executed PIBS Certificate (which shall not be the property of the Society).

Every person entered into the records of the Society as the holder of a PIBS 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 the Rules requires 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 issue, or lodgement of any instrument of transfer, of such 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 that 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. Where a holder of a certificated PIBS has sold part of his holding he will be entitled to a PIBS Certificate for the balance without charge.

5. Transfers

A PIBS holder may transfer his PIBS to any Person and no fee shall be charged in respect of a transfer of a PIBS. No transfer of PIBS shall be valid unless made in a form approved by the Board and until registered in the PIBS Register. A transferee of a fully paid PIBS 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.

The registration of transfers of the PIBS may be suspended at such times and for such periods as the Board may determine, but not for more than thirty 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, or register any transfer of a PIBS, to more than four persons jointly. Joint PIBS 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 or appoint a proxy at general meetings of the Society.

A PIBS holder is entitled to vote on a resolution (whether an Ordinary Resolution or Special Resolution or a Shareholding Members' Resolution, but not 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; and
- (b) in the case of a joint Shareholding, he is the Representative Joint Shareholder; and
- (c) he was entered in the PIBS Register as the holder of PIBS:
 - (i) at the end of the last Financial Year before the voting date; or
 - (ii) if the voting 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 PIBS holders) 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, no repayments shall be made in respect of any deferred Share (including the PIBS) until after all other Members have been repaid in full.

For the purposes of these provisions of the Rules, "qualifying Members" means Persons who hold on the date of commencement of the dissolution or winding-up, and have held, throughout the period of two years up to that date, Shares to the value of not less than £100.

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 representative of a member in that capacity in respect of any rights or obligations arising from the 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

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"). In the event of inconsistency between the Rules and these Conditions, the Rules will prevail.

1. General

- (1) The "Society" means Scarborough Building Society.
- (2) The "PIBS" means £15,000,000 8.50 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 for the time being (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 £2,500.

3. Interest

- (1) The PIBS bear interest from and including 26th April, 2000 at the rate of 8.50 per cent. per annum payable, subject as set out below, in arrear by equal half-yearly instalments on 26th April and 26th October in each year, commencing on 26th October, 2000. 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 that interest cancelled the payment of any interest or dividend upon:

- (a) any other Share 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 Share or Deposit, to be paid or credited at any time before the end of the relevant Interest Period.

For the purposes of this paragraph (2):

- (a) where the Society has deferred or suspended any payment it shall be taken to have cancelled the payment only 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 the case of (a) above, the Board passes a resolution cancelling such interest or, in the case of (b) above, 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, in the opinion of the Board, such payment would not cause or contribute to a failure to satisfy the second criterion of prudent management. On the passing of any such 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 their 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 for trading 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 (or any successor body performing for the time being the same or similar functions in relation to building societies).

- (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 business day immediately preceding the relevant due date and made payable to the PIBS holders (in the case of a joint holding of PIBS, the Representative Joint 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 or, if the due date is not a business day, on the immediately following business day to a sterling account with a bank or building society in the United Kingdom. In this Condition 5, "business day" means any day (other than a Saturday or a Sunday) on which banks are open for business in England.

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 so 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 ranking behind any undated subordinated debt previously issued by the Society (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 30th 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 or any other body performing for the time being such function.

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 not less than 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 in that capacity.
- (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 in that capacity 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.

8. Meetings of the PIBS holders

- (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, calculated from the final date for the receipt of proxies under paragraph (11) of this Condition specifying the hour, date and place of the meeting shall be given to the PIBS holders entered in the PIBS Register 35 days prior to the date specified for the meeting by sending it by post to the addresses shown in the PIBS Register. The notice shall specify 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 who is present 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 not less than three-quarters of the principal amount of the PIBS represented at such meeting voting in favour of such question.

- (5) If within half an hour 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 a resolution of the meeting) adjourn any meeting from time to time and from place to place but no business shall be transacted at any adjourned meeting other than business left unfinished or not reached 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 £2,500 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 entitled to attend a separate meeting of the Society:
 - (a) may appoint one Person (whether a PIBS holder or not) as his proxy to attend and, on a resolution, to vote at such meeting instead of him; and
 - (b) may direct the proxy how to vote at the meeting.

A proxy shall be appointed by an instrument in writing which shall be in such form and include such declarations as the Board may from time to time determine. The instrument shall enable the PIBS holder appointing the proxy to direct him how to vote and, if the instrument is not in the form specified by the Society or is not signed by the appointor, the appointment of the proxy shall be invalid. The appropriate forms of declaration shall, with such additional or amended wording as the Board may consider appropriate, be used in the case of a body corporate. If the appropriate declaration is not included in the instrument, the appointment of the proxy shall be invalid. The instrument appointing a proxy or a representative shall be deposited at the Principal Office not less than 2 clear days before the day appointed for holding the meeting, or adjourned meeting, and in default the instrument shall not be treated as valid. The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll but, save as by this paragraph provided, a proxy shall have no right to speak at the meeting. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or mental disorder of the appointor or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of a PIBS in respect of which the proxy is given, provided that no intimation in writing of such death, mental disorder, revocation or transfer shall have been received by the Society at its Principal Office before the commencement of the meeting or adjourned meeting at which the proxy is used.

- (12) 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.
- (13) 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.
- (14) 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 notices or documents 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

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 place.

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. With effect from 1st 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.

SCARBOROUGH BUILDING SOCIETY

Introduction and Constitution

The Society is a building society incorporated under the Act for an unlimited duration. As such, it is a mutual organisation owned by its members, is regulated by the Building Societies Commission and is registered with the Central Office of the Registry of Friendly Societies in London. It operates under the Act, regulations made under the Act, and the Rules and Memorandum of the Society.

The Society was established in May 1846, and incorporated with the Registrar of Building Societies in England in July 1878 as the Scarborough and North and East Yorkshire Permanent Building and Investment Building Society under the Building Societies Act 1874. Its name was subsequently changed to Scarborough Building Society in 1903.

As at 30th April, 1999, the Society and its subsidiaries (together, the "Group") had total assets of £896 million and General Reserves of £32.8 million. The Society is the 20th largest building society in the United Kingdom, measured by total assets, as shown in the Society's audited accounts for the year ended 30th April, 1999 and compared to the then most recent audited accounts of the other societies concerned.

In 1992, the Society's strategy changed from a more diverse lending role to focus on better quality residential mortgage lending, providing competitive retail savings and mortgage products in a price sensitive market, combined with high service levels. In order to implement this strategy, the Society has invested in technology, systems and staff training to bring about greater efficiencies while controlling costs.

The Society provides products and services to its members through centralised postal and telephone operations based in Scarborough, and also through its ten branches and two of its subsidiary companies. As a consequence, it has a regional concentration of investors and borrowers surrounding its branch base, but also, through its postal and telephone operations, has members throughout Great Britain.

As at 30th April, 1999, the Society had 171,278 investment accounts and the Group had 15,242 borrowers' accounts. The loans to borrowers were made or acquired by the Society or its wholly owned subsidiary, North Yorkshire Mortgages Limited, which was initially set up as the vehicle through which the Group could acquire residential mortgage portfolios and which also makes new loans to borrowers. The Society has a further wholly owned subsidiary, Specialist Mortgage Services Limited, which administers loans on behalf of other lenders. As at 30th April, 1999, this subsidiary had assets under management of £632 million.

During the year to 30th April, 1999, the Group employed an average of 187 full time and 42 part time employees. For the financial years ended 30th April, 1998 and 1997, the corresponding figures were 170 full time and 55 part time employees, and 200 full time and 30 part time employees respectively.

Mutual Status

The Society is committed to remaining mutual and to using the advantages of mutuality to deliver continuing benefits to its members. The Society introduced a Charitable Assignment Scheme on 13th September, 1999 to reduce disruption to the Society's business caused by speculators opening investment accounts in the hope of receiving a windfall conversion benefit. The Scheme requires investors opening new accounts with opening and subsequent balances of less than £2,500 to assign to charity windfall benefits payable on a conversion of the Society.

Business and Strategy 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 structure of the Group's balance sheet reflects its principal purpose. As at 30th April, 1999, 97.9 per cent. of business assets (as defined on page 52) were in the form of loans fully secured on residential property. At that same date, funding from members represented 78.6 per cent. of all Shares and borrowings with the Society.

The Society remains focused on its core business strategy, which is to increase the amount of new mortgage lending to good quality borrowers in respect of residential property, supported by consistent growth in retail funding.

In order to strengthen its competitive position and further enhance customer service the Society intends to continue to control costs and seek out greater efficiencies. This concentration on costs and efficiencies has resulted in a year upon year reduction in the Group's cost ratio, expressed as a percentage of mean total assets of the Group, from 1.79 per cent. in 1992 to 0.92 per cent. at 30th April, 1999. The Group's cost to asset ratio for the year ended 30th April, 1999 was the fifth lowest out of the largest 20 building societies referred to above.

As has been the case since 1992, the Society's future strategy will be underpinned by profitable growth, consistent with members' interests and maintaining the Society's solvency ratio at a satisfactory level.

The Society's pricing strategy is to provide value for money for members and its products feature regularly in the "Best Buy tables" which appear in the National press.

Mortgage Lending

Intense competition in recent years, increased by new entrants to the mortgage market, has driven down margins from mortgage lending. The Society's strategy of cost control and bringing about greater efficiencies recognises the continuing necessity to operate on narrower margins.

The Group's mortgage lending activity consists of the granting of advances to individuals for the purchase or remortgage of residential property, secured by a first legal charge over the property. At 30th April, 1999, loans fully secured on residential property amounted to £720.1 million, comprising 99.4 per cent. of all mortgage assets. The Group also had loans of £3.7 million secured on commercial property and other loans of £0.9 million at that date. The Group has not made any advances on new commercial property proposals (other than to a Housing Association) since the Society's change in strategy in 1992.

The Society's existing residential mortgage loans are predominantly on administered variable interest rates. Of the total residential mortgage loan portfolio, 16 per cent. are at fixed or capped interest rates and 40 per cent. at discounted variable interest rates, with the remainder on administered variable interest rates. A geographical analysis of mortgage loans shows a pronounced concentration in Yorkshire, with 81 per cent. of the loans being in the Midlands and the North of England.

The Society follows a detailed Board Lending Policy Statement in accordance with Prudential Note 1998/6. Within the agreed policy parameters, care, prudence and control are exercised by Managers and staff to ensure the quality of the Society's lending is maintained. Residential mortgage loans are processed through the Society's branches, its Direct Mortgage Centre and its Principal Office at Prospect House, Scarborough. In each case, a detailed procedure is followed prior to making any offer of advance. On receipt of an application, an inspection and valuation of the property is made by one of the Society's panel of approved independent qualified Valuers. Subject to the Valuer's report, credit checks and various other factors, including the income of the applicant, the Society may make an offer of an advance. Where an advance exceeds 80 per cent. of the lower of the valuation or cost of a property, the Society will obtain additional protection, normally through the use of a Mortgage Indemnity Guarantee policy. Prior to 1st January, 2000 such protection was obtained where an advance exceeded 75 per cent. of the lower of the valuation or cost of a property. Under policies taken out after 1st January, 1999, the Society will be able to recover 100 per cent. of the amount of any indemnity. The amount recoverable under policies taken out prior to 1st January, 1999 will be the lower of the amount of the indemnity or 80 per cent. of the amount of the shortfall claimed.

