

Offering Circular



(Incorporated in England as a building society and registered with the Central Office of the Registry of Friendly Societies in London under number 233 B)

£10,000,000

12⁵/₈ per cent. Permanent Interest Bearing Shares

Application has been made to The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (the "London Stock Exchange") for the issue of £10,000,000 12⁵/₈ per cent. Permanent Interest Bearing Shares (the "PIBS"), comprising 10,000 PIBS of £1,000 each, of Newcastle Building Society (the "Society") to be admitted to the Official List of the London Stock Exchange.

The listing of the PIBS will be expressed as a percentage of their principal amount (excluding accrued interest).

It is expected that the PIBS will be admitted to the Official List on 11 September 1992, subject only to the allotment of the PIBS, and dealings are expected to commence on 16 September 1992.

Issue Price: 100.446 per cent.

The PIBS will be deferred shares in the Society for the purposes of section 119 of the Building Societies Act 1986 and will not be protected investments for the purposes of payments out of the Building Societies Investor Protection Fund. Attention is drawn to certain risk factors set out on page 3.

The PIBS will not be withdrawable at the option of the PIBS holders and will be repayable only in certain limited circumstances as described in paragraph 4 of "Special Conditions of Issue of the PIBS".

Charterhouse Bank Limited

The date of this Offering Circular is 8 September 1992.

The Directors of the Society (the "Directors"), whose names appear on page 20, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person is authorised to give any information or to make any representation not contained herein and any information or representation not contained herein must not be relied upon as having been authorised by the Society or Charterhouse Bank Limited ("Charterhouse Bank"). Neither the delivery of this document nor any subscription, sale or purchase made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Society since the date hereof. **Charterhouse Bank is acting exclusively for the Society. Charterhouse Bank is not acting for any other persons and will not be responsible to them for providing protections afforded to customers of Charterhouse Bank or advising them on the contents of this document.**

Copies of this document, which comprises listing particulars relating to the Society and in respect of the PIBS in accordance with the listing rules made by the London Stock Exchange, have been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of the Financial Services Act 1986.

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

This document does not constitute an offer to sell or a solicitation of any offer to subscribe or purchase the PIBS in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. 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 Charterhouse Bank to inform themselves about and to observe 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" set out on page 40.

The information contained in this document is intended for sophisticated investors capable of understanding the nature of a PIBS and the risks attaching to it. Attention is drawn to certain risk factors relating to the PIBS set out on page 3.

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

In this document, unless otherwise specified or the context otherwise requires, references to "pounds", "sterling" and "£" 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.

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RISK FACTORS

Investors should be aware that the terms of the PIBS vary considerably from the terms of ordinary building society share accounts. In particular, they should note that:

- (a) PIBS are not withdrawable and their principal amount is not repayable. Accordingly, the only way that the PIBS may be realised is by a sale at such price and on such terms as may from time to time be available in the market. This may mean that the investor does not recoup his investment;
- (b) in a winding-up or dissolution of the Society, 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;
- (c) PIBS are not protected investments for the purposes of the Building Societies Investor Protection Fund;
- (d) 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 and the Board of Directors of the Society (the "Board") resolves that such interest should not be paid or where the Society has not paid interest in respect of deposits or Shares (other than deferred Shares); and
- (e) if the Society does not make an interest payment in respect of the PIBS in accordance with paragraph (d) above, such interest will be cancelled.

SUMMARY OF THE KEY PROVISIONS OF THE RULES OF THE SOCIETY RELATING TO THE PIBS

The rights and restrictions attaching to the PIBS are set out both in the Rules of the Society (the "Rules") and in the Special Conditions of Issue of the PIBS. Set out below is a summary of the key provisions of the Rules insofar as they affect the rights of PIBS holders. Terms defined in the Rules will, unless the context otherwise requires, have the same meanings when used in this summary. The "Notes" set out below are for explanation only and do not form part of the Rules.

1. General

PIBS may be issued on such terms and conditions as the Board may from time to time in its absolute discretion determine, but the Society's liabilities in respect of deferred Shares including PIBS (whether or not they are deferred Shares within the meaning of the Statutes) and preferential Shares immediately following any such issue shall not exceed 25 per cent. of the Society's aggregated share, deposit and loan liabilities.

A person whose name is entered in the records of the Society maintained for the purposes of PIBS (the "PIBS Register") as the holder of a PIBS or a fraction of a PIBS (a "PIBS holder") is a Member of the Society. Each PIBS holder and all persons claiming through him or on his account or under the Rules shall be bound by the Rules and by the provisions of the Society's Memorandum.

