



MANCHESTER BUILDING SOCIETY

*(Incorporated in England under the Building Societies Act 1986
and registered with the Financial Services Authority with registered number 206048)*

£10,000,000

6.75 per cent. Permanent Interest Bearing Shares

Issue Price: 100 per cent.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority" and the "FSMA" respectively) for the issue of £10,000,000 6.75 per cent. Permanent Interest Bearing Shares (the "PIBS"), comprising 10,000 PIBS with a par value of £1,000 each, of Manchester Building Society (the "Society") to be admitted to the official list of the UK Listing Authority (the "Official List") and to London Stock Exchange plc (the "London Stock Exchange") for such PIBS to be admitted to trading on the London Stock Exchange's market for listed securities.

Attention is also drawn to the description under "Certain Provisions of the Act" on page 15 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 13th April, 2005 conditionally upon the PIBS being admitted to the Official List and to trading on the London Stock Exchange's market for listed securities, which in each case is expected to occur on 14th April, 2005. 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 deposits for the purposes of the Financial Services Compensation Scheme established under the FSMA. Attention is drawn to certain characteristics of the PIBS and the Society as described in "Risk Factors" on pages 4 and 5 of this document.

The PIBS will not be withdrawable at the option of the PIBS holders and will be repayable only at the option of the Society on 13th April, 2030 or any Interest Payment Date (as defined in "Special conditions of issue of the PIBS – Interest" on page 9 of this document) thereafter or in certain limited circumstances, as described in "Special conditions of issue of the PIBS – Repayment" on page 11 of this document, in each case subject to the permission of the Financial Services Authority.

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 pages 4 and 5 of this document.

Barclays Capital

11th April, 2005.

This document comprises listing particulars issued in compliance with the listing rules made by the UK Listing Authority (the "Listing Rules") for the purpose of giving information with regard to the Society and its subsidiary undertakings, MBS (Mortgages) Limited and Mortgage Broking Services Limited (together the "Group") and the PIBS. The Directors of the Society, whose names appear on pages 23 and 24 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person is authorised to give any information or to make any representation not contained in this document and any information or representation not contained in this document 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 of this document.

A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 83 of FSMA.

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 55 of this document.

In connection with this issue, the Manager and any person acting for it may each over-allot or effect transactions with a view to supporting the market price of the PIBS at a level higher than that which might otherwise prevail for a limited period. However, there is no obligation on the Manager or any agent of it to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

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

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

Table of Contents

	<i>Page</i>
Risk Factors.....	4
Summary of Certain Provisions of the Rules of the Society and the Act Relating to the PIBS	6
Special Conditions of Issue of the PIBS	9
Certain Provisions of the Act.....	15
Manchester Building Society.....	17
Capitalisation.....	27
Financial Summary.....	28
Group and Society Financial Information	29
Annual Business Statement	49
Use of Proceeds.....	52
United Kingdom Taxation	53
Marketing Arrangements.....	55
General Information.....	56

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 the investor as and when they demand it (subject, of course, to the stated period of notice etc. on that particular account). The PIBS will not be withdrawable at the option of the PIBS holders and will be repayable only at the option of the Society on 13th April, 2030 or any Interest Payment Date (as defined in “Special conditions of issue of the PIBS – Interest”) thereafter or in certain limited circumstances, as described in “Special conditions of issue of the PIBS – Repayment”, in each case subject to the permission of the Financial Services Authority (the “FSA”), which expression shall include any successor body performing for the time being the same or similar functions in relation to building societies in the United Kingdom. The Society is under no obligation to the investor to seek the FSA’s permission to repay the PIBS and the FSA has complete discretion as to whether to give such permission.
- (b) **Liquidity** – In order to realise its 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 its investment in the PIBS when it 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** – The PIBS are subordinated to all other liabilities of the Society other than liabilities in respect of other deferred shares. 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, that is, 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 deposits for the purposes of the Financial Services Compensation Scheme.
- (f) **Payments of interest may be missed** – Interest in respect of the PIBS will not be payable where to make payment would result in the Society’s capital falling below prescribed levels or where the Board passes a resolution cancelling or requiring a reduction in the interest payable, as more fully explained in “Special condition of issue of the PIBS – Interest”.
- (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) **Taxation of Interest** – Interest is paid without withholding or deduction for tax under current law. Nevertheless, tax may be withheld or deducted if there is a change of law.
- (i) **Rights** – The rights of the PIBS holders are markedly different from those of shareholders in a company, for example, as to voting rights and protection of minorities. For example, as indicated in paragraph 6 on page 7 of this document, each PIBS holder only has one vote at general meetings of the Society, irrespective of the number of PIBS it holds, whereas shareholders at a general meeting of a company would normally have one vote on a poll for each share held.
- (j) **Amalgamation of the Society and transfer of its engagements** – If the Society amalgamates with, or transfers all or part of its engagements to, another building society, the PIBS will not become repayable as a consequence thereof, but will become deferred shares in that society. If the Society transfers the whole of its engagement 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, other than at the option of

that other body on 13th April, 2030 or any Interest Payment Date (as defined in “Special conditions of issue of the PIBS – Interest”) thereafter or in certain limited circumstances, as described in “Special conditions of issue of the PIBS – Repayment”, in each case subject to the permission of the FSA.

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

- (a) **Size** – The Society’s size gives diseconomies of scale in marketing of the Society which makes it impractical to offer as diverse a range of savings and mortgage products as those often provided by larger retail financial institutions.
- (b) **Small management team** – The Society’s management team reflects the small size of the Society with the result that the Society does not have access to the same range of experienced and specialised management as larger institutions. The performance of the Society is dependent on the performance of a small number of key individuals.

Investors’ attention is drawn to the information in respect of the Society on pages 17 to 26 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 9 to 14 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, together with certain explanatory notes which are italicised.

1. General

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

Each PIBS holder, and all Persons claiming through him or on his behalf or under the Rules, shall be bound by the Rules and by the Memorandum and, where applicable, the Additional Rules (which are set out in the Rules).

2. Register

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

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

The Society has appointed Lloyds TSB Registrars, 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 share certificate issued under the common seal of the Society (a “PIBS Certificate”), which shall not be the property of the Society.

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

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

4. Replacement of PIBS Certificate

A PIBS holder losing his PIBS Certificate shall immediately give notice in writing of such loss to the Society at its Principal Office. If a PIBS Certificate is damaged or alleged to have been lost, stolen or destroyed, a new PIBS Certificate representing the same PIBS shall be issued to 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.

5. Transfers

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

registered in the PIBS Register, but such transferee shall be entitled to have his name entered in the PIBS Register following notice by him to the Society of such a transfer, such notice to be made or given in writing or in such other manner as the Society in its absolute discretion may permit.

The registration of transfers of the PIBS or of any class of the PIBS may be suspended at such times and for such periods as the Board may determine, but not for more than 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 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 to vote at general meetings of the Society.

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

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

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

7. Winding-up and dissolution

Upon the winding-up of the Society, or upon it being dissolved by consent, any surplus remaining after payment in full of the Society's creditors and repayment to Members (including holders of deferred shares in the Society (which term, where used in this section 7, shall include the PIBS and the £5,000,000 8 per cent. Permanent Interest Bearing Shares issued by the Society on 29th October, 1999)) 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. The proportion (if any) of such 20 per cent. to which any particular issue of deferred shares 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) in proportion to the value of their shareholding.

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

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

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 UK Listing Authority 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, subject to the removal of the wording in italics which does not form part of the special conditions, they will appear on the reverse of each PIBS Certificate:

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

1. General

- (1) The "Society" means Manchester Building Society.
- (2) The "PIBS" means £10,000,000 6.75 per cent. Permanent Interest Bearing Shares of the Society and, unless the context otherwise requires, includes any further deferred shares issued pursuant to Condition 9 and forming a single series with the PIBS.
- (3) "PIBS holder" means a person whose name and address is entered in the PIBS Register as the holder of a PIBS or, in the case of a joint holding of a PIBS, the first person whose name is entered in the PIBS Register in respect of the joint holding of the PIBS.
- (4) "PIBS Register" means the records of the Society maintained for the purposes of the PIBS.
- (5) Terms defined in the Rules of the Society (the "Rules") will, unless the context otherwise requires, have the same meanings when used in these Conditions.
- (6) The PIBS:
 - (a) are deferred shares for the purposes of section 119 of the Building Societies Act 1986, as amended (the "Act");
 - (b) are not protected deposits for the purposes of the Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000;
 - (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(5) 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.
- (10) The PIBS rank *pari passu* in all respects with the £5,000,000 8 per cent. Permanent Interest Bearing Shares issued on 29th October, 1999, which (other than the amount of interest payable) afford broadly the same rights as the PIBS to holders thereof.

2. Form and denomination

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

3. Interest

- (1) The PIBS bear interest from and including 13th April, 2005 at the rate of 6.75 per cent. per annum payable, subject as set out below, in arrear by equal half-yearly instalments on 13th October and 13th April in each year, commencing on 13th October, 2005 (each an "Interest Payment Date"). Each half-yearly period is called an "Interest Period".
- (2) Except as set out in Conditions 3(3)(a) and 3(3)(b) below, the Society will make each payment of interest on the relevant Interest Payment Date.
- (3) (a) If, on any day within the 30 days preceding a scheduled Interest Payment Date, the Board:

- (i) after consultation with the Regulatory Supervisor (as defined below) and having taken appropriate legal advice, is of the opinion that on the relevant date, the Society is, or payment of the relevant interest payment will result in the Society being, or there is a reasonable likelihood that payment of the relevant interest payment will in the foreseeable future result in the Society being, in non-compliance with any requirement relating to capital adequacy imposed on the Society by or pursuant to the Financial Services and Markets Act 2000, including any statutory modification or re-enactment thereof; and
- (ii) 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 (after consultation with the Regulatory Supervisor and having taken appropriate legal advice), such payment would not cause or contribute to such non-compliance,

then the Society shall, as soon as practicable, give notice to all PIBS holders of such resolution in accordance with Condition 8(13), and such interest payment or part thereof, as the case may be, shall not be made.

On the passing of a resolution cancelling or reducing an interest payment, each 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.

- (b) If, in circumstances other than as set out in Condition 3(3)(a) above, on any day within the 30 days preceding a scheduled Interest Payment Date, the Board passes a resolution cancelling or requiring a reduction in the interest payable on such Interest Payment Date, then the Society shall, as soon as practicable, give notice to all PIBS holders of such resolution in accordance with Condition 8(13) and, subject to Condition 3(3)(c), such interest payment shall not be made. On the passing of any such resolution, each 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.

Whilst Condition 3(3)(b) entitles the Society, in its sole discretion, to cancel, in whole or in part, any scheduled interest payment as required by current policy of the Regulatory Supervisor, it is the Society's intention not to cancel any part of a scheduled interest payment other than in the circumstances described in Condition 3(3)(a).

- (c) If the Board passes a resolution cancelling or requiring a reduction in the interest payable on such Interest Payment Date pursuant to Condition 3(3)(b) then:
 - (i) the Society shall procure that it does not pay any interest or dividend on any other class of deferred shares (as defined in the Act) of the Society other than any Mandatory PIBS, for a period of 5 months following the passing of such resolution. For the purposes of this Condition, “**Mandatory PIBS**” means any class of deferred shares the terms of which do not provide for the Board to be able to cancel an interest or dividend payment at its discretion;
 - (ii) the Society shall, as soon as reasonably practicable:
 - (I) notify each stock exchange on which it has any securities (including the PIBS) for the time being listed, of the passing of the resolution by the Board (together with a list of the Board members and their titles) and the cancellation (in whole or in part) of the relevant interest payment;
 - (II) notify RNS provided by the London Stock Exchange and PR Newswire Disclose provided by PR Newswire (or in each such case, any successor regulatory information service), of the passing of the resolution by the Board (together with a list of the Board members and their titles) and the cancellation (in whole or in part) of the relevant interest payment;
 - (III) (in addition to any other requirement to give notice to the PIBS holders) publish a full page advertisement in two leading newspapers having general circulation in England (which are expected to be the *Financial Times* and *The Times*), of the passing of the resolution by the Board (together with a list of

the Board members and their titles) and the cancellation (in whole or in part) of the relevant interest payment together with a statement by the Board setting out its reasons for passing such resolution; and

- (IV) convene a special general meeting of its Members at which the Chairman will inform the Members of the passing of the resolution by the Board and of the reasons for passing such resolution.