In the year ended 30th April, 1999, the Group's new mortgage advances totalled £155 million, compared to £123 million for the year ended 30th April, 1998 and £90 million for the year ended 30th April, 1997.

Of total Group mortgage loans of £724.7 million at 30th April, 1999, £73.7 million were held by North Yorkshire Mortgages Limited. This subsidiary has acquired mortgage loans from other lenders in the past, and also grants loans to new borrowers, on the same lending criteria as for the Society.

Mortgage Arrears and Provisioning

The Society reports on mortgage arrears for regulatory purposes where arrears on the account represent 2.5 per cent. or more of the mortgage balance outstanding. At 31st October, 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 1.65 per cent. of the value of all Group mortgage loans outstanding.

The Society follows regulatory advice on mortgage provisioning using a statistical propensity methodology which is based on actual experience and valuation data tracking house price indices.

The Group's charges for bad and doubtful debts in the years ended 30th April, 1999, 1998 and 1997 were £0.71 million, £0.71 million and £1.01 million respectively. These charges represent 0.098 per cent., 0.125 per cent. and 0.200 per cent. of total loans and advances outstanding at the end of the relevant financial year. At 30th April, 1999, the Group carried forward provisions for bad and doubtful debts of £1.33 million, of which £0.2 million represented a general provision.

The numbers of mortgage accounts 12 months or more in arrears for the financial years ended 30th April, 1999, 1998 and 1997 were 68, 70 and 63. The numbers of properties in possession at the end of these years were 17, 15 and 21. Following the change in the Society's strategy in 1992, the Society has reported £531.6 million in new mortgage advances between 1st May, 1993 and 30th April, 1999. Of those new mortgage advances still outstanding with the Society, only 12 accounts, with total balances of £0.457 million, were reported by the Society as being three months or more in arrears as at 30th November, 1999.

Sources of Income

The principal source of income for the Group is interest earned on mortgage advances, which amounted to £42.9 million, £38.4 million and £27.6 million in the years ended 30th April, 1999, 1998 and 1997 respectively. In the year ended 30th April, 1999, income from liquid assets of the Group was £9.8 million, and income from fees, commissions, rent and other sources was £3.9 million.

Commissions are primarily derived from general insurance commissions, emanating from the Group's role as a mortgage lender, and commissions received from the sale of life assurance and investment products as a result of the Society and North Yorkshire Mortgages Limited being appointed representatives of Legal & General Assurance Society Limited. The Society and North Yorkshire Mortgages Limited also generate income from commissions received from the sale of buildings, household contents and mortgage payment protection insurance as a result of them being agents for Eagle Star Insurance Company Limited.

Funding Activities

Savings from the personal retail sector are the primary source of funds for the Society. However, the Society also raises funds from the wholesale money markets, principally in the form of time deposits, bank loans and certificates of deposit. As a consequence of Prudential Note 1998/4 on Financial Risk Management, the Society is in the process of moving to the "Extended Approach" under which its Assets and Liabilities Committee, in conjunction with the Society's Treasury function, will take a view on interest rates and market positions.

A breakdown of the Society's funding position at 30th April, 1999 is as follows:

	<i>£ million</i>
Share accounts	654.3
Amounts owed to credit institutions	109.2
Amounts owed to other customers	69.5
	<hr/> 833.0

The Group's subordinated liabilities can be summarised as follows:

	<i>30 April, 1999</i>	<i>31 October, 1999</i>
	<i>£ million</i>	<i>£ million</i>
Floating Rate Subordinated Liabilities 2001	5.0	5.0
Floating Rate Subordinated Liabilities 2002	2.5	2.5
Floating Rate Subordinated Liabilities 2013	3.0	5.0
Fixed Rate 6.99% Subordinated Liabilities 2017	3.0	3.0
Fixed Rate 9.41% Subordinated Liabilities 2017	7.0	7.0
	<hr/> 20.5	<hr/> 22.5

Premises

The Society operates a rolling maintenance and refurbishing programme for all its branches. Its Principal Office, Prospect House in Scarborough, has a floor area of approximately 23,000 square feet. A business continuity site with a floor area of approximately 19,000 square feet was purchased in late 1999. As the Society's Principal Office is no longer able to house all its staff, part of the continuity building will continue to be used as a temporary location for some administrative areas of the business until a new principal office can be constructed on a green field site in Scarborough. Completion of the new building is expected at the end of 2001. It is expected to have a floor area of approximately 75,000 square feet, and an aggregate acquisition and development cost of around £10 million. It is the Society's intention that Prospect House will be sold when the Society vacates the premises.

Year 2000

The advent of the new millennium passed without any impact for the Group from the Year 2000 computer systems problems. All its computer systems operated normally prior to, during and after this event.

Interim Trading Performance

As at 31st October, 1999, the Group's assets amounted to £1,086 million (1998: £733 million) representing a growth of 21.2 per cent. for the first six months of its current financial year. The Group's profit before tax for the six months to 31st October, 1999 and 31st October, 1998 totalled £2.2 million and £2.7 million respectively. The reduction in profit for the six months to 31st October, 1999 was a consequence of the changing retail funding mix following increases in liquidity above normal operating levels in anticipation of possible demands for access to funds by retail investors reacting to general speculation surrounding year 2000 issues. Group liquid assets as at 31st October, 1999 and 31st October, 1998 were £275 million and £129 million respectively, representing 25.3 per cent. and 17.6 per cent respectively of total assets.

Unaudited management accounts for the period ended 31st January, 2000 show pre-tax profits for the Group for the 9 month period then ended at approximately £4.5 million.

The Group intends to remain one of the lowest cost providers in its markets by concentrating on its core activities, while maintaining strict control of costs and expanding its assets in a careful and prudent manner.

Directors of the Society

The names of the Directors of the Society, their responsibilities within the Society, their business occupation and the names of all companies and partnerships where the Society's Directors hold or have held a position as director or partner over the past five years 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 and Partnerships held within the last five years</i>
Geoffrey Frank Winn	Chairman	Chartered Accountant	Partner in Winn & Co Pykes Sports Limited Tent Hire Limited Innesland Limited Scarborough Flower Fund Homes Yorkshire Provincial Properties Limited Bridlington Insurance Brokers Limited Scarborough Economic Action Limited Scarborough Computer Systems Limited Scarborough Finance Limited Specialist Investment Services Limited Scarborough Insurance Services Limited Scarborough Residential Mortgages Limited Scarborough Properties Limited Yorkshire Coast Audits Limited Joint Monitoring Unit Limited North Yorkshire Audits Limited Scarborough Commercial Mortgages Limited* Yorkshire Coast Radio Limited*
William Ralph Worsley	Board Member, Vice Chairman of the Board and Chairman of the Board Audit Committee	Chartered Surveyor and Farmer	Timber Growers Association Limited Independent Schools Careers Organisation Limited The Brunner Investment Trust plc Partner in Hovingham Farms Guinness Flight Paterson Limited* Graybourne Services Limited* Hovingham Investments Limited*
John Jackson Carrier	Chief Executive		North Yorkshire Mortgages Limited Scarborough Finance Limited Specialist Mortgage Services Limited Scarborough Commercial Mortgages Limited Specialist Investment Services Limited Scarborough Insurance Services Limited Scarborough Residential Mortgages Limited Scarborough Computer Systems Limited G A Pindar and Son Limited Scarborough Properties Limited Scarborough College Limited*

<i>Name</i>	<i>Responsibilities within the Society</i>	<i>Business occupation</i>	<i>Other Directorships and Partnerships held within the last five years</i>
Richard Lincoln Grunwell	Non executive Director and Chairman of Assets and Liabilities Committee	Solicitor	Partner in Grunwells Scarborough Theatre Trust Limited Scarborough Commercial Mortgages Limited Specialist Mortgage Services Limited North Yorkshire Mortgages Limited Scarborough Law Chambers Limited Scarborough Economic Action Limited St Catherine's Hospice Trust Scarborough Hospice Sales Limited Moneyweb Limited Yorkshire and Humberside Sports Aid
The Rt Hon Lord Derwent	Non executive Director	Company Director	Elizabeth Finn Trust Foreign & Colonial Pacific Investment Trust plc Thorstone Land & Property Hackness Enterprises Limited Industry in Education Hutchison London Developments Limited Hutchison Whampoa (UK) Limited Hutchison Whampoa (Europe) Limited Felixstowe Dock & Railway Company Limited Port of Felixstowe Limited Hutchison Ports (Europe) Limited Walton Container Terminal Limited Walton Estates Limited Hutchison Westports Limited Orange PLC* Orange Personal Communications Limited* Hutchison Mobile Data (UK) Limited* Hutchison Telephone (UK) Limited* Hutchison Information Services (UK) Limited* Orange Retail Limited* Hutchison Mobile Services Limited* Hutchison Paging (UK) Limited* Hutchison Personal Communications Limited* Hutchison Cellular Services Limited* Orange Personal Communications Services Limited* Hutchison Euromessage Limited* Orange Holdings (UK) Limited* Cluff Resources PLC* London and Provincial Antique Dealers' Association Limited (Chairman)* Personal Communication Networks Limited* ARTIST (Arts Recording and Three-Dimensional Information System Technology Limited)*

<i>Name</i>	<i>Responsibilities within the Society</i>	<i>Business occupation</i>	<i>Other Directorships and Partnerships held within the last five years</i>
Denise Nichola Jagger	Non executive Director	Company Secretary and Corporate Counsel	ASDA (Leeds) Limited ASDA Employee Share Schemes Trustee Limited ASDA Services Limited ASDA Stores Limited ASDA Trustees (Nominee) Limited ASDA Wool Shops Limited ASDADRIVE Leasing Limited McLagan Investments Limited Property Sellers Limited ASDADRIVE Limited Leeds TEC Limited Water Fulford Limited Landstock Investments Limited Hardraada Limited Leeds Chamber of Commerce and Industry* United Leeds Teaching Hospital Trust Limited (Institute of Pathology)*
John Brian Mitchell	Non executive Director	Company Director	John Mitchell Office Equipment Limited Pennine Housing Limited Valerian Developments Limited Focus Hotels Limited Yorkshire Coast Radio Limited* Scarborough Finance Limited*
Nicholas Hugh Tremayne Wrigley	Non executive Director	Merchant Banker	The Pontefract Park Race Company Limited Bemrose Corporation Public Limited Company Burton Agnes Hall Preservation Trust Limited N M Rothschild Corporate Finance Limited Partner in N & P Wrigley N M Rothschild & Sons (India) Private Limited N M Rothschild & Sons (Australia) Limited N M Rothschild & Sons (Singapore) Limited N M Rothschild & Sons (S. Africa) (Pty) Limited N M Rothschild & Sons China Holding AG N M Rothschild & Sons Limited*
Gerald Roper Waterworth	Finance Director		St Catherine's Hospice Trust Scarborough Hospice Sales Limited Scarborough Properties Limited

The directorships and partnerships marked * are not currently held.