A PIBS holder shall, on demand, be given a copy of the Rules and of the Society's Memorandum:

- (a) free of charge, if he has not previously been given a copy; or
- (b) upon payment of £1 or such other fee as may be duly prescribed from time to time by the Building Societies Commission (the "Commission"), if he has already been given a copy.

2. Register

The Society shall maintain a PIBS Register in which shall be entered the name and address of each PIBS holder. Each PIBS holder is obliged by the Rules to notify the Society immediately of any change of name or address and shall produce such evidence thereof as the Society may require.

Transfers and other documents relating to or affecting the title of 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 Society's Principal Office, or at such other place as the Board thinks fit.

Note: The Society has appointed The Royal Bank of Scotland plc as its registrar for the PIBS.

3. Title

Except as otherwise provided by the Rules, the Society shall be entitled to treat the holder of any PIBS, as denoted in the records of the Society, as the absolute owner thereof and, accordingly, it shall not, except as ordered by a court of competent jurisdiction or as by statute required, be bound to recognise any trust or equitable or other claim to or interest in or charge on or security over such PIBS (whether partial or otherwise) on the part of any other person, whether or not it shall have express or other notice thereof, nor be held responsible for omitting or neglecting to recognise any such claim.

4. PIBS Certificates

Each PIBS holder, within one month after becoming entered in the PIBS Register as the holder of a PIBS (or within such other period as the terms and conditions of the issue of the PIBS may provide), shall be supplied by the Society with a share certificate in respect of his PIBS (a "PIBS Certificate") issued under the common seal of the Society or a facsimile thereof.

5. Replacement of PIBS Certificates

Any 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 is alleged to have been lost, stolen or destroyed, a new PIBS Certificate representing the same PIBS shall be issued to the PIBS holder upon request, but subject to delivery up of the old PIBS Certificate or (if it is 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 the payment of any exceptional expenses of the Society incidental to its investigation of the evidence of the alleged loss, theft or destruction.

Where a holder of any PIBS has sold part of his holding, he shall be entitled to a PIBS Certificate for the balance without charge.

6. Transfers

Any fully paid PIBS may be transferred to any person and such transferee shall be entitled to have his name entered in the PIBS Register on delivery to the Society of a duly executed form of transfer.

No transfer of a PIBS shall be valid unless made in a form approved by the Board and until it is registered in the PIBS Register. The transferor shall cease to be a Member of the Society (unless he otherwise qualifies for membership) if his name is no longer entered in the PIBS Register as the holder of a PIBS or a fraction of a PIBS.

The registration of transfers of PIBS, or of any class of 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.

Two or more persons may jointly hold a PIBS unless the terms of issue prohibit a joint holding but no PIBS shall be issued to holders, or shall be held by them at any time, as tenants in common.

The Board may decline to issue any PIBS to more than four persons jointly.

7. Lien

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

8. Meetings

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

A Member of the Society who has a Shareholding (which may include a PIBS) at the voting date will be entitled to vote on a resolution (other than a Borrowing Members' Resolution) if he is not a minor and, in the case of a joint Shareholding, is named first in the records of the Society in respect of that Shareholding and was at either:

- (a) the end of the Financial Year before the voting date; or
- (b) if the voting date falls during that part of the Financial Year which follows the conclusion of the Annual General Meeting commenced in that year, the beginning of the period of 56 days immediately preceding the voting date for Members voting in person at a special general meeting

a holder of Shares with a value of not less than £100 and has not ceased to hold Shares in the Society at any time between the time referred to in (a) or (b) (as applicable) and the voting date. The value of a PIBS shall be counted as held by a Member only if, at the time referred to in (a) or (b) (as applicable), the Member was entered in the PIBS Register as the holder of that PIBS.

On both a show of hands and a poll, each PIBS holder entitled to vote will have one vote regardless of the principal amount of PIBS held by that holder.

At a General Meeting of the Society, ten Members who are entitled to vote at the meeting may demand a poll.

The Rules may only be altered or rescinded or added to by passing a resolution as a Special Resolution.

9. 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 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) in paying up to 20 per cent. to holders of all or some of the deferred Shares (including PIBS) in the Society. The proportion (if any) of such 20 per cent. to which any particular issue of deferred Shares (including PIBS) is entitled shall be set forth in the terms and conditions of issue of such Shares **(see Note below)**; and
- (b) in paying the remainder to Members holding Shares (other than holders of deferred Shares (including PIBS)) in proportion to the value of their Shareholding, provided that such Members 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.

If there are insufficient assets to repay all Members the amounts paid up on their Shares, no repayments shall be made in respect of any deferred Shares (including PIBS) until after all other Members have been repaid in full.

Note: Notwithstanding paragraph 9 (a) above, investors should note that the Special Conditions of Issue of the PIBS provide that PIBS holders will not be entitled to share in any final surplus on a winding-up or dissolution of the Society.