For the purposes of these Conditions:

“**Regulatory Supervisor**” means the Financial Services Authority (or any successor body performing for the time being the same or similar functions in relation to building societies in the United Kingdom).

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

4. Repayment

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

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

- (3) The claims of the PIBS holders in a winding-up or dissolution of the Society will be for the principal amount of their PIBS together, subject to Condition 3, with interest accrued to but excluding the date of repayment after all sums due from the Society to Creditors have been paid in full. The PIBS holders will not be entitled to any share in any final surplus upon a winding-up or dissolution of the Society.
- (4) The Society may, having obtained Relevant Supervisory Consent and having given not less than 30 nor more than 60 days’ notice to the PIBS holders in accordance with the Rules, which notice shall be irrevocable, elect to repay all, but not some only, of the PIBS on 13th April, 2030 or any Interest Payment Date thereafter, at their principal amount together, subject to Conditions 3(3)(a) and 3(3)(b), with any interest accrued to but excluding the date of repayment.
- (5) The Society may, having obtained prior Relevant Supervisory Consent and, for so long as the PIBS are admitted to the official list maintained by the competent authority designated under Part VI of the Financial Services and Markets Act 2000 (the “UK Listing Authority”, which expression shall include any body appointed to perform such functions under any successor legislation), and admitted to trading on the London Stock Exchange’s market for listed securities, 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 by the Regulatory Supervisor.

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

5. Payments

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

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 Condition 6 (2)) to every qualifying Member of the Society as in respect of a deposit made with the successor corresponding in amount to the value of the qualifying Shares held by the Member in the Society.

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

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

The terms of each Subordinated Deposit and the terms and conditions of the Bonds will be such as to secure in the opinion of the Board that they will be treated as capital designated perpetual subordinated debt (as referred to in Chapter CA of the Interim Prudential Sourcebook for Banks 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 Financial Services Authority or any successor body performing for the time being the same or similar functions.

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 Condition 6 (1) or (2) above will comply with the provisions of Condition 6 (1) or, as the case may be, (2) above.

7. Variations of these Conditions

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

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

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

- (12) The form of proxy and (if required by the Board) any authority under which it is executed or a copy of the authority, certified notarially or in some other manner approved by the Board, may be delivered to the Society at its Principal Office (or to such other place in the United Kingdom as may be specified in the notice convening the separate meeting or in any notice of any adjourned meeting or, in either case, in any accompanying document) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the form of proxy proposes to vote, or in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, not less than 24 hours before the time appointed for the taking of the poll, and a form of proxy which is not so delivered shall be invalid. Any vote given in accordance with the terms of a proxy shall be valid notwithstanding the previous revocation or amendment of the form of proxy or of any of the PIBS holder's instructions in respect thereof, provided that no intimation in writing of the revocation or amendment shall have been received by the Society at its Principal Office at any time prior to 24 hours before the time appointed for holding the meeting or adjourned meeting at which the form of proxy is used.
- (13) Any resolution passed at a meeting duly convened and held in accordance with these provisions shall be binding upon all the PIBS holders whether or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution. Notice of any resolution duly passed by the PIBS holders shall be given in writing to each PIBS holder by the Society within 14 days of the passing of the resolution, provided that the non-publication of the notice shall not invalidate the resolution.
- (14) Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Society and any minutes purporting to be signed by the chairman of the meeting at which resolutions were passed or proceedings had shall be conclusive evidence of the matters contained in the minutes and until the contrary is proved every meeting in respect of the proceedings of which minutes have been so made and signed shall be deemed to have been duly held and convened and all resolutions passed or proceedings had to have been duly passed or had.
- (15) The accidental omission to send notice of a separate meeting or to send any document required to be sent with the notice or otherwise before the meeting to, or the non-receipt of notice of a separate meeting or any such document as aforesaid by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

9. Further issues

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

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

Certain Provisions of the Act

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 FSA). The Act provides that on the date specified by the FSA all the property, rights and liabilities (which, in the case of the Society, 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 FSA consents to the transfer being approved by a resolution of its board of directors only. The transfer must be confirmed by the FSA. The Act provides that on the date specified by the FSA 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 FSA to the transfer and its terms. If the FSA 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 the 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 FSA is required before any such change can take place.

Manchester Building Society

History and description of the Society

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

The following table shows the developments of the Society over the last twenty years:

<i>Balance Sheet Date*</i>	<i>Group Total Assets £000</i>	<i>General Reserves £000</i>
31st December, 1984	31,136	1,194
31st December, 1994	98,937	4,380
31st December, 1999	208,835	10,192
31st December, 2004	475,956	19,153

The Society's average annual growth rates for total assets and reserves over this period have been as follows:

	<i>Total Assets</i>	<i>Reserves</i>
20 years to 31st December, 2004	14.6%	14.9%
10 years to 31st December, 2004	17.0%	15.9%
5 years to 31st December, 2004	17.9%	13.4%
1 year to 31st December, 2004	16.8%	14.1%

These tables demonstrate an emphasis on constant growth, not only growth in total assets but also in reserves. Over the last 10 years, annual asset growth in every year has been within the range of 12.5% to 24.2%. The annual growth in reserves over the same period has been within the range of 9.84% (following a restatement for FRS 17) to 20.66%. This performance has been achieved within a highly competitive environment for the Society's core business and also during a period of consistently low inflation.

The Society's core strategy over the past decade has been to focus on consistent growth. As the tables above illustrate, this strategy has been faithfully adhered to. The past decade has also seen considerable erosion of interest margins on residential mortgage lending and retail deposit taking across the whole sector. The Society's own interest margins have not been immune from this process, but the Society's robust rate of growth has enabled it to reduce progressively its operating expenses relative to its asset size which in turn has enabled the Society to increase its pre-tax profits year on year for the past 12 years. The full profit development over the past 20 years is demonstrated by the following table:

<i>Balance Sheet Date*</i>	<i>Pre tax profit £000</i>
31st December, 1984	255
31st December, 1994	1,012
31st December, 1999	2,282
31st December, 2004	3,287

This performance has been achieved within the limited capital resources available to the Society. There has been some partial reliance on external sources of remunerated capital but the main source of capital for the Society has been, and will continue to be, capital generated by profits retention. Capital utilisation has therefore been orientated towards meeting solvency requirements generated by the growth in assets and, correspondingly, capital-intensive strategies such as a branch development programme have been eschewed.

The Society maintains only one branch office, which is located at its head office premises and it has no current intention to establish a more extensive branch network. Retail funds are raised through a commission-based agency network and through the maintenance of a competitive range

* The financial information in these tables has been extracted, without material adjustment, from figures appearing in the Society's annual accounts. Investors should read the whole of the listing particulars and not just rely on this summarised information.

of savings accounts operated by post. The Society therefore has a nationwide shareholding membership base. Mortgage activity is by contrast far more locally based with most borrowers being introduced to the Society by a network of intermediaries, the majority of whom are within easy reach of Manchester.

At 31st December, 2004, the Society had approximately 24,888 investing and 4,121 borrowing members. The average number of persons employed by the Group during 2004 was 62. Comparative figures for 2003 and 2002 were 56 and 53 respectively. Of the 62 persons employed at 31st December 2004, 3 were Executive Directors, 6 were focussed on the development of Mortgage Broking Services Limited, the subsidiary offering compliance network services for regulated mortgage activity, and the remainder worked in the Society's administrative functions. In total, there were 8 part time employees at 31st December 2004.

The Society currently has two fully owned subsidiaries, MBS (Mortgages) Limited ("MBSM") and Mortgage Broking Services Limited, the registered offices of which are Queens Court, 24 Queen Street, Manchester M2 5AH. MBSM is now dormant having previously been operated to transact mortgage book acquisitions. Building society legislation was amended in 1997 and mortgage book acquisitions are now made directly by the Society. The assets of MBSM were accordingly hived up to the Society in 2003.

Mortgage Broking Services Limited operates as a network for mortgage brokers providing a regulatory compliance framework for its broker members following the statutory regulation of the residential mortgage market by the Financial Services Authority with effect from 31st October, 2004.

Form, Status and Ownership

The Society is incorporated under the Act for an unlimited duration. It operates in accordance with the Act, regulations made there under and the Rules and the Memorandum. The Society is a building society within the meaning of the Act and is authorised and regulated by the FSA.

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

Business of the Society

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

The Society's principal purpose is reflected in the structure of the Group balance sheet. Mortgage loans represented 80.9% of the Group's total assets at 31st December, 2004 and at that date share account funding from Members represented 87.1% of all Shares, Deposits and Loans with the Society.

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

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

The Society does consider opportunities to invest in operations that present a strategic fit to the Society's core activities. In addition to the development of its 100% owned subsidiary, Mortgage Broking Services Ltd, the Society has a 19.9% interest by way of Convertible Participating Preference Shares in Cotswold Mortgage Services Limited t/a Mortgage Marketing Centre, another mortgage broker network operation.

Regulation

The Financial Services Authority regulates the Society's operations. The Society is regulated as a building society in accordance with the Building Societies Act 1986 and is also regulated as a residential mortgage lender in accordance with the Financial Services and Markets Act 2000.

Mortgage Market

Building society operations are subject to a minimum statutory lending limit whereby at least 75% of the Society's loan book has to be fully secured on residential property. The consequence of this limit is that residential mortgage lending is necessarily the main lending focus for the Society. The mortgage market has been buoyant in recent years on the back of rising house prices. Statistics provided by the Office of the Deputy Prime Minister show that house prices have risen relative to earnings for nine successive years between the period 1996 and 2004, with the size of the housing finance market growing in 2003 and 2004 by 14.7% and 13.2% respectively. There has been clear evidence however of a slowdown in the housing market, both in terms of housing transactions and house price inflation, since the middle of 2004 and this slow down is expected to continue in 2005.

The past buoyancy of the market and, hitherto, the low cost of entry into the market has caused the mortgage market to evolve to become characterised by fierce competition amongst lenders and a marked reduction in lending margins achieved by lenders over the past decade. During this period, building society margins have approximately halved.

With the housing market cooling down rapidly it remains to be seen whether the mortgage market will reverse these trends. There may be some rationalisation in the number of lenders operating in the housing market, partly because of the increased cost, particularly for smaller lenders, of operating in the newly regulated market, but no improvement in interest margins is anticipated.

Against this market background, the Society has sought to maintain a highly competitive stance and to achieve robust growth and thereby a consistent improvement in its unit costs. The Society's Board is committed to the continuation of this process and considers that the Society is well positioned to maintain growth in its market share through its emphasis on service to the mortgage broking sector.

Society Mortgage Book Profile

The Society's mortgage book is generated primarily by lending originated by the Society, with organic lending equal to £318 million, or 82.4% of all mortgage assets, at 31st December, 2004. A further £69 million of mortgage assets is represented by loans acquired by the Society either directly or through its subsidiary, MBS (Mortgages) Limited. At 31st December, 2004 £347 million, representing 90.2% of all loans, were fully secured on residential property. The remaining mortgage assets amounted to £38 million, all of which were fully secured on commercial property.

The Society is unusual amongst building societies in having a significant proportion of its mortgage book set at rates linked to bank base rate. At the same time, the proportions of its lending book on fixed or discounted rates are considerably below the sector average. At 31st December, 2004, the total of lending linked to money market rates or bank base rate, on fixed rates and on variable rates represented 42.8%, 9.2% and 48.0% respectively of the total loan book.

Whilst the Society's lending policy allows for lending throughout the United Kingdom, its intermediary sources of business are located primarily in the North West and, at 31st December, 2004, just over 70% of the total mortgage book was located within a 60 mile radius of the centre of Manchester.

New Mortgage Lending

In the three years ended 31st December, 2004, 31st December, 2003 and 31st December, 2002, the Society made mortgage loans and advances to members totalling £116 million, £102 million and £79 million respectively. Additionally mortgage books totalling £27 million, £8 million and £33 million respectively were acquired over the same period. The growth rates in 2004 of Society advance balances and acquired balances were 19.8% and 23.3% respectively. Comparative ratios for 2003 and 2002 were 23.6% and (1.5)% and 24.3% and 61.9% respectively.

Lending Policy

The Society maintains quality assurance procedures for the approval and ongoing monitoring of its residential and commercial loan exposures by way of its Lending Policy. Lending Policy parameters are set by the Board and reviewed a minimum of twice yearly with applications being required to comply with the policy parameters.