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 criticism 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. Save as disclosed above, none of the Directors has been a partner in a partnership which has been placed in compulsory liquidation or

administration or has been party to a partnership voluntary arrangement or had a receiver appointed over any of its assets, either while he was a partner in that partnership or within the twelve months after he ceased to be a partner in that partnership.

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 (exclusive of any remuneration paid in respect of executive duties) which shall be paid at a rate not exceeding the greater of 4p per £100 of total assets of the Society or £10 per £100 of total group post tax profits as shown in the latest audited annual accounts, 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.

The Board may provide, establish, maintain and administer pension, life assurance, sickness, annuity and other funds schemes (whether contributory or not) for the benefit of past, present or future executive Directors of the Society and any society with which the Society may merge in the future and their spouses, children and dependants. In addition, the Board may grant pensions, allowances, gratuities, donations and bonuses to such persons.

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.

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 its subsidiary undertakings 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 30th April, 1999 advances secured on residential property included 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 £972,400.78.

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

Employee schemes

There are no existing schemes involving the Directors or any employees of the Society or its subsidiary undertakings in any capital of the Society or its subsidiary undertakings.

Directors' service agreements

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

- (i) a service agreement with John Jackson Carrier dated 11th June, 1991, pursuant to which he is employed as the Society's Chief Executive at a current basic annual salary of £135,000. The agreement is terminable by the Society on 2½ years' notice and by Mr Carrier on 6 months' notice; and

- (ii) a service agreement with Gerald Roper Waterworth dated 1st November, 1996 pursuant to which he is employed as the Society's Finance Director at a current basic annual salary of £82,000. The agreement is terminable by the Society on 1 year's notice and by Mr Waterworth on 6 months' notice.

The salaries are reviewed once in each year by the Board's Remuneration Committee, whose recommendations are considered by the Board. The next review is to be with effect from 1st May, 2000. Both executive Directors participate in a discretionary performance related incentive scheme under which short and medium term bonuses may be awarded, following a recommendation by the Board's Remuneration Committee, based on the Committee's evaluation of the performance of the individual Director and the Society. The short term bonuses awarded in respect of the financial year ended 30th April, 1999 amounted to £24,000 and £10,000 for Mr. Carrier and Mr. Waterworth respectively.

They are also entitled to participate in the Society's non-contributory pension scheme, to private health insurance cover and an appropriate fully expensed motor car. Both executive Directors have also obtained concessionary mortgage facilities at the Society's normal staff mortgage interest rate, amounting to £65,000 for Mr Carrier and £45,000 for Mr Waterworth.

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

Amounts payable to the Directors

Total aggregate remuneration and benefits in kind of £377,000 were paid to Directors of the Society by the Group in respect of the financial year ended 30th April, 1999. It is estimated that an aggregate sum of approximately £420,000 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 30th April, 2000.

CAPITALISATION AND INDEBTEDNESS

The following table is a summary of the Group's unaudited shareholders' funds and indebtedness as at 31st January, 2000 as adjusted to reflect the issue of the PIBS:

	<i>£ million</i>
Shareholders' funds	
Shares	818
PIBS (now being issued)	15
General Reserve	36
Total Shareholders' funds	<u>869</u>
Indebtedness	
Amounts owed to Credit Institutions	124
Amounts owed to Other Customers	13
Subordinated Liabilities	22
Total indebtedness	<u>159</u>
Total Capitalisation	<u>1,028</u>

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 undertakings since 31st January, 2000. As at 29th February, 2000 (the most recent practicable date) the aggregate amount of the Society's shares was £804 million.

There have been no significant changes in the amount of issued capital of the Society, nor any of its subsidiary undertakings, during the past three years.

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 undertakings 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, that is, for at least the next twelve months from the date of this document.

The Society, as a building society, is a mutual organisation and, unlike a company incorporated under the Companies Act 1985, does not have equity shareholders in the usual sense. A share in the Society is not the same as a share in a company and the voting power is not weighted according to number or value of shares held. Holders of investment shares may withdraw funds from their share accounts subject to the Rules of the Society and the terms upon which their shares are issued. Depositors with and lenders to the Society are not members and accordingly have no voting rights.

GROUP FINANCIAL SUMMARY

Financial Results for the years ended 30 April 1995 to 1999

The following information has been extracted or derived from the consolidated annual report and accounts of the Society for the five years ended 30th April, 1999.

	1995	1996	1997	1998	1999
	£ million	£ million	£ million	£ million	£ million
Balance Sheet					
Total Assets	456	504	628	703	896
Mortgage Balances	372	407	506	569	725
Shares and Deposits	421	468	583	653	837
Reserves	19	22	25	29	33
Balance Sheet Ratios	%	%	%	%	%
%age of Total Assets					
Liquidity	17.3	18.1	16.9	17.0	18.6
Reserves	4.2	4.4	4.0	4.1	3.7
Gross Capital	6.4	6.3	6.6	6.7	6.4
Free Capital	5.8	5.7	6.1	5.8	5.7
Profitability	£ million	£ million	£ million	£ million	£ million
Interest Margin	8.9	9.9	10.4	10.4	11.4
Pre Tax Profit	3.4	3.8	4.3	5.3	6.2
Financial Performance	%	%	%	%	%
Return on					
Mean Total Assets	0.5	0.5	0.5	0.5	0.5
Return on					
Mean Total Reserves	12.2	12.0	12.5	13.7	14.1
Costs to Mean Total Assets	1.4	1.3	1.1	0.9	0.9
Cost Income Ratio	52.2	53.9	54.5	52.9	51.7
Mortgage Provisions					
to Mean Total Assets	1.2	1.1	0.4	0.2	0.2
Growth Ratios					
Total Assets	12.0	10.6	24.7	12.0	27.4
Mortgage Balances	13.4	9.2	24.5	12.4	27.3
Reserves	13.1	12.8	13.4	14.8	15.2
Increase in Pre Tax Profit	27.2	13.3	13.2	23.6	16.1

The following information has been extracted without material adjustment from the Society's consolidated audited annual report and accounts for the three years ended 30th April, 1999 and from the interim audited accounts for the six months ended 31st October, 1999.

Group Income and Expenditure Accounts

		<i>Six months ended 31 October</i>	<i>Year ended 30 April</i>		
	<i>Notes</i>	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>	<i>1997 £000</i>
Interest Receivable and Similar Income	2	28,223	52,740	47,081	33,183
Interest Payable and Similar Charges	3	23,717	41,316	36,719	23,896
Net Interest Receivable		4,506	11,424	10,362	9,287
Fees and Commissions Receivable	4	2,458	3,826	3,038	2,827
Fees and Commissions Payable	5	527	1,058	625	438
Other Operating Income	6	195	84	47	42
Total Income		6,632	14,276	12,822	11,718
Administrative Expenses	7	3,928	6,685	6,250	6,003
Depreciation and Amortisation		395	690	534	389
Total Operating Expenses		4,323	7,375	6,784	6,392
		2,309	6,901	6,038	5,326
Provisions for Bad and Doubtful Debts	14	113	710	706	1,013
Profit on Ordinary Activities Before Taxation		2,196	6,191	5,332	4,313
Taxation on Profit on Ordinary Activities	10	665	1,865	1,666	1,385
Profit for the Financial Period	26	1,531	4,326	3,666	2,928

Comparative figures have been re-stated to comply with the new Account Regulations as explained on page 19⁽¹⁾.

The above results are derived wholly from continuing operations of the business.

There have been no recognised gains or losses other than the profit for the period.

The notes on pages 19 to 35⁽²⁾ form part of this financial information.

(1) The reference to page 19 refers to the information set out on page 32 of this document.

(2) The reference to page 19 to 35 refers to the information set out on pages 32 to 51 of this document.

Group Balance Sheets

		As at 31 October		As at 30 April	
		1999 £000	1999 £000	1998 £000	1997 £000
Notes					
Assets					
Liquid Assets					
Cash In Hand and Balances with the Bank of England		51,448	365	162	137
Loans and advances to credit institutions	11	150,307	99,470	83,734	71,469
Debt securities	12	71,177	51,423	35,615	27,294
Other Liquid Assets		2,001	3,701	1,021	7,534
Loans and Advances to Customers					
Loans Fully Secured on Residential Property	13	790,595	720,066	564,428	499,934
Other Loans		3,856	4,626	4,852	6,357
Tangible Fixed Assets	16	6,257	6,186	5,961	2,982
Other Assets	17	4,814	4,685	1,058	4,637
Prepayments and Accrued Income	18	5,665	5,446	6,407	7,672
Total Assets		1,086,120	895,968	703,238	628,016
Liabilities					
Shares	19	949,851	654,303	584,331	475,580
Amounts Owed to Credit Institutions	20	24,399	109,223	51,200	87,948
Amounts Owed to Other Customers	21	46,464	69,501	15,267	19,633
Other Liabilities	22	7,390	8,308	7,225	6,075
Accruals and Deferred Income	23	1,113	1,167	1,028	476
Provisions for Liabilities and Charges	24	252	356	378	130
Subordinated Liabilities	25	22,294	20,284	15,309	13,340
		1,051,763	863,142	674,738	603,182
Reserves					
General Reserve	26	34,357	32,826	28,500	24,834
Total liabilities		1,086,120	895,968	703,238	628,016

Comparative figures have been restated to comply with the new Accounts Regulations as explained on page 19⁽¹⁾.

The notes on pages 19 to 35⁽²⁾ form part of this financial information.

(1) The reference to page 19 refers to the information set out on page 32 of this document.