10. Disputes and Legal Proceedings

Any dispute between the Society and any Member in his capacity as a Member (whether or not the subject of the dispute may also be the subject of a complaint to an Ombudsman under the terms of an Ombudsman Scheme of which the Society is a member), or a representative of a Member in that capacity, in relation to a refusal by the Society to send to its Members an election address in certain circumstances or a notice of certain Members' resolutions shall be referred to three arbitrators for arbitration and their award, or the award of a majority of them, shall be final and binding.

Note: 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. Pursuant to section 1 of the Courts and Legal Services Act 1990, the County Court Jurisdictional Order 1991 No. 724 has been made which empowers the High Court to transfer cases over which it has jurisdiction to the County Court.

11. Sale of PIBS of Untraceable Holders

The Rules regarding the sale of the PIBS of untraceable holders are summarised in paragraph 7 of the Special Conditions of Issue of the PIBS.

SPECIAL CONDITIONS OF ISSUE OF THE PIBS

The following are the Special Conditions of Issue of the PIBS in the form in which they will appear on the reverse of each PIBS Certificate:

The PIBS (as defined below) are issued subject to, and with the benefit of, these Special Conditions of Issue (the "Conditions").

1. General

- (1) The "Society" means Newcastle Building Society.
- (2) "PIBS" means the 12⁵/₈ per cent. Permanent Interest Bearing Shares of the Society and, unless the context otherwise requires, includes any further deferred Shares issued pursuant to Condition 10 below and forming a single series with the PIBS.
- (3) 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.
- (4) PIBS holders are entitled to the benefit of, are bound by, and are deemed to have notice of, the Rules. In the event of any conflict between the Rules and these Conditions, the Rules shall prevail.
- (5) **The PIBS:**
 - (a) **are deferred shares for the purposes of section 119 of the Building Societies Act 1986 (the "Act");**
 - (b) **are not protected investments for the purposes of the Building Societies Investor Protection Fund provided for under the Act;**
 - (c) **are not withdrawable; and**
 - (d) **are permanent interest bearing shares for the purposes of the Rules.**
- (6) The expressions "Creditors" and "Relevant Supervisory Consent" shall have the meanings given in Conditions 4(2) and 4(4) respectively.
- (7) Upon a transfer of a PIBS, the Society will procure that the new PIBS holder is issued with a PIBS Certificate within one month of the lodging of the instrument of transfer.

2. Form, Denomination and Title

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

3. Interest

- (1) The PIBS bear interest from and including 15 September 1992 at the rate of 12⁵/₈ per cent. per annum (less tax where appropriate) payable, subject as provided below, in arrear by equal half-yearly instalments on 15 March and 15 September in each year, the first payment to be made on 15 March 1993. Each half-yearly period is referred to as an "Interest Period". Interest on the PIBS is non-cumulative as described below.

The interest payment in respect of a period of less than a half-year will be calculated on the basis of the number of days elapsed and a year of 365 days and by rounding the resultant figure to the nearest penny (a half penny being rounded upwards).

- (2) Interest in respect of the PIBS shall not be paid or credited in respect of any Interest Period if the Society has at any time before the date for payment of the interest cancelled the payment of any interest or dividend upon:
 - (a) any other Shares of any class (other than deferred shares (as defined in the Act)) of the Society; or
 - (b) any deposit (including subordinated debt) with the Societywhich falls, in accordance with the terms applying to that class of Share or that deposit, to be paid or credited at any time before the end of the relevant Interest Period.

For the purposes of this paragraph (2):

- (a) interest shall, if the Society has deferred or suspended any payment thereof, be taken to have been cancelled for so long as the payment remains outstanding; and
 - (b) interest on Shares or deposits shall be taken to fall to be paid or credited if it would have so fallen but for any provisions relating thereto entitling the Society to cancel, defer or suspend payment.
- (3) Interest in respect of the PIBS shall not be paid or credited for any Interest Period specified by the Board of Directors of the Society (the "Board"), if the Board is of the opinion that:
- (a) there has been a failure by the Society to satisfy the first criterion of prudent management set out in section 45(3) of the Act and such failure is then continuing; or
 - (b) the payment or crediting of the interest or, as the case may be, payment or crediting in full of the interest would cause or contribute to such a failure by the Society,
- and in such case the Board passes a resolution cancelling or, as the case may require, reducing the interest to such extent as may be necessary to secure that there will be no failure to satisfy the first criterion of prudent management and on the passing of that resolution the PIBS holder shall cease to have any right to the interest for that period so cancelled or, as the case may be, any interest other than the reduced amount payable in accordance with that resolution.
- (4) If and to the extent that paragraphs (2) or (3) above prohibit the payment of interest, interest in respect of the PIBS will be cancelled and PIBS holders will have no rights in respect of the cancelled interest.