Loan applications are processed at the Society's head office with the assessment of residential loans requiring as a minimum an inspection and valuation report of the property from one of a panel of independent qualified surveyors, a full credit history and confirmation of the applicants' income. The Society will also assess other underwriting factors relating to the application where applicable in order to adhere to the FSA's responsible lending requirements.

The Society's procedure on commercial loans is considerably different to that of residential loans as commercial loan risks are considered far more complex and as such the controls and analysis of propositions are far more rigorous. All commercial loan applications are reviewed by a credit risk committee, which comprises of Executive Directors and Senior Management with the approval process considering as a minimum the quality and value of the realisable security, the quality of the management, the ability to service the debt and the strategic positioning of the proposition in the present market place.

The Society monitors its exposures to all categories of lending by way of its global policy limits and adherence to these are reviewed by the Executives on an ongoing basis and the Board monthly. In particular, aggregate limits are set for categories of commercial property on which the Society is prepared to lend and there is also an overall policy ceiling set by the Board, currently at 15 per cent of total mortgage assets. The statutory ceiling for loans other than those fully secured on residential property is 25 per cent of total mortgage assets.

The Society has made arrangements with a third party insurer for mortgage indemnity cover for certain types of new residential advances under which the Society can recover a proportion of the property valuation at the time of the advance. The Society also maintains a self-insured scheme for deferring income charged as added risk fees for commercial loans or residential loans where cover is not available under the arrangements with the third party insurer. Mortgage indemnity cover both with the third party insurer and under the self-insured scheme is applied on loans over 80 per cent of the valuation of the property (on residential loans) and over 70 per cent of the valuation of the property (on commercial loans) and is taken from 75 per cent of the valuation of the property (for residential loans) and from 70 per cent of the valuation of the property (for commercial loans).

Mortgage Arrears and Provision Procedures

Arrears levels at 31st December, 2004 are at the lowest level yet reported by the Society for regulatory purposes and arrears are uniformly low across all categories of lending.

Building society sector average arrears on residential lending are reported quarterly by the FSA. At 30th September, 2004, the sector average for accounts with unpaid arrears greater than 2.5% of the mortgage balance outstanding was 0.36 %.

In such benign conditions, the Society in common with the rest of the sector has seen mortgage losses fall to minimal levels. The total value of loans written off in 2004, 2003 and 2002 were £17,000, £26,000 and £66,000 respectively all of which had been fully provided for. Provision charges to the profit and loss account across the three year period amount to £200,000 in total, entirely accounted for by an increase in general provisions in 2004. This extra provisioning has been made in anticipation that house prices might fall back in 2005 which may lead to increased loan default propensity caused by a general increase across the loan book in the ratio of loan amount to current property valuation. General provisions carried forward at 31st December, 2004 amounted to £575,000, representing 0.15% of mortgage balances at that date.

The number of mortgage accounts 12 months or more in arrears as at 31st December, 2004, 31st December, 2003 and 31st December, 2002 was 4, 4 and 3 respectively. In addition to these figures, the numbers of properties taken into possession in each of the corresponding years have been 1, 1 and 0 respectively.

Sources of Income

Primary Source

The principal source of income for the Group is interest charged on mortgage advances. This totalled £21 million for the year ended 31st December, 2004.

Secondary Source

The main other source of income for the Group is interest earned on its liquid asset investments which amounted to £4 million for the year ended 31st December, 2004.

Other Sources of Income

The Group's mortgage lending activities provides an opportunity for the Society to offer general insurance products, which generate commission. The Society also charges arrangement and administration fees, primarily in respect of mortgages. Total income for these other sources in the year ended 31st December, 2004 amounted to £1 million.

Funding Activities

Building societies have a statutory requirement to obtain the majority of their funds in the form of share investments from the personal savings sector. In practice, the Society operates with share investments well above the statutory floor, with share investments at 31st December, 2004, 31st December, 2003 and 31st December, 2002 representing 87.1%, 83.2% and 84.3% respectively of total share, deposit and loan balances.

The core breakdown of the Society's funding position as at 31st December, 2004 was as follows:

	<i>£' million</i>
Share Accounts	384
Amounts owed to Creditor Institutions	36
Amounts owed to others	21

Retail Savings

The Society's share of the UK market represents approximately one eighteenth of one per cent. (0.055%) of total UK retail deposits balances. Whilst the market for retail funds has been consistently high in recent years, the Society has been able to achieve its retail funding requirements by identification of appropriate products at interest rates necessary to attract more Shareholding Members to the Society. As an organisation without a branch network, the Society's funding is obtained primarily direct from the public by post. Between 60% and 65% of funds are received in this way. The Society also operates a network of 28 agents who originate the bulk of the balance of retail savings. Residual sources of retail savings are received through the Society's head office branch.

Subordinated Loans

The Society holds a total of £7.5 million of subordinated loans which qualify as part of the Society's operating capital.

1.	<i>£'000</i>	<i>Interest Rate</i>	<i>Repayment Date</i>
	500	10.7655%	27th June, 2011

Note

The Society has an option to make early repayment of the loan on 27th June, 2006. If the option is not exercised, the interest rate will be recalculated at a 2.50% margin above the mid-market price yield to redemption of £1,000,000 of Treasury 8% 2015 benchmark gilt.

2.	<i>£'000</i>	<i>Interest Rate</i>	<i>Repayment Date</i>
	500	9.657%	27th June, 2012

Note

The Society has an option to make early repayment of the loan on 27th June, 2007. If the option is not exercised, the interest rate will be recalculated at a 2.50% margin above the mid-market price yield to redemption of £1,000,000 of Treasury 8.00% 2015 benchmark gilt.

3.	<i>£'000</i>	<i>Interest Rate</i>	<i>Repayment Date</i>
	1,500	7.362%	9th March, 2015

Note

The Society has an option to make early repayment of the loan on 9th March, 2010. If the option is not exercised, the interest rate will be recalculated at the higher of 7.36% per annum or a margin of 2.75% above the 8% 2015 benchmark gilt.

4.	£'000	<i>Interest Rate</i>	<i>Repayment Date</i>
	5,000	6.70%	25th October, 2032

Note

The Society has an option to make early repayment of the loan on 25th October, 2027. If the option is not exercised, the interest rate will be recalculated as a 3.25% margin above the Treasury 6% 2028 benchmark gilt.

Net Interest Receivable

Total Group net interest receivable for the year ended 31st December, 2004 was comprised as follows:

<i>Interest Received</i>	<i>£'000</i>
On mortgages	21,026
On liquid funds	3,813
 <i>Interest Payable</i>	 <i>£'000</i>
On shares, deposits and loans	13,883
On capital instruments	3,888

Interest Margins

The Group net interest margins in the three years ended 31st December, 2004, 31st December, 2003 and 31st December, 2002 were 1.56%, 1.45% and 1.49% expressed as a percentage of mean total assets. The corresponding ratio as recently as 1998 was 2.73%, but this has necessarily fallen to current levels because of the Society's growth strategy and the degree of competitiveness in the mainstream residential mortgage market. Margins have stabilised in 2003 and 2004 and the Society's business model indicates that interest margins are sustainable at present levels.

Administrative Costs

The Society's expense ratios in the three years ended 31st December, 2004, 31st December, 2003 and 31st December, 2002 were 0.76%, 0.83% and 0.88% respectively, expressed as a percentage of mean total assets. The Society's expense ratio is within the lowest quartile for the Building Society sector and has more than halved in the past ten years.

The Group's costs to income ratios for the three years ended 31st December, 2004, 31st December, 2003 and 31st December, 2002 respectively were 51.1%, 53.2% and 55.8%.

Head Office Property

The Society owns the freehold interest in its Head Office at Queens Court, Queen Street, Manchester. The Head Office has an approximate floor area of 11,400 square feet on five floors, four of which are occupied by the Society with one floor leased. The sub lease is currently being renegotiated. This building is considered by the Board to be of sufficient size to cater for the Society's foreseeable development plans.

Current Trading

Share account balances have increased in the first two months of 2005 to £384 million. The Society achieves most of its net retail funding requirements by the periodic issue of new share accounts. During this period, there have been no new accounts launched.

Total mortgage balances have increased to £402 million in the first two months of 2005. Whilst the mortgage market remains highly competitive, the Society is fully committed to competing effectively in this market both in terms of product pricing and service standards to its mortgage intermediaries. The Society's business plan provides for this commitment.

The Society starts 2005 with some uncertainty as to how the housing market will progress during the year. The market perception of house price inflation has yet to be fully tested and the full impact of mortgage regulation will only become apparent as 2005 unfolds.

The Society's business plan for 2005 targets growth in both mortgage asset and pre-tax profits, commensurate with results achieved in prior years. With this in mind, the Society regularly

monitors its progress against this plan to ensure that profitable growth is delivered and that arrears do not present themselves as a material issue in the prevailing housing market. All the current indicators are that these targets will be achieved although close management review will be required throughout the year to ensure ultimate delivery.

Great emphasis will be placed on Mortgage Broking Services Limited, the Society's trading subsidiary undertaking, as this is planned to generate a growing proportion of income for the Group. Although it is currently generating small losses, it is anticipated that it will break even on a month-by-month basis during 2005.

Management

The business of the Society is under the direction of the Board, who are elected by the members and serve in accordance with the Memorandum and Rules of the Society. The Board is responsible to the members for the proper conduct of the affairs of the Society and appoints and supervises executives who are responsible to the Board for the day to day management of the Society. A majority of the Board must be non-executive directors. There are currently four executive directors whose names, titles and date of original appointment are as follows:

David Edward Cowie	Chief Executive	July, 1991
Paul John Davies	Deputy Chief Executive	January, 2000
Paul Andrew Lynch	Operations Director	April, 2002
Christopher Williamson Gee	Finance Director	January, 2005

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

<i>Name</i>	<i>Responsibilities within the Society</i>	<i>Date of Appointment</i>	<i>Business Description</i>	<i>Other Directorships or Partnerships</i>
Michael Fawcett Dunham	Chairman	June 1976	Chartered Accountant	D&J Air Conditioning Services Ltd. Oakwood Ltd. TFD Dunhams Ltd. TFD Dunhams Investments Ltd. TFD Dunhams Chartered Accountants
John Derek Bee	Vice Chairman	December 1999	Chartered Accountant	Nichols plc The Skyeside Partnership Ltd. Hallco 195 Ltd. Hallco 196 Ltd. Hallco 196 (Investments) Ltd.
David Barron	Director	September 1984	Retired Building Society Executive	Danestone Ltd. MBS (Mortgages) Ltd. Mortgage Broking Services Ltd.
David William Millington	Director	April 1995	Chartered Surveyor	Manchester Diocesan Church House Company Ltd. Gwersyllt Community Partnership Ltd.
Anthony Keith Snape	Director	January 1997	Chartered Surveyor	Tony Snape Ltd. Quayside Management Ltd. Mortgage Broking Services Ltd. Sea Shell Trustee Limited

<i>Name</i>	<i>Responsibilities within the Society</i>	<i>Date of Appointment</i>	<i>Business Description</i>	<i>Other Directorships or Partnerships</i>
Michael John Prior	Director	January 2005	Chartered Accountant	F.T. Morrell & Company Ltd. FTM Group Trustees Ltd. Northride Ltd. The Greater Manchester Museum of Science & Industry Trust Dreamscape Ltd.
David Edward Cowie	Chief Executive	July 1991	Building Society Executive	MBS (Mortgages) Ltd. Mortgage Broking Services Ltd.
Paul John Davies	Deputy Chief Executive	January 2000	Building Society Executive	MBS (Mortgages) Ltd.
Paul Andrew Lynch	Operations Director	April 2002	Building Society Executive	None
Christopher Williamson Gee	Finance Director	January 2005	Building Society Executive	None

Directors Management Histories

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

<i>Name</i>	<i>Past positions of Directorships or Partnerships</i>	<i>Other information</i>
Michael Fawcett Dunham	Aztec (Manchester) Limited Blanca Ltd. Business Training for Accountants Ltd. TFD Dunhams Financial Services Ltd. ELA Marketing Ltd. Redlock Ltd. Riverace Ltd. Riverace (Manchester) Ltd. Mortgage Broking Services Ltd.	D&J Air Conditioning Contracts Limited (a subsidiary of D&J Air Conditioning Services Limited) went into creditors' voluntary liquidation in December 1995
John Derek Bee	Abacarter Ltd. Burlingtons Dining Rooms and Bar Ltd. Burtonwood plc Cellar Wines Direct Ltd. Mortgage Broking Services Limited Winesource Ltd. The Yates Foundation Yates Group Pension Trustees Ltd.	
David Barron	None	

<i>Name</i>	<i>Past positions of Directorships or Partnerships</i>	<i>Other information</i>
David William Millington	Dunlop Heywood Lorenz Ltd. McNeil & Co. Mortgage Broking Services Limited	
Anthony Keith Snape	None	
Michael John Prior	T. Snape & Co Ltd. Aerolux Ltd. Demmysportsbet Limited Epistem Ltd. HLB Kidsons Lancashire Dairies Ltd. Marlborough Financial Management Ltd. Marlborough Financial Management (UK) Ltd One Permission Marketing Limited	
David Edward Cowie	None	
Paul John Davies	Mortgage Broking Services Ltd.	
Paul Andrew Lynch	Mortgage Broking Services Ltd.	
Christopher Williamson Gee	None	

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 or any asset of his or any asset of a partnership of which he was a partner at the time or within the twelve months preceding such order, has been a party to an individual voluntary arrangement, has been subject to any public criticisms by statutory or regulatory authorities or has been disqualified by a court from acting as a director of or from acting in the management or conduct of the affairs of a company, a bank or a 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, or a partner of a partnership, 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 a partner of that partnership, or within the twelve months after he ceased to be a director with an executive function of that company, bank or building society, or a partner of that partnership.