(2) The reference to page 19 to 35 refers to the information set out on pages 32 to 51 of this document

Group Cash Flow Statements

	<i>Six months ended</i>		
	<i>31 October</i>	<i>Year ended 30 April</i>	
	<i>1999</i>	<i>1999</i>	<i>1998</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Net Cash Inflow from Operating Activities	69,398	89,894	12,331
Returns on Investments and Servicing of Finance	(783)	(1,473)	(1,223)
Taxation	(38)	(1,557)	(1,306)
Capital Expenditure and Financial Investment:			
Purchase of Tangible Fixed Assets	(557)	(990)	(3,580)
Disposal of Tangible Fixed Assets	99	75	67
Purchase of debt securities	(19,519)	(15,523)	(8,233)
Financing – issue of subordinated liabilities	2,000	4,975	1,969
Acquisition of Mortgage Portfolio	0	(75,000)	0
Increase in Cash	50,600	401	25
Reconciliation of operating profit to net cash inflow from operating activities			
Operating Profit	2,196	6,191	5,332
Decrease in Prepayments and Accrued Income	(1,089)	1,188	1,106
Increase in Accruals and Deferred Income	12,724	577	351
Provisions for Bad and Doubtful Debts	116	922	1,032
Loans and Advances written off net of recoveries	(301)	(974)	(1,436)
Depreciation	405	690	534
Profit on sale of tangible fixed assets	(8)	0	0
Interest on Subordinated Liabilities	793	1,482	1,236
Net cash inflow from trading activities	14,836	10,076	8,155
Movement in:			
Loans and Advances to Customers	(69,574)	(80,360)	(62,585)
Shares	283,028	69,353	108,751
Amounts owed to Credit Institutions and other customers	(108,129)	112,327	(12,181)
Loans and Advances to Credit Institutions and Other Customers	(50,684)	(16,050)	(40,926)
Other Assets	(129)	(3,627)	3,579
Other Liabilities	(1,650)	875	1,038
Other Liquid Assets	1,700	(2,700)	6,500
Net Cash Inflow from Operating Activities	69,398	89,894	12,331

Analysis of Increase in Cash

	<i>Cash Balances £000</i>	<i>Net Increase £000</i>
Cash in hand and balances with Bank of England	51,163	
Loans and Advances to credit institutions repayable on demand	0	
31st October 1999	51,163	
Increase 30 April 1999 to 31 October 1999		50,600
30th April 1999	563	
Increase 1998 to 1999		401
30th April 1998	162	
Increase 1997 to 1998		25
30th April 1997	137	

Group Statement of Source and Application of Funds for the Year Ended 30 April 1998

	1998	1997
	£000	£000
Source of Funds		
Increase in Free Capital	2,658	8,399
Advances and Loans Repaid by Borrowers	60,488	49,911
Net Receipts from Retail Funds and Deposits	109,038	75,089
Net Receipts from Non-Retail Funds and Deposits	0	40,198
Other Items	6,652	0
Total Source of Funds	178,836	173,597
Application of Funds		
Net Repayment of Non-Retail Funds and Deposits	41,401	0
Increase in Liquid Assets	14,098	15,309
Advances and Loans made to Borrowers	123,188	89,741
Purchase of Mortgage Assets	0	59,829
Increase in Other Commercial Assets	149	78
Other Items	0	8,640
Total Application of Funds	178,836	173,597
Increase in Free Capital		
Source of Funds		
Profit on Ordinary Activities after Tax	3,666	2,928
Adjustment for Items not involving the Movement of Funds:		
Depreciation of Tangible Fixed Assets	534	389
Increase in General Provision for Bad and Doubtful Debts	2	48
Funds Generated from Operations	4,202	3,365
Funds from Other Sources		
Disposal of Tangible Fixed Assets	67	119
Net Proceeds of Issue of Subordinated Loan Capital	1,969	5,840
Application of Funds		
Purchase of Tangible Fixed Assets	(3,580)	(925)
Increase in Free Capital	2,658	8,399

Free capital comprises reserves, subordinated liabilities and general provisions for bad and doubtful debts less tangible fixed assets.

The movement in specific provisions for bad and doubtful debts is included within "Advances and Loans repaid by Borrowers".

NOTES TO THE ACCOUNTS

1. Principal Accounting Policies

Basis of Preparation

The Accounts are prepared under the historical cost convention and in accordance with applicable accounting standards and the Building Societies (Accounts and Related Provisions) Regulations 1998. As a result of the implementation of the new regulations, comparative figures for 1997 and 1998 have been restated. Estimates have, in certain instances, been used in the comparatives.

Premiums on the Acquisition of Mortgages

Premiums paid on the acquisition of mortgages are included in prepayments in the Balance Sheet and are written off over five years against interest receivable.

Incentives to Customers

Cashback incentives which, under the terms and conditions of the mortgage, are subject to clawback on early redemption, are amortised over the period of clawback and charged against interest receivable and similar income. The unamortised amount of cashback is included in prepayments in the Balance Sheet.

Interest discounts to our mortgage customers are charged against interest receivable as incurred.

Deferred Tax

Deferred tax is provided using the liability method in respect of material timing differences where, in the opinion of the Directors, liability is expected to arise in the foreseeable future.

Operating Leases

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

Repairs and Renewals

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

Fixed Assets and Depreciation

Leasehold premises are depreciated over the terms of the lease.

The cost of additions and major alterations to office premises, equipment, plant and motor vehicles is capitalised.

Depreciation is provided on a straight line basis as follows:

Leasehold premises	-	the remainder of the lease up to 50 years
Office equipment	-	10 years
Computer equipment	-	5 years
Other assets	-	5 years

Freehold premises are maintained to a high standard and it is considered that residual values, based upon prices prevailing at the time of acquisition, are such that depreciation is not significant. Provision is made for diminution in value of any fixed assets.

Liquid Assets

Debt securities intended for use on a continuing basis in the Society's activities are classified as financial fixed assets and are stated at cost.

Premiums and discounts arising on the purchase of financial fixed assets are amortised over the period to the maturity date of the security. Any amounts so amortised are charged or credited to the Income and Expenditure Account for the relevant financial years.

Any permanent diminution in value of such financial assets would result in a write down of the cost of the securities to their recoverable amounts and would be dealt with through the Income and Expenditure Account.

Other liquid assets are stated at the lower of cost and net realisable value.

Other Borrowings and Subordinated Debt

Premiums and discounts together with commissions and other costs incurred in the raising of non-retail funds and subordinated liabilities are accounted for as an adjustment to the amount of the liability and are amortised over the period to maturity.

Pension Costs

The Society operates non-contributory and defined contribution pension schemes administered by an Assurance Company. Contributions to the pension schemes of the Society are charged to the Income and Expenditure Account so as to spread the cost of pensions over employees' working lives within the Society. The contribution levels are determined by valuations undertaken by independent qualified actuaries.

Provisions for Loans and Advances

Provisions are made to reduce the value of loans and advances to the amount which the Directors consider likely to be ultimately received.

Throughout the year and at the year end all loans and advances which are three months or more in arrears or where the property is in possession are reviewed to consider the possibility of loss. A specific provision is made where the Directors consider that a loss is likely to be incurred. In addition a review of all loans and advances which, in the opinion of the Directors, are impaired or where fraud has been identified is carried out. Where a likely loss can be identified a specific provision is made. A general provision is also made against loans and advances which have not been identified as impaired but the general economic climate would indicate that losses may ultimately be realised.

Interest in respect of all loans is credited to the Income and Expenditure Account as it becomes receivable, except in respect of advances where there are long term arrears or where the property has been taken into possession and where the collectability of the interest is subject to significant doubt.

Mortgage Indemnity Guarantee

It is the Group's policy to require mortgage indemnity guarantee insurance where an advance will result in a loan to valuation ratio in excess of a certain percentage. Where under the terms of its insurance contract the Group retains some of the risk loss, it assesses the risk accepted and estimates an appropriate charge for that risk. The amount of the charge is set aside from the total premium and is treated as deferred income. The deferred amount is recognised as income over the life of the mortgage, so as to reflect the Group's estimate of the reduction in the risk on advances remaining outstanding.

Off-Balance Sheet Instruments

All interest rate related contracts are classified at the balance sheet date as hedging contracts.

All hedging contracts are valued and income or expenditure recognised on an equivalent basis to the assets, liabilities or positions that are being hedged. If the hedging contract is terminated early, the realised gain or loss is charged immediately to the Income and Expenditure Account.

Amounts accrued on hedging contracts and instruments are included within prepayments and accrued income or accruals and deferred income.

2. Interest receivable and similar income

	<i>Six months ended 31 October</i>	<i>Year ended 30 April</i>		
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>	<i>1997 £000</i>
On Loans Fully Secured on Residential Property	23,116	42,891	38,355	27,610
On Other Loans				
Other	180	504	455	530
On Debt Securities				
Fixed Income Securities	1,692	2,502	1,683	2,091
Profits Net of Losses	16	629	557	(7)
On Other Liquid Assets				
Interest and other income	3,639	6,270	6,261	3,615
Net expense on Financial Instruments	(420)	(56)	(230)	(656)
	<u>28,223</u>	<u>52,740</u>	<u>47,081</u>	<u>33,183</u>

Interest on loans fully secured on residential property and on other loans has been reduced by interest suspended on non-performing loans in accordance with the Society's accounting policy.

Movements in the suspended interest account were as follows:

	<i>Six months ended 31 October</i>	<i>Year ended 30 April</i>		
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>	<i>1997 £000</i>
As of start of period	559	633	247	–
Charge in the Period				
Interest suspended in the Period	45	151	458	247
Interest written off in the Period	(26)	(225)	(72)	–
As of end of period	<u>578</u>	<u>559</u>	<u>633</u>	<u>247</u>

3. Interest payable and similar charges

	<i>Six months ended 31 October</i>	<i>Year ended 30 April</i>		
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>	<i>1997 £000</i>
On Shares held by Individuals	19,050	35,075	29,063	19,426
On Deposits and Other Borrowings				
Subordinated Liabilities	793	1,482	1,236	585
Other	3,874	4,759	6,420	3,885
	<u>23,717</u>	<u>41,316</u>	<u>36,719</u>	<u>23,896</u>

4. Fees and Commissions Receivable

	<i>Six months ended 31 October</i>	<i>Year ended 30 April</i>		
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>	<i>1997 £000</i>
Commission on Property Insurance	470	750	759	642
Other	1,988	3,076	2,279	2,185
	<u>2,458</u>	<u>3,826</u>	<u>3,038</u>	<u>2,827</u>

5. Fees and Commissions Payable

	<i>Six months ended 31 October</i>	<i>Year ended 30 April</i>		
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>	<i>1997 £000</i>
Valuation Fees	331	563	278	284
Other	196	495	347	154
	<u>527</u>	<u>1,058</u>	<u>625</u>	<u>438</u>

6. Other Operating Income

	<i>Six months ended 31 October</i>	<i>Year ended 30 April</i>		
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>	<i>1997 £000</i>
Rent Receivable	96	59	47	42
Other	99	25	–	–
	<u>195</u>	<u>84</u>	<u>47</u>	<u>42</u>

7. Administrative Expenses

	<i>Six months ended 31 October</i>	<i>Year ended 30 April</i>		
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>	<i>1997 £000</i>
Staff costs (Note 8)	2,085	3,347	3,306	3,204
Auditors and their associates' remuneration				
Audit services	35	76	67	58
Non-audit services	10	10	14	5
Other Expenses	1,798	3,252	2,863	2,736
	<u>3,928</u>	<u>6,685</u>	<u>6,250</u>	<u>6,003</u>

8. Staff Numbers and Costs

The average number of persons employed (including Executive Directors) during the period was as follows:

	<i>Six months ended 31 October</i>		<i>Year ended 30 April</i>					
	<i>1999</i>		<i>1999</i>		<i>1998</i>		<i>1997</i>	
	<i>Full Time</i>	<i>Part Time</i>	<i>Full Time</i>	<i>Part Time</i>	<i>Full Time</i>	<i>Part Time</i>	<i>Full Time</i>	<i>Part Time</i>
Society's Head Office	134	19	110	20	96	27	103	11
Society's Branch Offices	43	18	45	19	45	27	68	17
Subsidiaries' Offices	38	3	32	3	29	1	29	2
	<u>215</u>	<u>40</u>	<u>187</u>	<u>42</u>	<u>170</u>	<u>55</u>	<u>200</u>	<u>30</u>