Pension Arrangements

The Society has operated a Group personal pension scheme available to all employees since 1st February, 2000, prior to which the Society operated a final salary pension scheme for its employees.

The Society is obligated to make employer contributions to the Group personal pension scheme as they fall due and the Society had no outstanding contributions to make.

The previous final salary scheme was in deficit before tax at 31st December, 2004 to the extent of £314,000. The Society has adopted FRS 17 fully in 2004 and consequently this shortfall has been fully provided for by the Society in its balance sheet at 31st December, 2004.

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 10p per £100 of total assets of the Society as at the first date of the

financial year in which payment is made, together with such reasonable travelling, accommodation and other expenses as might be incurred while attending business of the Society, with the approval of the Board. The Board may also resolve that a Director may be paid for professional or other work done by him on behalf of the Society in addition to his usual services as a Director.

The Board may resolve to provide a pension to a non-executive Director, if his total non-executive service with the Society and any other society with which it has merged is not less than five years, and he retires from service as a Director having attained the age of 70 years or retires on the grounds of ill health or dies in such service. If a non-executive Director retires from service as a Director prior to having attained the age of 70, no pension will be payable before he has attained the age of 50. The Board shall determine the amount of the pension and the terms and conditions on which it is paid which shall be no more advantageous than those of the Society's staff pension and life assurance schemes.

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

Capitalisation

The following table is a summary of the Group's unaudited shareholders' funds as at 31st December, 2004, as adjusted to reflect the issue of the PIBS:

	<i>£ million</i>
Shareholders' funds	
Shares	384
PIBS	
£5,000,000 8 per cent. Permanent Interest Bearing Shares issued on 29th October, 1999	5
£10,000,000 6.75 per cent. Permanent Interest Bearing Shares now being issued	10
	<hr/>
General Reserve	19
	<hr/>
Total Shareholders' Funds	418
	<hr/> <hr/>

Save for the issue of the PIBS which are accounted for in the table above, at the date of this document there has been no material change in the capitalisation of the Society and its subsidiary undertakings since 31st December, 2004.

Save for the information detailed above and in the accounts on pages 29 to 48 of this document, neither the Society, nor its subsidiary undertakings, has any other shareholders funds.

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.

So far as is known to the Society no person, directly or indirectly, is interested 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 12 months from the date of this document.

Financial Summary

The following financial information has been extracted from or, in the case of certain financial ratios, derived directly, in both cases without material adjustment, from figures appearing in the consolidated annual reports and accounts of the Society for the years ended 31st December, 2004. Investors should read the whole of the listing particulars and not just rely on the summarised information below.

Financial Results: 1999-2004	1999	2000	2001	2002	2003	2004
Balance Sheet	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Total assets	208.84	243.97	278.42	345.81	407.48	475.96
Mortgage balances	154.26	183.83	206.29	269.97	318.21	384.93
Shares and deposits	188.99	222.19	255.17	319.56	376.95	440.42
Reserves	10.19	11.83	13.53	15.29	16.79	19.15
Balance Sheet Ratios	%	%	%	%	%	%
% of Total Assets						
Liquidity	25.09	23.43	24.64	20.88	20.52	18.29
Reserves	4.88	4.85	4.86	4.42	4.12	4.02
Gross capital	8.47	7.92	7.55	6.88	6.70	6.65
Free capital	7.68	7.23	6.85	6.33	6.23	6.30
Profitability	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Interest margin	4.81	4.91	5.11	4.67	5.44	6.91
Pre-tax profit	2.28	2.35	2.41	2.46	2.73	3.29
Financial Performance Ratios	%	%	%	%	%	%
Return on mean total assets (M.T.A.)	0.80	0.72	0.65	0.56	0.50	0.53
Return on mean total reserves	16.37	14.86	13.45	12.17	11.81	12.91
Society only management expenses: % of M.T.A.	1.19	1.16	1.01	0.88	0.83	0.76
Cost income ratio	46.32	53.99	51.19	55.76	53.22	51.13
Mortgage provisions: % of M.T.A.	0.22	(0.05)	0.05	(0.10)	0.01	0.05
Growth Ratios	%	%	%	%	%	%
Total assets	15.96	16.82	14.12	24.21	17.83	16.80
Mortgage balances	8.33	19.17	12.22	30.87	17.87	20.97
Reserves	14.67	16.05	14.41	12.96	9.84	14.06
Increase in pre-tax profit	4.20	2.80	2.69	2.24	10.96	20.27

Group and Society Financial Information

The following financial information does not constitute the full consolidated accounts of the Society, but is extracted without material adjustment from the Society's consolidated accounts, which, in accordance with sections 72A to 72K and section 78 of the Act, have been audited without qualification by Grant Thornton UK LLP and previously by Grant Thornton (which on 1st July, 2004 transferred its business into the limited liability partnership Grant Thornton UK LLP), for the three years ended 31st December, 2004. Investors should read the whole of the listing particulars and not just rely on the financial information below.

In 2004, following the adoption of FRS 17, the 2003 comparatives were restated for this new accounting standard and are included below together with the 2003 financial statements as originally reported.

Group and Society

Income and Expenditure Accounts

For the years ended 31st December

	Note	Group				Society			
		2004 £000	2003 ¹ £000	2003 ² £000	2002 £000	2004 £000	2003 ¹ £000	2003 ² £000	2002 £000
Interest receivable and similar income	2	24,679	18,257	18,257	15,842	24,679	18,260	18,260	15,766
Interest payable and similar charges	3	17,771	12,813	12,793	11,175	17,771	12,813	12,793	11,175
Net interest receivable		6,908	5,444	5,464	4,667	6,908	5,447	5,467	4,591
Dividend income from subsidiary undertaking		—	—	—	—	—	1,542	1,542	—
Fees and commissions receivable		1,018	804	804	653	912	794	794	608
Fees and commissions payable		(598)	(405)	(405)	(354)	(514)	(405)	(405)	(354)
Other operating income	4	146	279	279	156	146	178	178	156
Total income		7,474	6,122	6,142	5,122	7,452	7,556	7,576	5,001
Administrative expenses	5	3,471	2,929	2,886	2,533	3,180	2,929	2,886	2,533
Depreciation	14	189	190	190	203	189	190	190	203
Other operating charges	4	316	261	261	215	316	261	261	114
Provisions for bad and doubtful debts	12	211	9	9	(292)	211	9	9	(117)
Profit on ordinary activities before tax		3,287	2,733	2,796	2,463	3,556	4,167	4,230	2,268
Tax on profit on ordinary activities	8	966	838	838	709	1,046	808	808	673
Profit for the financial year	25	2,321	1,895	1,958	1,754	2,510	3,359	3,422	1,595

The notes on pages 32 to 48 of this document form part of this financial information.

The above results are all derived from continuing operations.

Statement of Total Recognised Gains and Losses

	Group				Society			
	2004 £000	2003 ¹ £000	2003 ² £000	2002 £000	2004 £000	2003 ¹ £000	2003 ² £000	2002 £000
Profit for the financial year	2,321	1,895	1,938	1,754	2,510	3,359	3,422	1,595
Actuarial gains/(losses) on the group defined benefit pension scheme (see note 23)	46	(237)	—	—	46	(237)	—	—
Corporation tax credit on pension scheme contributions	122	—	—	—	122	—	—	—
Deferred tax on actuarial (gains)/losses	(128)	90	—	—	(128)	90	—	—
Total recognised gains and losses relating to the financial period	2,361	1,748	1,938	1,754	2,550	3,212	3,422	1,595
As a result of the early adoption of FRS 17, Retirement Benefits, a restatement of prior year results is required. The periods to which the actuarial losses relate are as follows:								
Relating to 2003	(210)	—	—	—	(210)	—	—	—
Relating to 2002	(129)	—	—	—	(129)	—	—	—
Relating to 2001 and earlier	(179)	—	—	—	(179)	—	—	—
Total recognised gains and losses since last annual report	1,843	1,748	1,938	1,754	2,032	3,212	3,422	1,595

¹ Restated.

² As originally reported.

Group and Society

Balance Sheets

As at 31st December

	Note	Group				Society			
		2004 £000	2003 ¹ £000	2003 ² £000	2002 £000	2004 £000	2003 ¹ £000	2003 ² £000	2002 £000
ASSETS									
Liquid assets									
Cash in hand		36	37	37	33	36	37	37	33
Loans and advances to credit institutions	9	69,417	73,482	73,482	39,746	69,212	73,482	73,482	39,746
Debt securities	10	17,607	10,117	10,117	32,410	17,607	10,117	10,117	32,410
		<u>87,060</u>	<u>83,636</u>	<u>83,636</u>	<u>72,189</u>	<u>86,855</u>	<u>83,636</u>	<u>83,636</u>	<u>72,189</u>
Loans and advances to customers									
Loans fully secured on residential property	11	347,283	286,337	286,337	242,293	347,283	286,337	286,337	193,417
Other loans	11	37,646	33,330	33,330	27,681	37,646	33,330	33,330	20,666
		<u>384,929</u>	<u>319,667</u>	<u>319,667</u>	<u>269,974</u>	<u>384,929</u>	<u>319,667</u>	<u>319,667</u>	<u>214,083</u>
Investments									
Subsidiary undertaking	13	—	—	—	—	385	1	1	54,410
Trade investments		258	130	130	127	258	130	130	127
		<u>258</u>	<u>130</u>	<u>130</u>	<u>127</u>	<u>643</u>	<u>131</u>	<u>131</u>	<u>54,537</u>
Tangible fixed assets									
Other assets	14	2,224	2,296	2,296	2,264	2,224	2,269	2,296	2,264
Prepayments and accrued income	15	736	517	517	587	721	517	517	400
		<u>749</u>	<u>1,238</u>	<u>1,238</u>	<u>669</u>	<u>749</u>	<u>1,238</u>	<u>1,238</u>	<u>663</u>
Total assets		<u>475,956</u>	<u>407,484</u>	<u>407,484</u>	<u>345,810</u>	<u>476,121</u>	<u>407,485</u>	<u>407,485</u>	<u>344,136</u>
LIABILITIES									
Shares	16	383,562	313,422	313,422	269,378	383,562	313,422	313,422	269,378
Amounts owed to credit institutions	17	36,322	35,547	35,547	29,315	36,322	35,547	35,547	29,315
Amounts owed to other customers	18	20,533	27,984	27,984	20,867	20,533	27,984	27,984	20,867
Other liabilities	19	2,095	1,310	1,310	1,325	2,095	1,311	1,311	1,289
Accruals and deferred income	20	1,571	1,411	1,476	1,138	1,547	1,411	1,476	964
Net pension liabilities	21	220	518	—	—	220	518	—	—
Subordinated liabilities	22	7,500	5,500	5,500	3,500	7,500	5,500	5,500	3,500
Subscribed capital	24	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
		<u>456,803</u>	<u>390,692</u>	<u>390,239</u>	<u>330,523</u>	<u>456,779</u>	<u>390,693</u>	<u>390,240</u>	<u>330,313</u>
General reserve	25	19,153	16,792	17,245	15,287	19,342	16,792	17,245	13,823
Total liabilities		<u>475,956</u>	<u>407,484</u>	<u>407,484</u>	<u>345,810</u>	<u>476,121</u>	<u>407,485</u>	<u>407,485</u>	<u>344,136</u>
MEMORANDUM ITEMS									
Commitments	26	4,729	2,744	2,744	1,781	4,729	2,744	2,744	1,781

¹ Restated.

² As originally reported.

Group Cash Flow Statement

For the years ended 31st December

	2004 £000	2003 £000	2002 £000
Net cash inflow/(outflow) from operating activities	1,892	(18,565)	22,483
Taxation	(948)	(783)	(744)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(117)	(222)	(118)
Proceeds from the disposal of tangible fixed assets	—	8	2
Net purchased debt securities	(7,500)	21,807	(21,703)
Purchase of trade investments	(128)	(3)	—
Contribution to pension scheme	(408)	—	—
	<u>(7,209)</u>	<u>2,242</u>	<u>(80)</u>
Financing			
Proceeds of subordinated debt acquired	<u>2,000</u>	<u>2,000</u>	<u>1,000</u>
(Decrease)/Increase in cash	(5,209)	4,242	920
Reconciliation of operating profit to net cash inflow/(outflow) from operating activities			
Operating profit	3,287	2,733	2,463
Prior year adjustment on full adoption of FRS 17	—	63	—
Net decrease/(increase) in prepayments and accrued income	585	(24)	(1,056)
Net (decrease)/increase in accruals, deferred income and provisions for liabilities and charge	(1,122)	833	2,539
Net increase in provisions for bad and doubtful debts	217	—	(310)
Loans and advances written off, net of recoveries	9	56	6
Depreciation	189	190	203
Profit on disposal of fixed assets	—	(8)	—
	<u>3,165</u>	<u>3,843</u>	<u>3,845</u>
Net cash inflow from trading activities	3,165	3,843	3,845
Net increase in loans and advances to customers	(65,479)	(49,749)	(63,380)
Net increase in shares	71,597	43,596	58,016
Net (increase)/decrease in loans and advances to credit institutions	(1,053)	(29,557)	19,476
Net increase/(decrease) in amounts owed to credit institutions	621	6,231	(160)
Net (decrease)/increase in amounts owed to other customers	(7,537)	7,071	4,352
Net (increase)/decrease in other assets	(219)	70	410
Net increase/(decrease) in other liabilities	797	(70)	(76)
	<u>1,892</u>	<u>(18,565)</u>	<u>22,483</u>
Net cash inflow/(outflow) from operating activities	<u>1,892</u>	<u>(18,565)</u>	<u>22,483</u>
Analysis of increase in cash			
		<i>Loan and advances to credit institutions repayable</i>	
	<i>Cash in hand</i>	<i>on demand</i>	<i>Total</i>
As at 1st January, 2002	36	18,003	18,039
Cash flow during 2002	(3)	923	920
	<u>33</u>	<u>18,926</u>	<u>18,959</u>
As at 31st December, 2002	33	18,926	18,959
Cash flow during 2003	4	4,238	4,242
	<u>37</u>	<u>23,164</u>	<u>23,201</u>
As at 31st December, 2003	37	23,164	23,201
Cash flow during 2004	(1)	(5,208)	(5,209)
	<u>36</u>	<u>17,956</u>	<u>17,992</u>
As at 31st December, 2004	<u>36</u>	<u>17,956</u>	<u>17,992</u>

Notes to the Financial Information

For the years ended 31st December, 2002, 2003 and 2004

1. Principal Accounting Policies

(i) Accounting standards

The financial information has been prepared in accordance with The Building Societies (Accounts and Related Provisions) Regulations 1998 (the "New Regulations") and applicable accounting standards of the United Kingdom. The accounts have been prepared in accordance with the historical cost convention. Except for the adoption of FRS 17 during 2004, the principal accounting policies have remained unchanged throughout the three years shown.

(ii) Basis of consolidation

The Group income and expenditure account and balance sheet include the accounts of the Society and its subsidiary undertakings. The Society's balance sheet includes the investment in the subsidiary undertakings at cost.

(iii) Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax on the defined benefit pension scheme surpluses or deficits is adjusted against these surpluses or deficits. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

(iv) Fixed assets

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

Freehold office premises:	over 50 years
Office premises structural alterations:	over 20 years
Office fixtures and fittings:	over 10 years
Computer and sundry equipment:	over 5 years
Other assets:	over 4 years

No depreciation is provided on freehold land

(v) Liquid assets

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

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

(vi) Provisions for losses on advances

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

A general provision is made to cover potential losses which, although not yet specifically identified, are known from experience to have a higher propensity to default.

(vii) Mortgage incentives

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

(viii) High loan to value advances

It is the Group's policy, where a mortgage advance results in a loan to value ratio in excess of a certain level, either to obtain mortgage guarantee insurance from a third party insurer or to make

an appropriate charge to the borrower for the risk incurred. Such charges are treated as deferred income.

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

(ix) Acquisition of mortgage portfolios

The costs of acquisition of mortgage portfolios are written off against other operating charges. Where material, the premium paid on acquisition of mortgage portfolios is written off against interest receivable over the anticipated economic life of the portfolio.

(x) Pension costs

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

This defined benefit scheme was closed on 31st January, 2000 and was replaced by a Group personal pension scheme. Contributions into both schemes have been charged against income. The pension costs charged against profits represent the amount of the contributions payable to the schemes in respect of the accounting period. The Society adopted the provisions of FRS 17 in 2004. As a consequence the scheme deficit as at 31st December, 2004 has been incorporated into the Society's 2004 accounts through the Statement of Total Recognised Gains and Losses. The pension scheme assets and liabilities have been included in the Society's Balance Sheets for 2003 and 2004.

(xi) Operating leases

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

(xii) Off balance sheet instruments

The Society has adopted the extended approach to balance sheet management and interest rate contracts are used solely for hedging purposes. All interest related contracts are classified at the balance sheet date as hedging contracts, and are valued, and income and expenditure recognised, on an equivalent basis to the assets, liabilities or positions being hedged.

2. Interest Receivable and Similar Income

	<i>Group</i>			<i>Society</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
On loans fully secured on residential property	18,465	13,778	12,017	18,465	13,126	9,739
On other loans:						
Connected undertakings	—	—	—	—	602	1,797
Other	2,561	1,926	1,571	2,561	1,810	1,241
On debt securities	702	796	1,119	702	796	1,119
On other liquid assets	3,111	1,932	1,870	3,111	1,932	1,870
Amortisation of premiums on mortgage book acquisitions	(160)	(175)	(735)	(160)	(6)	—
	<u>24,679</u>	<u>18,257</u>	<u>15,842</u>	<u>24,679</u>	<u>18,260</u>	<u>15,766</u>

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

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

Movements in the suspended accounts are as follows:

	<i>Group</i>			<i>Society</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1st January	4	13	31	4	13	31
Interest now considered receivable	(4)	(10)	(20)	(4)	(10)	(20)
Interest written off during the year	—	(3)	—	—	(3)	—
Interest suspended during the year	1	4	2	1	4	2
	<u>1</u>	<u>4</u>	<u>13</u>	<u>1</u>	<u>4</u>	<u>13</u>
At 31st December	<u><u>1</u></u>	<u><u>4</u></u>	<u><u>13</u></u>	<u><u>1</u></u>	<u><u>4</u></u>	<u><u>13</u></u>

3. Interest Payable and Similar Charges

	<i>Group</i>			<i>Society</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
On shares held by individuals	13,883	10,021	8,991	13,883	10,021	8,991
On subscribed capital	400	400	400	400	400	400
On deposits and other borrowings:						
Subordinated liabilities	482	330	224	482	330	224
Other	3,006	2,062	1,560	3,006	2,062	1,560
	<u>17,771</u>	<u>12,813</u>	<u>11,175</u>	<u>17,771</u>	<u>12,813</u>	<u>11,175</u>
	<u><u>17,771</u></u>	<u><u>12,813</u></u>	<u><u>11,175</u></u>	<u><u>17,771</u></u>	<u><u>12,813</u></u>	<u><u>11,175</u></u>

4. Other Operating Income and Charges

	<i>Group</i>			<i>Society</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Income						
Rents receivable	56	49	31	56	49	31
Other	90	230	125	90	129	125
	<u>146</u>	<u>279</u>	<u>156</u>	<u>146</u>	<u>178</u>	<u>156</u>
	<u><u>146</u></u>	<u><u>279</u></u>	<u><u>156</u></u>	<u><u>146</u></u>	<u><u>178</u></u>	<u><u>156</u></u>
Charges						
Mortgage book acquisition costs	104	25	101	104	25	—
Mortgage incentive costs	111	179	107	111	179	107
Other	101	57	7	101	57	7
	<u>316</u>	<u>261</u>	<u>215</u>	<u>316</u>	<u>261</u>	<u>114</u>
	<u><u>316</u></u>	<u><u>261</u></u>	<u><u>215</u></u>	<u><u>316</u></u>	<u><u>261</u></u>	<u><u>114</u></u>

5. Administrative Expenses

	<i>Group</i>			<i>Society</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Employee costs						
Wages and salaries	1,694	1,417	1,233	1,521	1,417	1,233
Social security costs	192	153	123	172	153	123
Other pension costs	177	197	97	161	197	97
	<u>2,063</u>	<u>1,767</u>	<u>1,453</u>	<u>1,854</u>	<u>1,767</u>	<u>1,453</u>
Other administrative expenses	1,408	1,162	1,080	1,326	1,162	1,080
	<u>3,471</u>	<u>2,929</u>	<u>2,533</u>	<u>3,180</u>	<u>2,929</u>	<u>2,533</u>
Other administrative expenses include:						
Auditors' remuneration:						
Audit fees	46	43	42	46	43	42
Non-audit fees	10	6	8	10	6	8

6. Employees

The average number of persons employed during the year was:

	<i>Group</i>			<i>Society</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Full-time	54	49	48	48	49	48
Part-time	8	7	5	8	7	5
	<u>62</u>	<u>56</u>	<u>53</u>	<u>56</u>	<u>56</u>	<u>53</u>

All the employees were involved in central administration.

7. Directors' Emoluments

<i>(i)</i>	<i>Salary</i>	<i>Pension</i>	<i>Bonus</i>	<i>Benefits</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>Total</i>	<i>Total</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Executive Directors							
D.E. Cowie	125	21	25	11	182	172	152
P.J. Davies	104	14	20	9	147	140	120
P.A. Lynch (from 1st April, 2002)	78	9	15	7	109	101	65
	<u>307</u>	<u>44</u>	<u>60</u>	<u>27</u>	<u>438</u>	<u>413</u>	<u>337</u>

	2004			2003			2002
	Non exec fees £000	2004 Advisory fees £000	2004 Total fees £000	Non exec fees £000	2003 Advisory fees £000	2003 Total fees £000	
Non-executive Directors							
M.F. Dunham	34	—	34	33	—	33	29
J. Beswick	—	—	—	—	—	—	14
D. Barron	23	—	23	22	—	22	20
D.W. Millington	23	—	23	22	—	22	21
A.K. Snape	16	7	23	6	16	22	21
J.D. Bee	16	7	23	6	16	22	20
	<u>112</u>	<u>14</u>	<u>126</u>	<u>89</u>	<u>32</u>	<u>121</u>	<u>125</u>

(ii) *Directors' Loans and Transactions:*

No executive director had a mortgage loan with the Society at 31st December, 2004. The Board's continuing policy is not to provide mortgage loans to non-executive Directors. A register of transactions is maintained at the Society's head office, which shows details of all loans, transactions and arrangements with Directors and connected persons. A statement for the current financial year of the appropriate details contained in the register is available for inspection at the Society's head office for a period of 15 days up to and including the date of the annual general meeting.

Mr Beswick was a solicitors' clerk with Lyons Wilson who act as solicitors to the Society. Fees for 2004 of £10,878 inclusive of VAT (2003: £11,727; 2002: £5,284) were charged by Lyons Wilson in the normal course of business for services rendered.