	<i>Six months ended 31 October</i>	<i>Year ended 30 April</i>		
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>	<i>1997 £000</i>
The aggregate costs of these persons were as follows:				
Wages and Salaries	1,742	2,808	2,801	2,733
Social Security Costs	158	248	224	215
Other pension costs	185	291	281	256
	<u>2,085</u>	<u>3,347</u>	<u>3,306</u>	<u>3,204</u>

9. Directors' Emoluments and Transactions

	<i>Salary & Fees £000</i>	<i>Bonus £000</i>	<i>Taxable Benefits £000</i>	<i>Increase in accrued Pensions £000</i>	<i>Total £000</i>
Executive Directors' Emoluments					
John J Carrier	68	0	5	1	74
Gerald R Waterworth	41	0	3	1	45
Total Executive Emoluments					
Six months ended 31 October 1999	109	0	8	2	119
Year ended 30 April 1999	188	34	17	8	247
Year ended 30 April 1998	134	21	13	7	175
Year ended 30 April 1997	100	15	11	5	131
Non-Executive Directors' Emoluments					
GF Winn	17	0	0	0	17
RL Grunwell	12	0	0	0	12
Lord Derwent	10	0	0	0	10
JB Mitchell	10	0	0	0	10
WR Worsley	12	0	0	0	12
DN Jagger	10	0	0	0	10
Total Non-Executive Emoluments					
Six months ended 31 October 1999	71	0	0	0	71
Year ended 30 April 1999	130	–	–	–	130
Year ended 30 April 1998	132	–	–	–	132
Year ended 30 April 1997	112	–	–	–	112
Total Directors' Emoluments					
Six months ended 31 October 1999	180	0	8	2	190
Year ended 30 April 1999	318	34	17	8	377
Year ended 30 April 1998	266	21	13	7	307
Year ended 30 April 1997	212	15	11	5	243

Transactions with Directors

At 31st October, 1999 there were eleven loans outstanding to Directors and connected persons amounting to £1,144,000 and at 30th April, 1999 there were eleven loans outstanding to Directors and connected persons amounting to £972,000 (1998: 13 loans and £1,022,000, 1997: 10 loans and £896,000) as defined by Section 65 of the Building Societies Act 1986. Details of all such contracts and loans with Directors and connected persons are contained in a register which will be available for inspection by members at the Society's Principal Office for a period of 15 days up to and including the Annual General Meeting.

10. Tax on Profit on Ordinary Activities

	<i>Six months ended 31 October</i>	<i>Year ended 30 April</i>		
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>	<i>1997 £000</i>
Corporation Tax				
Current period	728	1,898	1,594	1,394
Prior Years	41	(11)	(176)	0
Deferred Taxation				
Current period	(63)	17	68	(9)
Prior years	(41)	(39)	180	0
	<u>665</u>	<u>1,865</u>	<u>1,666</u>	<u>1,385</u>

11. Loans and Advances to Credit Institutions

	<i>As at 31 October</i>	<i>As at 30 April</i>	
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>
Loans and Advances to Credit Institutions having remaining maturities as follows:			
Accrued interest	857	222	734
Repayable on demand	0	198	0
In not more than three months	136,450	82,050	62,000
In more than three months but not more than one year	10,000	14,000	6,000
In more than one year but not more than five years	3,000	3,000	15,000
	<u>150,307</u>	<u>99,470</u>	<u>83,734</u>

12. Debt Securities

	<i>As at 31 October</i>	<i>As at 30 April</i>	
	<i>1999</i>	<i>1999</i>	<i>1998</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
a) Debt Securities comprise:			
Issued by Public Bodies	16,945	17,977	12,343
Issued by Other Borrowers	54,232	33,446	23,272
	<u>71,177</u>	<u>51,423</u>	<u>35,615</u>
b) Debt Securities having renewing maturities as follows:			
Accrued Interest	822	587	302
In not more than three months	37,637	24,246	18,011
Repayable in not more than one year	10,943	3,202	6,074
Repayable in more than one year	21,775	23,388	11,228
	<u>71,177</u>	<u>51,423</u>	<u>35,615</u>
c) Analysis of Debt Securities			
Transferable Securities			
Listed on a recognised Investment Exchange	2,996	0	0
Unlisted	67,359	50,836	35,313
Accrued interest	822	587	302
	<u>71,177</u>	<u>51,423</u>	<u>35,615</u>
d) Transferable Debt Securities held as financial fixed assets			
At Maturity Value	69,900	50,100	35,153
Unamortised Premiums	455	736	160
Accrued Interest	822	587	302
	<u>71,177</u>	<u>51,423</u>	<u>35,615</u>

The Directors of the Society consider that the primary purpose of holding debt securities is prudential. These securities are held as liquid assets with the intention of use on a continuing basis in the Society's activities and hence are classified as financial fixed assets.

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

	<i>31 October</i>	<i>30 April</i>	<i>30 April</i>
	<i>1999</i>	<i>1999</i>	<i>1998</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Adjusted Cost and Net book Value (Excluding Accrued Interest)			
At start of period	50,836	35,313	27,080
Additions	137,609	231,035	140,674
Disposals	(118,090)	(215,512)	(132,441)
At end of period	<u>70,355</u>	<u>50,836</u>	<u>35,313</u>

13. Loans and Advances to Customers

	<i>As at 31 October</i>	<i>As at 30 April</i>	
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>
a) Loans and advances to customers comprise:			
Loans fully secured on residential property	790,595	720,066	564,428
Other Loans			
Loans fully secured on land	3,056	3,735	4,483
Other loans	800	891	369
	<u>794,451</u>	<u>724,692</u>	<u>569,280</u>
b) The maturity of loans and advances to customers from the date of the balance sheet is as follows:			
Accrued interest	0	0	0
On call and at short notice	0	0	0
In not more than three months	528	322	411
In more than three months but not more than one year	1,730	1,490	952
In more than one year but not more than five years	25,347	22,517	13,759
In more than five years	767,987	701,689	555,536
	<u>795,592</u>	<u>726,018</u>	<u>570,658</u>
Less provisions (Note 14)	1,141	1,326	1,378
	<u>794,451</u>	<u>724,692</u>	<u>569,280</u>

14. Provisions for Bad and Doubtful Debts

	<i>Loans Fully Secured on Residential Property</i>	<i>Loans Fully Secured on Land</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Provisions have been made as follows:			
At 1 May 1999:			
General provision	198	0	198
Specific provision	634	494	1,128
	<u>832</u>	<u>494</u>	<u>1,326</u>
Amounts written off during period:			
General provision	(69)	0	(69)
Specific provision	(229)	0	(229)
	<u>(298)</u>	<u>0</u>	<u>(298)</u>
Income and expenditure account			
Provisions for bad and doubtful debts:			
General provision	262	0	262
Specific provision	(16)	(130)	(146)
Adjustments resulting from Recoveries	(3)	0	(3)
	<u>243</u>	<u>(130)</u>	<u>113</u>
At 31 October 1999			
Being: General provision	391	0	391
Specific provision	386	364	750
	<u>777</u>	<u>364</u>	<u>1,141</u>
At 30 April 1999			
Being: General provision	198	0	198
Specific provision	634	494	1,128
	<u>832</u>	<u>494</u>	<u>1,326</u>
At 30 April 1998			
Being: General provision	75	0	75
Specific provision	837	466	1,303
	<u>912</u>	<u>466</u>	<u>1,378</u>

15. Investments in Subsidiary Undertakings

The Society has the following subsidiary undertakings, all of which are wholly owned and which operate in the United Kingdom, trading in the businesses indicated.

Both companies are limited by shares, are registered in England, have their registered offices at Prospect House, PO Box 6, Scarborough, North Yorkshire YO12 6EQ and have a 30 April year end date.

Specialist Mortgage Services Limited – Mortgage Administration

North Yorkshire Mortgages Limited – Mortgage Lending

16. Tangible Fixed Assets

	<i>Land and Buildings</i>	<i>Equipment, Fixtures Fittings & Vehicles</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost: At 1 May 1999	3,183	6,484	9,667
Additions	0	557	557
Disposals	0	(213)	(213)
At 31 October 1999	3,183	6,828	10,011
Depreciation: At 1 May 1999	166	3,315	3,481
Charged in period	4	391	395
Disposals	0	(122)	(122)
At 31 October 1999	170	3,584	3,754
Net Book Value: At 31 October 1999	3,013	3,244	6,257
Net Book Value: At 30 April 1999	3,017	3,169	6,186
Net Book Value: At 30 April 1998	2,894	3,067	5,961
The net book value of land and buildings comprises:	<i>31 October 1999</i>	<i>30 April 1999</i>	<i>30 April 1998</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Freehold Premises	2,956	2,956	2,824
Leasehold Premises less than 50 years unexpired	57	61	70
	<u>3,013</u>	<u>3,017</u>	<u>2,894</u>

The net book value of land and buildings occupied by the Group and Society for its own activities at 31 October 1999 was £3,013,000 and 30 April 1999 was £3,017,000 (1998: £2,894,000).

17. Other Assets

	<i>As at 31 October</i>	<i>As at 30 April</i>	
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>
Other	4,814	4,685	1,058

18. Prepayments and Accrued Income

	<i>As at 31 October</i>	<i>As at 30 April</i>	
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>
Unamortised Mortgage Premiums	1,702	2,170	2,888
Unamortised Cashbacks	1,894	2,037	2,513
Other	2,069	1,239	1,006
	5,665	5,446	6,407

19. Shares

	<i>As at 31 October</i>	<i>As at 30 April</i>	
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>
a) Shares comprise:			
Held by Individuals	949,851	654,303	584,331
b) Repayable from the date of the balance sheet in ordinary course of business as follows:			
Accrued interest	13,139	619	0
On demand	936,712	653,684	584,331
	949,851	654,303	584,331

20. Amounts Owed to Credit Institutions

	<i>As at 31 October</i>	<i>As at 30 April</i>	
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>
Repayable from the date of the balance sheet in the ordinary course of business as follows:			
Accrued interest	83	185	280
On demand	1,816	2,931	2,820
In not more than three months	17,500	100,357	38,100
In more than three months but not more than one year	5,000	5,750	6,000
In more than one year but not more than five years	0	0	4,000
	24,399	109,223	51,200

21. Amount Owed to Other Customers

	<i>As at 31 October</i>	<i>As at 30 April</i>	
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>
Repayable from the date of the balance sheet in the ordinary course of business as follows:			
Accrued interest	742	372	347
On demand	0	286	499
In not more than three months	29,722	41,443	10,021
In more than three months but not more than one year	13,500	26,400	3,400
In more than one year but not more than five years	2,500	1,000	1,000
	<u>46,464</u>	<u>69,501</u>	<u>15,267</u>

22. Other Liabilities

	<i>As at 31 October</i>	<i>As at 30 April</i>	
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>
Income tax	2,923	4,042	3,624
Corporation tax	2,674	1,943	1,615
Other creditors	1,793	2,323	1,986
	<u>7,390</u>	<u>8,308</u>	<u>7,225</u>