8. Tax on Profit on Ordinary Activities

UK Corporation tax charge for the year at 30% (2003: 30%, 2002: 30%)

	Group			Society		
	2004 £000	2003 £000	2002 £000	2004 £000	2003 £000	2002 £000
Corporation tax – current year	1,051	838	709	1,131	808	673
Corporation tax – prior year	4	—	—	4	—	—
Deferred tax – current year	(89)	—	—	(89)	—	—
	<u>966</u>	<u>838</u>	<u>709</u>	<u>1,046</u>	<u>808</u>	<u>673</u>
Profit on ordinary activities before tax	<u>3,287</u>	<u>2,733</u>	<u>2,463</u>	<u>3,556</u>	<u>4,167</u>	<u>2,268</u>
Current taxation at 30% (2003:30%, 2002:30%)	987	820	739	1,067	1,250	680
Expenses not deductible for tax purposes	31	11	10	31	11	10
Capital allowances in excess of depreciation	(2)	(5)	(1)	(2)	(5)	(1)
Other timing differences	40	17	(12)	40	17	(5)
Other adjustments	(1)	(5)	(27)	(1)	(3)	(11)
Dividend received from subsidiary	—	—	—	—	(462)	—
Deferred tax	(89)	—	—	(89)	—	—
	<u>966</u>	<u>838</u>	<u>709</u>	<u>1,046</u>	<u>808</u>	<u>673</u>

9. Loans and Advances to Credit Institutions

	<i>Group</i>			<i>Society</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Accrued interest	325	235	294	325	235	294
Repayable on demand	17,956	23,164	18,926	17,956	23,164	18,926
Other loans and advances by residual maturity repayable:						
In not more than three months	45,134	46,581	17,526	44,929	46,581	17,526
In more than three months but not more than one year	5,000	1,500	2,000	5,000	1,500	2,000
In more than one year but not more than five years	1,002	2,002	1,000	1,002	2,002	1,000
	<u>69,417</u>	<u>73,482</u>	<u>39,746</u>	<u>69,212</u>	<u>73,482</u>	<u>39,746</u>

10. Debt Securities

	<i>Group</i>			<i>Society</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Issued by borrowers other than public bodies	17,607	10,117	32,410	17,607	10,117	32,410
Debt securities have remaining maturities as follows:						
Accrued interest	107	117	603	107	117	603
In not more than one year	16,000	10,000	31,807	16,000	10,000	31,807
In more than one year	1,500	—	—	1,500	—	—
	<u>17,607</u>	<u>10,117</u>	<u>32,410</u>	<u>17,607</u>	<u>10,117</u>	<u>32,410</u>
Transferable debt securities comprise:						
Listed	<u>17,607</u>	<u>10,117</u>	<u>32,410</u>	<u>17,607</u>	<u>10,117</u>	<u>32,410</u>

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

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

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

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

Cost (excluding accrued interest)

	<i>Group and Society</i>
	<i>£000</i>
At 31st December, 2002	31,807
Additions	48,504
Disposals	<u>(70,311)</u>
At 31st December, 2003	10,000
Additions	49,550
Disposals	<u>(42,050)</u>
At 31st December, 2004	<u>17,500</u>

11. Loans and advances to customers

	<i>Group</i>			<i>Society</i>		
	2004 £000	2003 £000	2002 £000	2004 £000	2003 £000	2002 £000
Loans fully secured on residential property	347,283	286,337	242,293	347,283	286,337	193,417
Loans fully secured on land	37,646	31,871	27,681	37,646	31,871	20,666
Other loans	—	1,459	—	—	1,459	—
	<u>384,929</u>	<u>319,667</u>	<u>269,974</u>	<u>384,929</u>	<u>319,667</u>	<u>214,083</u>

Maturity analysis

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

	<i>Group</i>			<i>Society</i>		
	2004 £000	2003 £000	2002 £000	2004 £000	2003 £000	2002 £000
Repayable on demand	419	504	320	419	504	261
Other loans and advances secured by residual maturity repayable:						
In not more than three months	2,571	2,622	1,909	2,571	2,622	1,500
In more than three months but not more than one year	9,292	8,259	6,372	9,292	8,259	5,000
In more than one year but not more than five years	50,350	49,311	39,729	50,350	49,311	30,327
In more than five years	323,227	259,684	222,301	323,227	259,684	177,600
	<u>385,859</u>	<u>320,380</u>	<u>270,631</u>	<u>385,859</u>	<u>320,380</u>	<u>214,688</u>
Less						
Provisions and suspended interest	930	713	657	930	713	605
	<u>384,929</u>	<u>319,667</u>	<u>269,974</u>	<u>384,929</u>	<u>319,667</u>	<u>214,083</u>

12. Provision for Bad and Doubtful Debts

	<i>Loans fully secured on residential property</i>		<i>Other loans fully secured on land</i>		<i>Total</i>	
	<i>Specific</i> £000	<i>General</i> £000	<i>Specific</i> £000	<i>General</i> £000	<i>Specific</i> £000	<i>General</i> £000
Group						
At 1st January, 2003	269	235	—	140	269	375
Charge to income and expenditure account	9	—	—	—	9	—
Amounts recovered during the year	82	—	—	—	82	—
Amounts written off during the year	(26)	—	—	—	(26)	—
	<u>334</u>	<u>235</u>	<u>—</u>	<u>140</u>	<u>334</u>	<u>375</u>
At 31st December, 2003	334	235	—	140	334	375
Charge to income and expenditure account	(9)	340	20	(140)	11	200
Amounts recovered during the year	26	—	—	—	26	—
Amounts written off during the year	(17)	—	—	—	(17)	—
	<u>334</u>	<u>575</u>	<u>20</u>	<u>—</u>	<u>354</u>	<u>575</u>
At 31st December, 2004	334	575	20	—	354	575

	<i>Loans fully secured on residential property</i>		<i>Other loans fully secured on land</i>		<i>Total</i>	
	<i>Specific</i>	<i>General</i>	<i>Specific</i>	<i>General</i>	<i>Specific</i>	<i>General</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Society						
At 1st January, 2003	217	235	—	140	217	375
Charge to income and expenditure						
Account	9	—	—	—	9	—
Transfer from subsidiary	78	—	—	—	78	—
Amounts recovered during the year	56	—	—	—	56	—
Amounts written off during the year	(26)	—	—	—	(26)	—
	<u>334</u>	<u>235</u>	<u>—</u>	<u>140</u>	<u>334</u>	<u>375</u>
At 31st December, 2003	334	235	—	140	334	375
Charge to income and expenditure						
account	(9)	340	20	(140)	11	200
Amounts recovered during the year	26	—	—	—	26	—
Amounts written off during the year	(17)	—	—	—	(17)	—
	<u>334</u>	<u>575</u>	<u>20</u>	<u>—</u>	<u>354</u>	<u>575</u>
At 31st December, 2004	<u>334</u>	<u>575</u>	<u>20</u>	<u>—</u>	<u>354</u>	<u>575</u>

13 Investments

Investments in subsidiary undertakings are financial fixed assets.

Movements during the year are analysed as follows:

	<i>Shares</i>	<i>Loans</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Investment in subsidiary undertakings – Society			
As at 1st January, 2003	1	54,409	54,410
Additions	—	1,271	1,271
Repayments	—	(55,680)	(55,680)
	<u>1</u>	<u>—</u>	<u>1</u>
As at 31st December, 2003	1	—	1
Additions	1	383	384
	<u>2</u>	<u>383</u>	<u>385</u>
As at 31st December, 2004	<u>2</u>	<u>383</u>	<u>385</u>

14. Tangible Fixed Assets – Group and Society

	<i>Freehold Land and Buildings £000</i>	<i>Equipment, fixtures, fitting and vehicles £000</i>	<i>Total £000</i>
Cost			
At 1st January, 2003	1,518	1,776	3,294
Additions	—	222	222
Disposals	—	(251)	(251)
	<hr/>	<hr/>	<hr/>
At 31st December, 2003	1,518	1,747	3,265
Additions	—	117	117
Disposals	—	—	—
	<hr/>	<hr/>	<hr/>
At 31st December, 2004	1,518	1,864	3,382
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1st January, 2003	135	895	1,030
Charge for the year	15	175	190
Disposals	—	(251)	(251)
	<hr/>	<hr/>	<hr/>
At 31st December, 2003	150	819	969
Charge for the year	16	173	189
Disposals	—	—	—
	<hr/>	<hr/>	<hr/>
At 31st December, 2004	166	992	1,158
	<hr/>	<hr/>	<hr/>
Net Book Value			
At 31st December, 2002	1,383	881	2,264
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31st December, 2003	1,368	928	2,296
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31st December, 2004	1,352	872	2,224
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	<i>2004</i>	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Net Book Value of land and buildings occupied by the Group/ Society for its own activities	1,352	1,368	1,383
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

15. Other Assets

	<i>Group</i>			<i>Society</i>		
	2004 £000	2003 £000	2002 £000	2004 £000	2003 £000	2002 £000
Amounts due within one year						
Unamortised premiums on mortgage books acquired	566	69	187	566	69	—
Deferred tax	89	—	—	89	—	—
Other assets	81	98	50	66	98	50
	<u>736</u>	<u>167</u>	<u>237</u>	<u>721</u>	<u>167</u>	<u>50</u>
In more than one year but not more than five years						
Loan to trade investment company	—	350	175	—	350	175
	<u>—</u>	<u>350</u>	<u>175</u>	<u>—</u>	<u>350</u>	<u>175</u>
In more than five years but not more than ten years						
Loan to trade investment company	—	—	175	—	—	175
	<u>—</u>	<u>—</u>	<u>175</u>	<u>—</u>	<u>—</u>	<u>175</u>
	<u><u>736</u></u>	<u><u>517</u></u>	<u><u>587</u></u>	<u><u>721</u></u>	<u><u>517</u></u>	<u><u>400</u></u>

16. Shares

	<i>Group and Society</i>		
	2004 £000	2003 £000	2002 £000
Held by individuals	383,562	313,422	269,378
Shares are repayable from the balance sheet date in the ordinary course of business as follows:			
Accrued interest	1,408	2,865	2,417
Repayable on demand	300,416	150,702	59,248
Other shares by residual maturity payable:			
In not more than three months	50,095	85,320	88,532
In more than three months but not more than one year	26,143	67,187	90,272
In more than one year but not more than five years	5,500	7,348	28,909
Total	<u><u>383,562</u></u>	<u><u>313,422</u></u>	<u><u>269,378</u></u>

17. Amounts Owed to Credit Institutions

	<i>Group and Society</i>		
	2004 £000	2003 £000	2002 £000
Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:			
Accrued interest	380	226	225
Other amounts owed to credit institutions by residual maturity repayable:			
In not more than three months	24,692	22,321	18,590
In more than three months but not more than one year	11,250	13,000	10,500
Total	<u><u>36,322</u></u>	<u><u>35,547</u></u>	<u><u>29,315</u></u>

18. Amounts Owed to Other Customers

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

	<i>Group and Society</i>		
	2004 £000	2003 £000	2002 £000
Accrued interest	255	169	123
Repayable on demand	2,396	2,742	3,009
Other amounts owed to other customers by residual maturity repayable:			
In not more than three months	13,382	21,573	16,513
In more than three months but not more than one year	1,500	2,500	1,222
In more than one year but not more than five years	3,000	1,000	—
Total	20,533	27,984	20,867

19. Other Liabilities

	<i>Group</i>			<i>Society</i>		
	2004 £000	2003 £000	2002 £000	2004 £000	2003 £000	2002 £000
Amounts falling due within one year:						
Income tax	1,494	722	771	1,494	722	771
Corporation tax	427	439	384	427	439	348
Other taxation and social security	59	51	51	59	51	51
Other creditors	115	98	119	115	99	119
	<u>2,095</u>	<u>1,310</u>	<u>1,325</u>	<u>2,095</u>	<u>1,311</u>	<u>1,289</u>

20. Accruals and Deferred Income

	<i>Group</i>			<i>Society</i>		
	2004 £000	2003 £000	2002 £000	2004 £000	2003 £000	2002 £000
Interest accrued on subordinated liabilities	122	87	49	122	87	49
Interest accrued on subscribed capital	72	71	71	72	71	71
Deferred mortgage guarantee income	447	384	312	447	384	312
Unamortised discount on mortgage book acquired	97	—	155	97	—	—
Other	833	869	551	809	869	532
	<u>1,571</u>	<u>1,411</u>	<u>1,138</u>	<u>1,547</u>	<u>1,411</u>	<u>964</u>

21. Defined benefit pension scheme

Detailed below are the actuarial valuations of the assets and liabilities, net of deferred tax, of the Society's closed defined benefit pension scheme.

	<i>Group and Society</i>		
	2004 £000	2003 £000	2002 £000
Liabilities	576	722	745
Assets	(356)	(204)	(437)
Net pension liability	<u>220</u>	<u>518</u>	<u>308</u>

22. Subordinated Liabilities

	<i>Group and Society</i>		
	2004	2003	2002
	£000	£000	£000
Loan repayable 2006 (fixed interest rate of 10.765%)	500	500	500
Loan repayable 2007 (fixed interest rate of 9.657%)	500	500	500
Loan repayable 2010 (fixed interest rate of 7.362%)	1,500	1,500	1,500
Loan repayable 2027 (fixed interest rate of 6.70%)	5,000	3,000	1,000
	<u>7,500</u>	<u>5,500</u>	<u>3,500</u>

The subordinated loans were taken to assist the financing of future development. The Society has the option to repay the loans on the dates shown. They are finally repayable five years thereafter.

23. Pension costs

The Society operated a defined benefits pension scheme for the benefit of its employees, which became a closed scheme from 31st January, 2000. The assets of the scheme are administered by trustees in a fund independent from the assets of the Group. The number of scheme members at 31st December, 2004 was 17 (2003:22; 2002: 24)

FRS 17 disclosures

Costs and liabilities of the scheme are based on actuarial valuations. The latest full actuarial valuation was carried out on 1st November, 2002 and updated on 31st December, 2003 and 31st December, 2004 by a qualified independent actuary.

The main assumptions used by the actuary were:

	2004	2003	2002
<i>Rate of increase in salaries</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Rate of increase for pensions in payment	3.00%	3.00%	3.00%
Discount rate	5.40%	5.40%	5.50%
Inflation	2.50%	2.50%	2.25%

The assets in the scheme are invested in a unitised with profits policy with an expected long term rate of return of 6.50% (2003: 6.50%; 2002: 6.50%)

	2004	2003	2002
	£000	£000	£000
Total market value of assets	508	292	624
Present value of scheme liabilities	<u>822</u>	<u>1,032</u>	<u>1,064</u>
Deficit in the scheme	(314)	(740)	(440)
Related deferred tax asset	<u>94</u>	<u>222</u>	<u>132</u>
Net pension liability	<u>(220)</u>	<u>(518)</u>	<u>(308)</u>

The adoption of FRS 17 "Retirement Benefits" has required a change to the accounting treatment of pensions and the prior year numbers have been restated as follows:

	<i>Tax on pension deficit £000</i>	<i>Pension deficit £000</i>	<i>Group reserves £000</i>	<i>Society reserves £000</i>
31st December, 2002 as previously stated	—	—	15,287	13,823
Prior year adjustment	—	—	(243)	(243)
Net actuarial losses	90	(237)	(147)	(147)
	<u>90</u>	<u>(237)</u>	<u>14,897</u>	<u>13,433</u>

Group and Society profit and loss account:

	<i>Interest payable £000</i>	<i>Staff costs £000</i>	<i>Group profit £000</i>	<i>Society profit £000</i>
31st December, 2003 as previously stated	12,793	1,724	1,958	3,422
Adoption of FRS 17	20	43	(63)	(63)
	<u>12,813</u>	<u>1,767</u>	<u>1,895</u>	<u>3,359</u>

The amount charged to operating profit was

	<i>2004 £000</i>	<i>2003 £000</i>	<i>2002 £000</i>
Current service costs less employee contributions	(3)	(3)	(3)
Settlement loss	—	(40)	—
Total operating charge	<u>(3)</u>	<u>(43)</u>	<u>(3)</u>

Other finance (costs)/income comprises

	<i>2004 £000</i>	<i>2003 £000</i>	<i>2002 £000</i>
Expected return on pension scheme assets	26	29	42
Interest on pension scheme liabilities	(51)	(49)	(53)
	<u>(25)</u>	<u>(20)</u>	<u>(11)</u>

Statement of total recognised gains and losses (STRGL)

	<i>2004 £000</i>	<i>2003 £000</i>	<i>2002 £000</i>
Actual return less expected return on pension scheme assets	(19)	(18)	(66)
Experience gain/(loss) arising on the scheme liabilities	113	(3)	(8)
Changes in the assumptions underlying the present value of the scheme liabilities	(48)	(216)	(96)
Actuarial gain/(loss) recognised in the STRGL	<u>46</u>	<u>(237)</u>	<u>(170)</u>

The movement in the deficit in the year was

	2004 £000	2003 £000	2002 £000
Deficit in the scheme at the beginning of the year	(740)	(440)	(256)
Current service cost	(3)	(3)	(3)
Contribution by employer	408	—	—
Settlement loss	—	(40)	—
Other finance expense	(25)	(20)	(11)
Actuarial gain/(loss)	46	(237)	(170)
Deficit in the scheme at the end of the year	<u>(314)</u>	<u>(740)</u>	<u>(440)</u>

The history of experience gains and losses for the year

	2004 £000	2004 %	2003 £000	2003 %	2002 £000	2002 %
Difference between expected and actual return on scheme assets	(19)		(18)		(66)	
Percentage of scheme assets		(4)		(6)		(10)
Experience gains and losses on scheme liabilities	113		(3)		(8)	
Percentage of present value of scheme liabilities		14		(1)		(1)
Total actuarial gains and losses	46		(237)		(170)	
Percentage of present value of scheme liabilities		6		(23)		(16)

24. Subscribed capital

	Group			Society		
	2004 £000	2003 £000	2002 £000	2004 £000	2003 £000	2002 £000
8% Permanent Interest Bearing Shares	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>

25. General Reserve

	Group				Society			
	2004 £000	2003 ¹ £000	2003 ² £000	2002 £000	2004 £000	2003 ¹ £000	2003 ² £000	2002 £000
At 1st January	16,792	15,287	15,287	13,533	16,792	13,823	13,823	12,228
Prior year adjustment	—	(243)	—	—	—	(243)	—	—
At 1st January, restated	16,792	15,044	15,287	13,533	16,792	13,580	13,823	12,228
Profit for the financial year	2,321	1,895	1,958	1,754	2,510	3,359	3,422	1,595
Actuarial gain/(loss) recognised	46	(237)	—	—	46	(237)	—	—
Tax arising on movement in scheme deficit in year	(6)	90	—	—	(6)	90	—	—
At 31st December	<u>19,153</u>	<u>16,792</u>	<u>17,245</u>	<u>15,287</u>	<u>19,342</u>	<u>16,792</u>	<u>17,245</u>	<u>13,823</u>

¹ Restated.

² As originally reported.

26. Memorandum Items

	<i>Group</i>			<i>Society</i>		
	2004	2003	2002	2004	2003	2002
	£000	£000	£000	£000	£000	£000
Irrevocable undrawn loan facilities	4,729	2,744	1,781	4,729	2,744	1,781
	<u>4,729</u>	<u>2,744</u>	<u>1,781</u>	<u>4,729</u>	<u>2,744</u>	<u>1,781</u>

27. Financial Commitments

(i) Capital commitments

	<i>Group</i>			<i>Society</i>		
	2004	2003	2002	2004	2003	2002
	£000	£000	£000	£000	£000	£000
Capital expenditure contracted for but not provided	6	—	30	6	—	30
	<u>6</u>	<u>—</u>	<u>30</u>	<u>6</u>	<u>—</u>	<u>30</u>

(ii) Pension scheme

The society operated a defined benefits pension scheme for the benefit of its employees, which became a closed scheme on 31st January, 2000 and was replaced by a Group personal pension scheme. The last actuarial valuation was carried out as at 1st November, 2002.

(iii) Contingent liabilities

The Society has a contingent liability in respect of contributions to the Financial Services Compensation Scheme required by the Financial Services and Markets Act 2000.

28. Financial instruments

Instruments used for risk management purposes include derivative financial instruments (derivatives), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates or stock market indices. All transactions in derivatives are undertaken to manage the risks arising from underlying business activities.

These derivatives are only used by the Society in accordance with the Building Societies Act 1986, to limit the extent to which the Society will be affected by changes in interest rates or other factors specified in the legislation. Derivatives are not used for trading activity or for speculative purposes.

The table below shows the notional principal amounts, credit risk weighted amounts and replacement costs of derivatives. Notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The credit risk weighted amount, which is calculated according to the rules specified by the Financial Services Authority, is based on the replacement costs of replacing the contracts with positive values, calculated at market rates current at the balance sheet date reflecting the Society's maximum exposure should all counterparties default.

Unmatured interest rate swaps

	<i>Group and Society</i>		
	2004	2003	2002
	£000	£000	£000
Notional principal amounts	27,000	72,000	81,000
Credit risk weighted amount	185	115	235
Replacement cost	333	154	336

Risk management

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

Liquidity risk

The Society's policy is to maintain sufficient funds in liquid form at all times to ensure that liabilities can be met 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 event which may arise. The Society regularly monitors its holding of liquid funds to ensure that they are maintained within the limits set out in its Liquidity Prudential Policy Statement.

Interest rate risk

The Society 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 Society manages this exposure by using both on and off balance sheet instruments.

After taking into account the derivatives entered into by the Society, the interest rate sensitivity exposure at 31st December, 2004, 31st December, 2003 and 31st December, 2002 was:

	<i>Not more than 3 months</i>	<i>More than 3 months but not more than 6 months</i>	<i>More than 6 months but not more than a year</i>	<i>More than 1 year but not more than 5 years</i>	<i>More than 5 years</i>	<i>Non-interest bearing</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>31st December, 2004</i>							
Assets							
Liquid assets	85,628	1,000	—	—	—	432	87,060
Loans and advances to customers	353,989	208	1,016	15,701	13,925	—	384,929
Tangible fixed assets	—	—	—	—	—	2,224	2,224
Other assets	—	—	—	—	—	2,099	2,099
Total assets	439,617	1,208	1,016	15,701	13,925	4,755	476,312
Liabilities							
Shares	352,921	4,946	21,196	4,499	—	—	383,562
Amounts owed to credit institutions and other customers	44,720	4,000	4,500	—	3,000	635	56,855
Other liabilities	—	—	—	—	—	4,242	4,242
Reserves	—	—	—	5,500	4,800	8,853	19,153
Subordinated debt and PIBS	—	—	—	1,000	11,500	—	12,500
Total liabilities	397,641	8,946	25,696	10,999	19,300	13,730	476,312
Off balance sheet items	1,000	2,000	(3,000)	2,500	(2,500)	—	—
Interest rate sensitivity gap	40,976	(9,738)	(21,590)	2,202	(2,875)	(8,975)	—

	Not more than 3 months £000	More than 3 months but not more than 6 months £000	More than 6 months but not more than a year £000	More than 1 year but not more than 5 years £000	More than five years £000	Non-interest bearing £000	Total £000
<i>31st December, 2003</i>							
Assets							
Liquid assets	73,782	1,500	7,000	1,002	—	352	83,636
Loans and advances to customers	292,381	410	1,588	17,643	7,645	—	319,667
Tangible fixed assets	—	—	—	—	—	2,296	2,296
Other assets	—	—	—	—	—	1,885	1,885
Total assets	366,163	1,910	8,588	18,645	7,645	4,533	407,484
Liabilities							
Shares	239,889	47,620	19,567	6,346	—	—	313,422
Amounts owed to credit institutions and other customers	56,636	2,500	3,000	1,000	—	395	63,531
Other liabilities	—	—	—	—	—	2,786	2,786
Reserves	—	—	—	4,578	1,160	11,507	17,245
Subordinated debt and PIBS	—	—	—	1,000	9,500	—	10,500
Total liabilities	296,525	50,120	22,567	12,924	10,660	14,688	407,484
Off balance sheet items	21,000	(2,000)	(30,000)	8,000	3,000	—	—
Interest rate sensitivity gap	48,638	(46,210)	16,021	(2,279)	(6,015)	(10,155)	—
<i>31st December, 2002</i>							
Assets							
Liquid assets	57,262	13,030	1,000	—	—	897	72,189
Loans and advances to customers	256,753	185	555	7,352	5,129	269,974	270,869
Tangible fixed assets	—	—	—	—	—	2,264	2,264
Other assets	—	—	—	—	—	1,383	1,383
Total assets	314,015	13,215	1,555	7,352	5,129	4,544	345,810
Liabilities							
Shares	149,032	62,173	28,874	29,299	—	—	269,378
Amounts owed to credit institutions and other customers	43,835	3,500	2,500	—	—	347	50,182
Other liabilities	—	—	—	—	—	2,463	2,463
Reserves	—	—	—	—	—	15,287	15,287
Subordinated debt and PIBS	—	—	—	—	8,500	8,500	8,500
Total liabilities	192,867	65,673	31,374	29,299	8,500	18,097	345,810
Off balance sheet items	57,000	(2,000)	(30,000)	(28,000)	3,000	—	—
Interest rate sensitivity gap	64,148	(50,458)	181	6,053	(6,371)	(13,553)	—

Liquid assets include cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities. Other assets include other loans, prepayments and accrued income. Other liabilities include accruals, deferred income and provisions for liabilities and charges.