23. Accruals and Deferred Income

	<i>As at 31 October</i>	<i>As at 30 April</i>	
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>
Interest accrued on Subordinated Liabilities	114	104	95
Interest accrued on Off-Balance Sheet Instruments	65	135	10
Other	934	928	923
	<u>1,113</u>	<u>1,167</u>	<u>1,028</u>

24. Provisions for Liabilities and Charges

	<i>As at 31 October</i>	<i>As at 30 April</i>	
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>
Deferred tax			
At start of period	356	378	130
Amount provided during period	(104)	(22)	248
At end of period	<u>252</u>	<u>356</u>	<u>378</u>
The amounts provided for deferred tax represent the full potential liability and are set out below:			
Excess of capital allowances over depreciation	219	242	280
Other timing differences	33	114	98
	<u>252</u>	<u>356</u>	<u>378</u>

25. Subordinated Liabilities

	<i>As at 31 October</i>	<i>As at 30 April</i>	
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>
Floating Rate Subordinated Liabilities 2001	5,000	5,000	5,000
Floating Rate Subordinated Liabilities 2002	2,500	2,500	2,500
Floating Rate Subordinated Liabilities 2013	5,000	3,000	1,000
Fixed Rate 6.99% Subordinated Liabilities 2017	3,000	3,000	0
Fixed Rate 9.41% Subordinated Liabilities 2017	7,000	7,000	7,000
	<u>22,500</u>	<u>20,500</u>	<u>15,500</u>
Less unamortised premiums and Issue Costs	206	216	191
	<u>22,294</u>	<u>20,284</u>	<u>15,309</u>

Notes are repayable at the dates stated or earlier at the option of the Society with the prior consent of the Building Societies Commission. All Subordinated Liabilities are denominated in sterling. Interest payments are made on the floating rate loans at the rate agreed with reference to LIBOR (London Interbank Offered Rate).

26. General Reserve

	<i>As at 31 October</i>	<i>As at 30 April</i>	
	<i>1999 £000</i>	<i>1999 £000</i>	<i>1998 £000</i>
At start of period	32,826	28,500	24,834
Profit for the financial period	1,531	4,326	3,666
At end of period	<u>34,357</u>	<u>32,826</u>	<u>28,500</u>

27. Guarantees and other Financial Commitments

- (a) The Society has a contingent liability in respect of contributions to the Building Societies Investor Protection Fund provided under the Building Societies Act 1986.

	<i>As at 31 October</i>	<i>As at 30 April</i>	
	<i>1999</i>	<i>1999</i>	<i>1998</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
(b) Capital commitments at the end of the financial year:			
Contracted	574	0	100
(c) Operating Leases			
Payments committed at the end of the year in respect of the next financial year			
Land and buildings			
Expiring before five years	123	106	34
Expiring after five years	272	272	384
	<u>395</u>	<u>378</u>	<u>418</u>
Other			
Expiring within two to five years	<u>356</u>	<u>356</u>	<u>356</u>

- (d) The Society has an obligation under the Building Societies Act 1986 to discharge the financial commitments of its subsidiaries, insofar as these bodies are unable to discharge such commitments out of their own assets.

(e) Off-Balance Sheet Hedging Instruments

The Group's core business is to provide its members with financial products appropriate to their needs. The Group uses wholesale financial instruments to invest in liquid assets and to raise funds from wholesale money markets in support of its retail savings operations. These instruments also allow it to manage the risks arising from these business activities.

The Group has a well established formal structure for managing risks which includes risk policies, risk limits, reporting structures, mandates and control procedures.

This structure begins with the Board of Directors and the Asset and Liability Management Committee (ALCO).

Financial instruments used by the Group for risk management purposes include off-balance sheet or derivative instruments. In accordance with the Building Societies Act 1986 (as amended by the Building Societies Act 1997) such instruments are only used to limit the extent to which the Group will be affected by changes in interest rates.

As part of its responsibilities, the ALCO approves the use of specified off-balance sheet instruments within approved limits and business activities. The Group does not undertake transactions for trading or speculative purposes and consequently all off-balance sheet financial instruments are classified as hedging contracts.

The off-balance sheet instruments used by the Group in managing its balance sheet risk exposures are interest rate swaps and caps. These are used to protect the Group from exposures arising principally from fixed and capped rate mortgage lending, fixed rate savings products and deposit funding. The duration of off-balance sheet contracts is generally short to medium term, and their maturity profile reflects the nature of exposures arising from underlying business activities.

Under an interest rate swap, the Group agrees with another party to exchange at specific intervals the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. The notional principal of these instruments reflects the extent of the Group's involvement in the instruments, but does not represent its exposure to credit risk which is assessed by reference to the fair value.

(f) Risk Management

The main financial risks arising from the Group's activities are credit risk, liquidity risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks, and these are summarised below.

Credit Risk

All loan applications are assessed with reference to the Group's lending policy. Changes to policy are approved by the Board and the approval of loan applications is mandated. ALCO is responsible for approving treasury counterparties.

Liquidity Risk

The Group's policy is to maintain sufficient liquid funds in a liquid form at all times to ensure that the Group can meet its liabilities as they fall due. The objective of liquidity is to help smooth mismatches between maturing assets and liabilities and to provide a degree of protection against any unexpected developments that might arise.

Interest Rate Risk

The Group is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The Group manages this exposure continually by using both on and off-balance sheet instruments.

(g) Interest Rate Exposure

The table below summarises these repricing mismatches as at 31 October 1999 and 30 April 1999. Items are allocated to time bands by reference to the earlier of the next interest rate repricing date and the maturity date.

*As at
31 October 1999*

	<i>Three Months or Less £000</i>	<i>More than Three Months Less than Six Months £000</i>	<i>More than Six Months Less than One Year £000</i>	<i>More than One Year Less than Five Years £000</i>	<i>More than Five Years £000</i>	<i>Non- interest Bearing £000</i>	<i>Total £000</i>
Assets							
Liquid Assets	245,646	4,112	8,442	5,054	10,000	1,679	274,933
Loans and Advances to Customers	708,051	—	—	86,400	—	—	794,451
Tangible Fixed Assets	—	—	—	—	—	6,257	6,257
Other Assets	—	—	—	—	—	4,814	4,814
Prepayments and Accrued Income	—	—	—	—	—	5,665	5,665
Total Assets	953,697	4,112	8,442	91,454	10,000	18,415	1,086,120
Liabilities							
Shares	936,712	—	—	—	—	13,139	949,851
Amounts owed to Credit Institutions	17,500	5,000	—	—	—	1,899	24,399
Amounts owed to Other Customers	26,222	16,000	3,500	—	—	742	46,464
Other Liabilities	—	—	—	—	—	7,390	7,390
Accruals and Deferred Income	—	—	—	—	—	1,113	1,113
Provisions for Liabilities and Charges	—	—	—	—	—	252	252
Subordinated Liabilities	—	—	—	7,500	14,794	—	22,294
Reserves	—	—	—	—	—	34,357	34,357
Total Liabilities	980,434	21,000	3,500	7,500	14,794	58,892	1,086,120
Off-Balance Sheet Items	100,492	—	—	(100,492)	—	—	—
Interest Rate Sensitivity Gap	73,755	(16,888)	4,942	(16,538)	(4,794)	(40,477)	—
Cumulative Gap	73,755	56,867	61,809	45,271	40,477	—	—

As at
30 April 1999

	Three Months or Less £000	More than Three Months Less than Six Months £000	More than Six Months Less than One Year £000	More than One Year Less than Five Years £000	More than Five Years £000	Non- interest Bearing £000	Total £000
Assets							
Liquid Assets	110,514	3,972	13,609	8,747	18,117	—	154,959
Loans and Advances to Customers	610,923	—	—	113,769	—	—	724,692
Tangible Fixed Assets	—	—	—	—	—	6,186	6,186
Other Assets	—	—	—	—	—	4,685	4,685
Prepayments and Accrued Income	—	—	—	—	—	5,446	5,446
Total Assets	721,437	3,972	13,609	122,516	18,117	16,317	895,968
Liabilities							
Shares	654,303	—	—	—	—	—	654,303
Amounts owed to Credit Institutions	100,505	5,787	—	—	—	2,931	109,223
Amounts owed to Other Customers	41,950	15,554	10,986	1,011	—	—	69,501
Other Liabilities	—	—	—	—	—	8,308	8,308
Accruals and Deferred Income	—	—	—	—	—	1,167	1,167
Provisions for Liabilities and Charges	—	—	—	—	—	356	356
Subordinated Liabilities	—	—	—	7,500	12,784	—	20,284
Reserves	—	—	—	—	—	32,826	32,826
Total Liabilities	796,758	21,341	10,986	8,511	12,784	45,588	895,968
Off-Balance Sheet Items	80,492	—	—	(80,492)	—	—	—
Interest Rate Sensitivity Gap	5,171	(17,369)	2,623	33,513	5,333	(29,271)	—
Cumulative Gap	5,171	(12,198)	(9,575)	23,938	29,271	—	—

A negative interest rate sensitivity gap exists when more liabilities than assets reprice during a given period. Although a negative gap position tends to benefit net interest income in a declining interest rate environment, the actual effect will depend upon a number of factors, including the extent to which repayments are made earlier or later than the next reset or maturity date.

(h) Fair Values of Financial Assets and Financial Liabilities

Set out below is a comparison of carrying values and fair values of some of the Group's financial assets and financial liabilities as at 31 October 1999 and 30 April 1999. The Group does not undertake transactions for trading or speculative purposes. The table excludes certain financial assets and financial liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. It therefore excludes items such as mortgages, share accounts, deposits with banks and subordinated liabilities.

	<i>As at</i> <i>31 October 1999</i>		<i>As at</i> <i>30 April 1999</i>	
	<i>Book</i> <i>Value</i>	<i>Fair</i> <i>Value</i> <i>Amount</i>	<i>Book</i> <i>Value</i>	<i>Fair</i> <i>Value</i> <i>Amount</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Financial Assets and Liabilities for which Active Financial Market exists				
Interest rate swaps	65	897	(135)	(2,460)
Interest rate caps	263	1,263	596	596

Market values have been used to determine the fair value of all off-balance sheet financial instruments and all debt securities held. The fair values of interest rate caps have been calculated using option-pricing models.

	<i>As at</i> <i>31 October</i>	<i>As at</i> <i>30 April</i>	
	<i>1999</i>	<i>1999</i>	<i>1998</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Interest rate contracts			
Notional principal amount	100,492	80,492	24,675
Risk weighted amount	589	60	153
Replacement cost	2,443	0	707

The risk weighted amount of interest rate contracts has been calculated in accordance with guidance on the solvency ratio issued by the Building Societies Commission. The replacement cost has been obtained by marking to market contracts and aggregating those with a positive value.

Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on hedges at the balance sheet date were £2,443,000 and £283,000, respectively (30 April 1999: £0 and £2,460,000 respectively). These gains and losses represent the expected future benefit of interest rate hedges to the Group, given current economic conditions (and after taking account of unrealised gains and losses which have been recognised in the balance sheet as at 31 October 1999). The Group anticipates no gains or losses will be realised in the forthcoming financial year. Of the unrecognised gains and losses on hedges as at 1 May 1999, there was no actual effect on the profit for the six months to 31 October 1999.

28. Pension Schemes

The Group operates a non-contributory defined benefit pension scheme covering senior employees. The scheme funds are administered by trustees and are independent of the Society's finances. Contributions are paid to the scheme in accordance with the recommendations of independent actuaries on the basis of triennial valuations.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increases in salaries and pensions.

It was assumed that the investment return would be 1.75 per cent. per annum higher than the rate of increase of earnings.

The actuarial valuation at 6 April 1998 showed that the market value of assets of the scheme was £3,112,000. The actuarial value represented 94 per cent. of the benefits that had accrued to members, after allowing for expected future increases in earnings. The defined benefit pension charge for the six months ended 31st October, 1999 was £90,000 and for the year ended 30th April, 1999 was £152,000 (1998: £152,000, 1997: £182,000).

The Group also operates a defined contribution scheme, the assets of which are held separately from those of the Group as independently administered funds.

The amount charged to the Income and Expenditure Account in respect of the defined contribution payable in the year is the contribution payable in the year.

The pension cost charged to the Income and Expenditure Account in respect of the defined contribution scheme amounted to £95,000 for the six months ended 31st October, 1999 and £139,000 for the year ended 30th April, 1999 (1998: £129,000, 1997: £74,000).

ANNUAL BUSINESS STATEMENT FOR THE YEAR ENDED 30 APRIL 1999

The information appearing on pages 52 to 60 of this document has been extracted without material adjustment from the Society's consolidated audited annual report and accounts for the year ended 30 April 1999.

1. Statutory Percentages

	<i>Statutory Limit</i>	
	%	%
Lending Limit	2.07%	25%
Funding Limit	21.45%	50%

Definitions

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Buildings 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.

Explanation

The lending ratio percentage represents the proportion of business assets not in the form of loans fully secured on residential property.

Business assets are defined as total Group assets plus bad debt provisions less liquid assets and tangible fixed assets.

The funding ratio represents the proportion of shares and borrowings not in the form of shares held by individuals. Shares and borrowings represent the total of shares, the amounts owed to credit institutions and amounts owed to other customers.

2. Other Percentages

	<i>30 April 1999</i>	<i>30 April 1998</i>
	%	%
As a Percentage of Shares and Borrowings		
Gross Capital	6.38	6.73
Free Capital	5.66	5.83
Liquid Assets	18.60	18.52
As a Percentage of Mean Total Assets		
Profit for the Financial Year	0.54	0.55
Management Expenses	0.92	1.02

Explanation

All percentages have been calculated from the Group Balance Sheet.

Shares and Borrowings represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.

Gross capital represents general reserve and subordinated liabilities expressed as a percentage of shares and borrowings.

Free capital represents gross capital and general loss provision less tangible fixed assets.

Liquid assets are the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions, debt securities and other liquid assets.

Mean total assets are the average of the year-end total assets. Management expenses are the total of administrative expenses and depreciation.

3. Information Relating to Directors and Other Officers

<i>Director's Name</i>	<i>Occupation</i>	<i>Other Directorships</i>	<i>Date of Birth</i>	<i>Date of Appointment as Director</i>
G F Winn B Com FCA	Chartered Accountant	Note 1	13.12.1938	1.6.1984
R L Grunwell	Solicitor	Note 2	24.9.1944	7.4.1987
J J Carrier FCIB	Building Society Chief Executive	Note 3	3.5.1948	24.8.1989
The Rt Hon Lord Derwent LVO DL	Company Director	Note 4	30.10.1930	15.9.1991
D N Jagger LLB	Company Secretary and Corporate Counsel	Note 5	7.9.1958	1.1.1997
J B Mitchell	Company Director	John Mitchell Office Equipment Limited Pennine Housing Limited Valerian Developments Limited Focus Hotels Limited	15.6.1935	10.2.1976
G R Waterworth ACA	Finance Director	St Catherine's Hospice Trust Scarborough Hospice Sales Limited	25.7.1952	1.12.1997
W R Worsley FRICS	Chartered Surveyor and Farmer	Timber Grower's Association Limited Private Banking Board Guinness Mahon and Company Independent Schools Careers Organisation Limited	12.9.1956	1.1.1996

Documents may be served on the above Directors and should be marked:

"Private and Confidential", c/o KPMG Audit Plc, 1 The Embankment, Neville Street, Leeds LS1 4DW.

Details of Directors' Other Directorships

Note 1 G F Winn B Com FCA

Partner in Winn and Co; Pykes Sports Limited; Tent Hire Limited; Innesland Limited; Scarborough Flower Fund Homes; Yorkshire Provincial Properties Limited; Bridlington Insurance Brokers Limited; Scarborough Economic Action Limited; Scarborough Computer Systems Limited; Scarborough Finance Limited; Specialist Investment Services Limited; Scarborough Insurance Services Limited; Scarborough Residential Mortgages Limited.

Note 2 R L Grunwell

Partner in Grunwells; Scarborough Theatre Trust Limited; Scarborough Commercial Mortgages Limited; Specialist Mortgage Services Limited; North Yorkshire Mortgages Limited; Scarborough Law Chambers Limited; Scarborough Economic Action Limited; St Catherine's Hospice Trust; Scarborough Hospice Sales Limited; Sports Aid Foundation (Yorkshire and Humberside) Limited; Moneyweb Limited.

Note 3 J J Carrier FCIB

North Yorkshire Mortgages Limited; Scarborough Finance Limited; Specialist Mortgage Services Limited; Scarborough Commercial Mortgages Limited; Specialist Investment Services Limited; Scarborough Insurance Services Limited; Scarborough Residential Mortgages Limited; Scarborough Computer Systems Limited; G A Pindar and Son Limited.

Note 4 The Rt Hon Lord Derwent LVO DL

Personal Communication Networks Limited; Distressed Gentlefolk's Aid Association; Foreign & Colonial Pacific Investment Trust PLC; Thorstone Land & Property; Hackness Enterprises Limited; Industry in Education; ARTIST (Arts Recording and Three-Dimensional Information System Technology Limited); Hutchison London Developments Limited; Hutchison Whampoa (UK) Limited; Hutchison Whampoa (Europe) Limited; Felixstowe Dock & Railway Company Limited; Port of Felixstowe Limited; Hutchison Ports (Europe) Limited; Walton Container Terminal Limited; Walton Estates Limited; Hutchison Ports (UK) Limited; Orange PLC; Orange Personal Communications Limited; Hutchison Mobile Data (UK) Limited; Hutchison Telecommunications (UK) Limited; Hutchison Information Services (UK) Limited; Orange Retail Limited; Hutchison Mobile Services Limited; Hutchison Paging (UK) Limited; Hutchison Personal Communications Limited; Hutchison Cellular Services Limited; Orange Personal Communications Services Limited; Hutchison Euromessage Limited; Orange Holdings Limited.

Note 5 D N Jagger LLB

ASDA (Leeds) Limited; ASDA Employee Share Schemes Trustee Limited; ASDA Services Limited; ASDA Stores Limited; ASDA Trustees (Nominee) Limited; ASDA Wool Shops Limited; ASDADRIVE Leasing Limited; McLagan Investments Limited; Property Sellers Limited; ASDADRIVE Limited; Leeds TEC Limited; Water Fulford Limited.

Other Officers

Andrew C D Holmes LLB
Building Society Executive
Group Secretary and Solicitor
(Appointed 4 May 1999)

Colin W Macleod
Building Society Executive
General Manager (Marketing & Development)

Charles Schofield FCIB FICM
Managing Director of Specialist Mortgage Services Limited
Managing Director of North Yorkshire Mortgages Limited
Chris D Stott FCIB
Building Society Executive
General Manager (Lending Services)

Kevin D Moran
Building Society Executive
General Manager (Information Systems)

None of the aforementioned Officers held any other directorships.

4. Directors' Service Contracts

As at 30 April 1999 Mr J J Carrier has a two and a half year rolling service contract with the Society, which was first entered into on 30 April 1991, and Mr G Waterworth has a one year rolling service contract with the Society, which was first entered into on 1 November 1996. Both Executive Directors must give six months' notice of their intention to terminate their contract.

None of the other Directors has a service contract with the Society.

DIRECTORS' REPORT

The Directors are pleased to present their Annual Report, together with the Group Accounts and Annual Business Statement, for the year ended 30th April, 1999.

Business Objectives

The principal purpose of the Society is to provide housing finance together with savings and investment services, supported by the delivery of cost effective and efficient customer service, with the assurance of financial security gained from a strong capital base.

Scarborough is determined to remain an independent mutual building society, seeking out profitable growth by offering competitive, quality products and services to an increasing membership base.

Total Assets

Group Assets as 30th April, 1999 were £896 million, an increase of £193 million or 27 per cent. on the previous year.

Liquid Assets

Liquid Assets, in the form of Cash and Securities, at 30th April, 1999 were £155 million, representing 18.6 per cent. of Shares and Borrowings.

Lending

During the year new loans and advances to customers amounted to £155 million. Loans fully secured on residential property and land increased in total by 27 per cent. from £569 million to £724 million.

At 30th April, 1999 there were 68 cases where repayments were 12 or more months in arrears. The total outstanding balance, gross of provisions in these cases, was £3.8 million. The total amount of arrears for these cases was £0.8 million. The overall policy remains one of vigorous pursuit of all necessary action to minimise losses.

Fixed Assets

In relation to the value of the Society's freehold and leasehold properties, excluding the Head Office, the Directors consider that the overall value is in excess of the book value.

Shares

Share balances at 30th April, 1999 were £654 million, an increase of £70 million or 12 per cent. Receipts from investors, excluding deposits raised from the Wholesale Money Markets, amounted to £348 million and withdrawals were £278 million.

Capital

At 30th April, 1999 Free Capital amounted to £47 million or 5.7 per cent. of Shares and Borrowings and Gross Capital amounted to £53 million or 6.4 per cent. of Shares and Borrowings.

Reserves

At 30th April, 1999 Reserves were £33 million, an increase of £4 million or 15 per cent. on the previous year.

Directors

The following persons were Directors of the Society during the year:-

G F Winn B Com FCA (Chairman)
R L Grunwell (Vice Chairman)
J J Carrier FCIB
The Rt Hon Lord Derwent LVO DL
D N Jagger LLB
J B Mitchell
G T V Pindar OBE (Retired 28th August, 1998)
G R Waterworth ACA
W R Worsley FRICS

None of the Directors holds shares in or debentures of any Associated Body of the Society.

Mr J J Carrier, Mr R L Grunwell and Mr W R Worsley retire by rotation in accordance with Rule 26 and offer themselves for re-election.