Annual Business Statement

Set out below is the full text of the Annual Business Statement for the Society for the year ended 31st December, 2004, as published in the consolidated annual reports and accounts of the Society on the Society's website.

Annual Business Statement For the year ended 31st December 2004

1. Statutory Percentages

	2004 %	Statutory Limit
Lending limit	10.16	25.0
Funding limit	12.91	50.0

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

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

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

Y = the principal of, and interest accrued on, loans owed to the Group which are fully secured on residential property and mortgage loss provisions.

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

X = shares and borrowings, being the aggregate of:

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

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

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

2. Other ratios

	2004 %	2003 %	2002 %
As percentage of shares and borrowings			
Gross capital	7.2	7.2	7.4
Free capital	6.8	6.7	6.9
Liquid assets	19.8	22.2	22.6
Profit after taxation for the financial year as a percentage of mean total assets	0.53	0.50	0.56
Society management expenses as a percentage of mean total assets	0.76	0.83	0.88

The above percentages have been prepared from the Group accounts and in particular:

“Shares and borrowings” represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue;

“Gross capital” represents the aggregate of general reserve, revaluation reserve and subordinated liabilities;

“Free capital” represents the aggregate of gross capital and general loss provisions for bad and doubtful debts less tangible fixed assets;

“Mean total assets” represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year;

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

“Management expenses” represents the aggregate of administrative expenses and depreciation.

3. Information Relating to the Directors and Officers

<i>Name</i>	<i>Date of birth</i>	<i>Date of appointment</i>	<i>Occupation</i>	<i>Other directorships</i>
M.F. Dunham	5.6.1935	June 1976	Chartered Accountant	D&J Air Conditioning Services Ltd. Oakwood Ltd. TFD Dunhams Ltd. TFD Dunhams Investments Ltd.
D. Barron	24.7.1941	Sept. 1984	Retired Building Society Executive	Danestone Ltd. MBS (Mortgages) Ltd. Mortgage Broking Services Ltd.
D.E. Cowie	17.10.1951	July 1991	Building Society Executive	MBS (Mortgages) Ltd. Mortgage Broking Services Ltd.
D.W. Millington	19.8.1940	April 1995	Chartered Surveyor	Manchester Diocesan Church House Company Ltd. Gwersyllt Community Partnership Ltd.
P.J. Davies	10.1.1963	Jan. 2000	Building Society Executive	MBS (Mortgages) Ltd.
P.A Lynch	31.8.1969	April 2002	Building Society Executive	
A.K. Snape	24.5.1948	May 2004	Chartered Surveyor	Tony Snape Ltd. Quayside Management Ltd. Mortgage Broking Services Ltd. Sea Shell Trustee Limited
J.D. Bee	15.5.1941	May 2004	Chartered Accountant	Nichols plc The Skyeside Partnership Ltd. Hallco 195 Ltd. Hallco 196 Ltd. Hallco 196 Investments Ltd.
<i>Directors</i>		<i>Position</i>		
D.E. Cowie		Chief Executive		
P.J. Davies		Deputy Chief Executive		
P.A Lynch		Operations Director		

<i>Officers</i>	<i>Position</i>
I.M. Richardson	Secretary

Each of the executive directors have employment contracts which are terminable by the Society by giving 12 months notice. The executive directors are required to give the Society 6 months notice to the Society to terminate their contract.

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

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

Use of Proceeds

The net proceeds of the issue of the PIBS (estimated to be approximately £9.7 million) will be used to strengthen the Society's capital base and to continue the ongoing development of the Society's business. In particular, the proceeds of the issue of the PIBS will significantly increase the Society's Tier 1 capital and will reduce the Society's short to medium term requirement for additional subordinated debt resources. The additional capital will be used primarily to fund balance sheet development at higher growth rates than would have been possible without the stronger capital position and will be available to support the acquisition of mortgage books, if they are available on appropriate terms.

United Kingdom Taxation

A. Interest on the PIBS

1. *Payment of interest on the PIBS*

Payments of interest on the PIBS may be made without deduction of or withholding on account of United Kingdom income tax provided that the PIBS continue to be listed on a “recognised stock exchange” within the meaning of section 841 of the Income and Corporation Taxes Act 1988 (the “ICTA”). The London Stock Exchange is a recognised stock exchange. Under an Inland Revenue published practice, securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List by the UK Listing Authority and admitted to trading on the London Stock Exchange’s market for listed securities. Provided, therefore, that the PIBS remain so listed, interest on the PIBS will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the PIBS may also be paid without withholding or deduction on account of United Kingdom tax where interest on the PIBS is paid to a person who belongs in the United Kingdom for United Kingdom tax purposes and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the PIBS is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that the Inland Revenue has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the PIBS on account of United Kingdom income tax at the lower rate (currently 20%). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to an investor, the Inland Revenue can issue a notice to the Issuer to pay interest to the Investor without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Investors who are individuals may wish to note that the Inland Revenue has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest for the benefit of an individual. Information so obtained may, in certain circumstances, be exchanged by the Inland Revenue with the tax authorities of the jurisdiction in which the Investor is resident for tax purposes.

2. *EU Savings Directive*

On 3rd June, 2003, the European Council of Economics and Finance Ministers adopted a Directive on the taxation of savings income. Under the Directive Member States will (if equivalent measures have been introduced by certain non-EU countries) be required, from 1st July, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria will instead be required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

3. *Further United Kingdom Income Tax Issues*

Interest on the PIBS constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of an Investor (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Investor carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the PIBS are attributable (and where that Investor is a company, unless that Investor carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the PIBS are attributable). There are exemptions for interest

received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Investors.

B. United Kingdom Corporation Tax Payers

4. In general, investors which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the PIBS (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

C. Other United Kingdom Tax Payers

5. *Taxation of Chargeable Gains*

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 an investor of a PIBS will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

6. *Accrued Income Scheme*

On a disposal of PIBS by an Investor, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Chapter II of Part XVII of the ICTA, if that investor is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the PIBS are attributable.

D. Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)

7. No United Kingdom stamp duty or SDRT 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 11th April, 2005 (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 14th April, 2005 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.

It is the intention of the Society to distribute the PIBS as widely as possible. Accordingly, the Manager reserves the right to retain a portion of the offering for the purpose of making ongoing sales, at its absolute discretion, to professional intermediaries. The Manager will not directly market the PIBS to the public.

The PIBS have not, prior to the date of this document, been marketed or made available in whole or part to the public.

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

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

The Manager has represented that (1) it has not offered or sold and will not offer or sell any PIBS to persons in the United Kingdom prior to admission of the PIBS to listing in accordance with Part VI of FSMA 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 FSMA (2) it has complied and will comply with all applicable provisions of the FSMA 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 communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) in connection with the issue or sale of any PIBS in circumstances in which section 21(1) of FSMA does not apply to the Society.

Save for having obtained approval of this document by the UK Listing Authority pursuant to listing rules made under Part VI of FSMA 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 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 Group or any material adverse change in the prospects of the Group since 31st December, 2004, being the date to which the latest published audited accounts were made up.

Litigation

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

Auditors

The consolidated accounts of the Society for the three years ended 31st December, 2004 have been audited in accordance with United Kingdom auditing standards by Grant Thornton UK LLP and previously by Grant Thornton (which on 1st July, 2004 transferred its business into the limited liability partnership Grant Thornton UK LLP), Chartered Accountants and Registered Auditors of Heron House, Albert Square, Manchester M60 8GT and have been reported upon without qualification.

Authorisation

The issue of the PIBS was authorised by resolutions of the Board passed on 23rd March, 2005 and a Committee of Directors passed on 31st March, 2005.

Expenses

The overall cost of the issue of the PIBS by the Society, including all commissions and expenses, is estimated to amount to approximately £277,000 (exclusive of VAT).

Material contracts

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

- (i) the Subscription Agreement dated 11th April, 2005 between the Manager and the Society, as described in more detail on page 55; and
- (ii) the Registrar's Agreement dated 13th April, 2005 between Lloyds TSB Registrars (the "Registrar") and the Society appointing the Registrar as registrar for the issue, as described in more detail on page 57.

Other than the above contracts there are no other contracts (not being a contract entered into in the ordinary course of business) entered into by any member of the Group under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document.

Directors' interests

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

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

Guarantees and loans

At 31st December, 2004 no executive Director had a mortgage loan or any other loan with the Society.

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:

- (a) Mr Cowie is employed by the Society as its Chief Executive under a service agreement dated 22nd November, 2000. The agreement continues unless terminated by the Society by 12 months' notice or by Mr Cowie by 6 months' notice. Mr Cowie is paid a basic salary of £133,200 per annum, a car allowance of £10,880 per annum and is entitled to participate in a Group personal pension scheme and permanent health scheme and to receive private health insurance. Mr Cowie also participates in the Executive bonus scheme, which resulted in a payment of £24,405 in relation to 2004.
- (b) Mr Davies is employed by the Society as its Deputy Chief Executive under a service agreement dated 23rd October, 2001. The agreement continues unless terminated by the Society by 12 months' notice or by Mr Davies by 6 months' notice. Mr Davies is paid a basic salary of £111,000 per annum and is entitled to a company car, to participate in a Group personal pension scheme and permanent health scheme and to receive private health insurance. Mr Davies also participates in the Executive bonus scheme, which resulted in a payment of £20,430 in relation to 2004.
- (c) Mr Lynch is employed by the Society as its Operations Director under a service agreement dated 2nd April, 2002. The agreement continues unless terminated by the Society by 12 months' notice or by Mr Lynch by 6 months' notice. Mr Lynch is paid a basic salary of £85,000 per annum, a car allowance of £7,667 per annum and is entitled to participate in a Group personal pension scheme and permanent health scheme and to receive private health insurance. Mr Lynch also participates in the Executive bonus scheme, which resulted in a payment of £15,255 in relation to 2004.
- (d) Mr Gee is employed by the Society as its Finance Director under a service agreement dated 7th December, 2004. The agreement continues unless terminated by the Society by 12 months' notice or by Mr Gee by 6 months' notice, save that during the first 12 months of the agreement the Society may terminate the agreement by giving 3 months' notice. Mr Gee is paid a basic salary of £85,000 per annum, a car allowance of £7,667 per annum and is entitled to participate in a Group personal pension scheme and permanent health scheme and to receive private health insurance. Mr Gee also participates in the Executive bonus scheme with effect from 1st January, 2005.

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

Amounts payable to the Directors

Total aggregate remuneration and benefits in kind of £564,000 were paid to the Directors by the Group in respect of the financial year ended 31st December, 2004. It is estimated that an aggregate sum of approximately £732,000 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 31st December, 2005.

Registrar

The Society, pursuant to the Registrar's Agreement dated 13th April, 2005, has appointed Lloyds TSB Registrars at its specified office at The Causeway, Worthing, West Sussex BN99 6DA to maintain the PIBS Register at such specified office. It is intended that the Registrar will act as agent of the Society for the purposes of maintaining the PIBS Register, accepting instructions for, and

effecting, transfers of PIBS, issuing PIBS Certificates to new PIBS holders, receiving requests for the replacement of, and replacing, defaced, damaged, stolen, worn-out, lost or destroyed PIBS Certificates and making payments in respect of the PIBS as they fall due.

PIBS Certificates

No temporary documents of title shall be issued by the Society. The Registrar will commence despatching the PIBS Certificates to all PIBS holders who decide to hold their PIBS in certificated form at the risk of the person entitled thereto by first class post from 14th April, 2005 to the address detailed on the Members' application form. The ISIN for the PIBS is GB00B0712W15 and the SEDOL number is B0712W1. PIBS will be held and transferred through the CREST system operated by CREST Co Limited.

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 Halliwells LLP at 1 Threadneedle Street, London EC2R 8AW 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 audited consolidated accounts of the Society for each of the three years ended 31st December, 2002, 2003 and 2004;
- (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.

Copies of this document comprising listing particulars are also available to the public for inspection in printed form and free of charge at the offices of Halliwells LLP specified above and at the principal office of the Society.

Copies of this document comprising listing particulars are also available to the public for inspection at the Document Viewing Facility.

PRINCIPAL OFFICE OF THE SOCIETY

Queens Court
24 Queen Street
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REGISTRAR

Lloyds TSB Registrars
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