Corporate Governance

Scarborough Building Society adheres to the principles of good governance as set out in the Building Societies Commission's Code of Practice contained in the Prudential Note 1998/3 on Boards and Management. The Society complies with all aspects of the Code with the exception that, under the terms of the service contract for the Chief Executive, the period of notice which the Society is required to give in the event of a termination is two and a half years as opposed to the now recommended one year period. The service contract was entered into before the Code was introduced.

Board Committees

Audit Committee

Membership of this Committee comprises the following Non Executive Directors:

W R Worsley (Chairman)
D N Jagger
J B Mitchell

The Committee considers all audit matters applying to the Group, in particular compliance matters under the Building Societies Act 1986 and Financial Services Act 1986, adequacy of business controls, evaluation of risk, relationship between internal and external auditors, financial reporting and other relevant prudential requirements.

Representatives of the Society's internal and external audit functions, together with the Chief Executive, attend all meetings of the Committee.

Remuneration Committee

Membership of this Committee comprises the following Non Executive Directors:

G F Winn (Chairman)
Lord Derwent
D N Jagger

The Committee reviews the level of remuneration of the Executive Team and makes recommendations to the Board.

Assets and Liabilities Committee

Membership of this Committee comprises the following:

R L Grunwell (Chairman)
J J Carrier
G R Waterworth
M D Dunkley

The Committee oversees the management of the Society's Treasury policy, including balance sheet risk, and approves specific counterparty limits within the policy guidelines laid down by the Board.

Charitable Donations

During the year the Society made donations of £3,055.

Staff

The Society's management meets staff representatives regularly to discuss a wide range of topics. Communications with and between all staff are reviewed systematically and include team briefings, circulars and an in-house newspaper.

An equal opportunities policy is followed and the Society gives full consideration to applicants and staff who are disabled. The Society supports the continuing learning and development of its staff by the provision of very comprehensive training opportunities, which are demonstrated by the 'Investors in People' accreditation for the Society.

Supplier Payment Policy

The Society's policy is to agree terms of payment with suppliers which normally provide for payment within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Society to abide by the agreed terms of payment, provided that the supplier performs to the terms of the contract.

EMU

The final stage of Economic and Monetary Union (EMU) commenced on 1st January, 1999, with the launch of the Euro. It is possible that the UK will join the single currency in due course and this will have very considerable strategic and operational implications for building societies. The Society has begun work on addressing these issues and has also established an EMU project group.

Post Balance Sheet Events

The Directors consider there has been no event since the year end that has had a significant effect on the Society's position or any of its connected undertakings.

Auditors

The auditors, KPMG Audit Plc, have expressed their willingness to continue in office and in accordance with Section 77 of the Building Societies Act 1986, a resolution for the re-appointment of KPMG Audit Plc as auditors is to be proposed at the Annual General Meeting.

By Order of the Board
Andrew C D Holmes
Secretary
25th June, 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Directors' Responsibilities for Preparing the Annual Accounts

The following statement, which should be read in conjunction with the statement of the auditors' responsibilities on page 15⁽¹⁾ is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report.

The Directors are required by the Building Societies Act 1986 (the Act) to prepare, for each financial year, Annual Accounts which give a true and fair view of the state of the affairs of the Society and the Group as at the end of the financial year and of the Income and Expenditure of the Society and the Group for the financial year. In preparing those Accounts, the Directors are required to:

- Select appropriate accounting policies and apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Accounts.
- Prepare the Accounts on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

In addition to the Accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society and its subsidiary undertakings.

Directors' Responsibilities for Accounting and Internal Control

The Directors are responsible for ensuring that proper accounting records are kept which show with reasonable accuracy at any time the financial position of the Society and the Group and which enable them to ensure that the Accounts comply with the Act and regulations made thereunder; and for establishing and maintaining proper systems of control of its business and records and of inspection and reporting. They have a general responsibility for safeguarding the assets of the Society and the Group and for taking reasonable steps to prevent and detect fraud and other irregularities.

Under the Act the Directors are required to report to the Building Societies Commission, for each financial year, on the compliance of these systems with the Act. The auditors are required to make a similar, but separate, report to the Commission.

Going Concern

The Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Accounts.

Geoffrey F Winn
Chairman
25 June 1999

(1) The reference to page 15 refers to the information set out on page 60 of this document.

AUDITORS' REPORT TO THE MEMBERS OF SCARBOROUGH BUILDING SOCIETY

We have audited the Annual Accounts on pages 16 to 35⁽¹⁾. We have examined the Annual Business Statement (other than the details of Directors and Officers upon which we are not required to report) and the Directors' Report on pages 36 to 38 and pages 12 to 13 respectively.

Respective Responsibilities of Directors and Auditors

As described on page 14 the Society's Directors are responsible for the preparation of the Annual Accounts, the Annual Business Statement and the Directors' Report. It is our responsibility to form an independent opinion on the Annual Accounts and other specified information and to report our opinion to you.

Basis of Opinion

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

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

Opinion

In our opinion:

- a) the Annual Accounts give a true and fair view of the state of affairs of the Group as at 30 April 1999 and of the Income and Expenditure of the Group for the year then ended;
- b) the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;
- c) the information given in the Directors' Report is consistent with the accounting records and the Annual Accounts; and
- d) the Annual Accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of Part VIII of the Building Societies Act 1986 and regulations made under it.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Leeds
25 June 1999

(1) The references to pages 16 to 35, pages 36 to 38, pages 12 to 13 and page 14 respectively refer to the information set out on pages 27 to 51, pages 52 to 55, pages 56 to 58 and page 59 of this document respectively.

INTERIM FINANCIAL INFORMATION

The following information has been extracted without material adjustment from the Society's consolidated audited interim accounts for the six months ended 31 October 1999 and from its consolidated unaudited interim accounts for the six months ended 31 October 1998.

Group Income and Expenditure Accounts

	<i>Six months ended 31 October 1999 (Audited)</i>	<i>Six months ended 31 October 1998 (Unaudited)</i>
	<i>£000</i>	<i>£000</i>
Interest Receivable and Similar Income	28,223	28,543
Interest Payable and Similar Charges	23,717	23,064
Net Interest Receivable	4,506	5,479
Fees and Commissions Receivable	2,458	1,349
Fees and Commissions Payable	527	292
Other Operating Income	195	256
Total Income	6,632	6,792
Administrative Expenses	3,928	3,346
Depreciation and Amortisation	395	253
Total Operating Expenses	4,323	3,599
	2,309	3,193
Provisions for Bad and Doubtful Debts	113	453
Profit on Ordinary Activities Before Taxation	2,196	2,740
Taxation on Profit on Ordinary Activities	665	932
Profit for the Period	1,531	1,808

Group Balance Sheets

As at 31 October

	1999 (Audited) £000	1998 (Unaudited) £000
Assets		
Liquid Assets		
Cash In Hand and Balances with the Bank of England	51,448	244
Loans and advances to credit institutions	150,307	83,227
Debt securities	71,177	43,968
Other Liquid Assets	2,001	2,010
Loans and Advances to Customers		
Loans Fully Secured on Residential Property	790,595	581,330
Other Loans	3,856	4,366
Investments		
Investments in Subsidiary Undertakings		
Tangible Fixed Assets	6,257	5,982
Other Assets, Prepayments and Accrued Income	10,479	12,190
Total Assets	1,086,120	733,317
Liabilities		
Shares	949,851	617,600
Amounts Owed to Credit Institutions	24,399	35,208
Amounts Owed to Other Customers	46,464	24,534
Other Liabilities, Accruals and Deferred Income	8,503	7,033
Provisions for Liabilities and Charges	252	357
Subordinated Liabilities	22,294	18,277
	1,051,763	703,009
Reserves		
General Reserve	34,357	30,308
Total liabilities	1,086,120	733,317

USE OF PROCEEDS

The net proceeds of the issue of the PIBS (estimated to be approximately £14.5 million) will be used by the Society for its general funding purposes. It is intended that the principal amount of the PIBS (£15 million) will be treated for capital adequacy purposes as Tier 1 capital.

UNITED KINGDOM TAXATION

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 UK 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, which is the difference between the tax deducted (currently at 20 per cent.) and the higher rate (currently at 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 Savings Account (ISA).

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

The Manager has, pursuant to a subscription agreement dated 18th April, 2000 (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 26th April, 2000 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 2.00 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 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 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

Material change

There has been no significant change in the financial or trading position of the Society or its subsidiary undertakings or any material adverse change in the prospects of the Society or its subsidiary undertakings, taken as a whole, since 31st October, 1999, being the date to which the latest audited financial information of the Society has been prepared.

Litigation

Neither the Society nor any of its subsidiary undertakings is or has been involved in any legal or arbitration proceedings and the Society is not aware of any pending or threatened legal or arbitration proceedings which, in either case, may have, or have had during the past twelve months, a significant effect on the financial position of the Society and its subsidiary undertakings taken as a whole.

Auditors

The consolidated accounts of the Society for the three years ended 30th April, 1999 and the six months ended 31st October, 1999 have been audited in accordance with United Kingdom auditing standards by KPMG Audit Plc of 1 The Embankment, Neville Street, Leeds LS1 4DN and have been reported upon without qualification. KPMG Audit Plc has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its audit report and the references to its name and report in the form and context in which they are included, having also authorised the contents of its report for the purposes of section 152(1)(e) of the FSA.

Authorisation

The issue of the PIBS was authorised by a resolution of the Board on 25th February, 2000.

Expenses

The overall cost of the issue of the PIBS by the Society, including all commissions and expenses, is estimated to amount to approximately £500,000.

Material contracts

Members of the Group have entered into the following contracts (other than in the ordinary course of business) either within the two years immediately preceding the date of this document and which are material or at any earlier time and which contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this document:

- (i) the Subscription Agreement dated 18th April, 2000 between the Manager and the Society; and
- (ii) the Registrar's Agreement dated 26th April, 2000 between Lloyds TSB Registrars (the "Registrar") and the Society appointing the Registrar as registrar for the issue.

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 in respect of the PIBS. The Registrar will, from 27th April, 2000, commence despatching the PIBS Certificates to all PIBS holders who decide to hold their PIBS in certificated form, at the risk of the persons entitled thereto, by first class post to the address detailed on the relevant application form. The ISIN for the PIBS is GB0004440623 and the SEDOL number is 0444062.

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 Addleshaw Booth & Co at 60 Cannon Street, London EC4N 6NP during normal business hours on any weekday (Saturdays and public holidays excepted) during the period of 14 days from the date of this document:

- (i) the Rules and the Memorandum;
- (ii) the published audited consolidated accounts of the Society for each of the two years ended 30th April, 1998 and 1999 and the interim audited consolidated interim accounts of the Society for the six month period ended 31st October, 1999;
- (iii) the Subscription Agreement;
- (iv) a draft (subject to modification) of a PIBS Certificate (including the special conditions of issue of the PIBS);
- (v) the Directors' service agreements referred to above;
- (vi) the material contracts referred to above; and
- (vii) all other reports, letters and documents provided by expert parties included or referred to in this document.

PRINCIPAL OFFICE OF THE SOCIETY

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YO12 6EQ

REGISTRAR

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