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 to the extent that 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 Members holding Shares (other than deferred Shares) as regards the principal and interest due in respect of those Shares.

- (3) The claims of 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. PIBS holders will not be entitled to any share in any final surplus upon a winding-up or dissolution of the Society.
- (4) The Society may, having obtained prior Relevant Supervisory Consent, and for so long as the PIBS are listed on The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (the "London Stock Exchange"), subject to and in accordance with the requirements from time to time of the London Stock Exchange, purchase any PIBS. In the case of purchases by tender, tenders shall be made available to all PIBS holders alike.

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

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

5. Payments

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

holder of the PIBS appearing in the Society's PIBS Register (the "PIBS Register") at the close of business on the fifteenth day before the relevant due date (the "Record Date") at his address shown in the PIBS Register on the Record Date. Upon application of the sole or first named PIBS holder to the Society, in the form from time to time prescribed by the Society, on or after the Record Date but not less than ten days before the due date for any payment in respect of a PIBS, the payment may be made by transfer on the due date to a sterling account maintained by the payee with a bank 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 transferee building society without any alteration in their terms.
- (2) Upon a transfer by the Society of the whole of its business to a successor in accordance with section 97 of the Act, the successor will, in accordance with section 100(2)(a) of the Act, assume as from the vesting date a liability (subject to this paragraph) 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 deposit carrying the same rate of interest as the PIBS (each being a "Deposit").

Each Deposit will be applied on behalf of the holder in the subscription of a principal amount of perpetual subordinated notes of the successor (the "Notes") carrying the same rate of interest as the PIBS equivalent to the principal amount of the Deposit.

In the case of a transfer by the Society of the whole of its business to a company which is an existing company (as defined in the Act), the application of each Deposit will occur on the vesting date (or as soon as reasonably practicable thereafter). In the case of a transfer by the Society of the whole of its business to a company which is a specially formed company (as defined in the Act), the application of the Deposit will occur either automatically on the date occurring five years after the vesting date or earlier subject to such conditions as the directors of the successor may require, including the receipt of a certificate in such form as they may reasonably require from the holder of any Deposit, that the effect of the allotment of the Notes would not result in more than the permitted proportion (as defined in section 101 of the Act) (currently, 15 per cent.) of the total indebtedness of the successor on its debentures being held by, or by nominees for, the holder of the Deposit. The form of the certificate required will be sent to holders of PIBS prior to the vesting date.

The terms of each Deposit and the terms and conditions of the Notes will be such as to secure in the opinion of the Board that they will be:

- (i) treated as capital designated perpetual subordinated debt (as referred to in the Bank of England Notice to institutions authorised under the Banking Act 1987 BSD/1990/2 of December 1990 as replaced, amended or supplemented from time to time) or its equivalent (if any) as determined by the auditors of the Society for the purposes of capital adequacy regulations made from time to time by the Bank of England; and
- (ii) subordinated debt (as defined in the Building Societies (Designated Capital Resources) (Permanent Interest Bearing Shares) Order 1991).

The terms of the Deposits and the terms and conditions of the Notes 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 PIBS holders at the Principal Office and, subject as provided above, will be determined by the Board in its absolute discretion.

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

7. Unclaimed interest

The Society shall be entitled to sell for the best price reasonably obtainable any PIBS (including a PIBS to which a person is entitled by means of transmission) if:

- (a) during the Relevant Period, the Society has made at least three interest payments in respect of a PIBS of the same class as the PIBS to be sold;

- (b) during the Relevant Period, no interest payable in respect of the PIBS has been claimed;
- (c) during the Relevant Period, all warrants or cheques in respect of the PIBS remain uncashed;
- (d) during the Relevant Period, no communication has been received by the Society from the Member or the person entitled by transmission to the PIBS;
- (e) after expiry of the Relevant Period, the Society inserts advertisements in at least two national daily newspapers giving notice of its intention to sell the PIBS;
- (f) during the period of three months following the publication of the advertisements referred to in paragraph (e) above and, after that period, until the exercise of the power to sell the PIBS, the Society has not received any communication from the PIBS holder or the person entitled by transmission to the PIBS; and
- (g) the Society has first given written notice to the Quotations Department of the London Stock Exchange of its intention to sell the PIBS.

"Relevant Period" means the period of twelve years immediately preceding the date of publication of the first of any advertisements referred to above.

To give effect to any sale of any PIBS pursuant to this Condition, the Board may appoint any person to execute as transferor an instrument of transfer of the PIBS and such instrument shall be as effective as if it had been executed by the registered holder of, or person entitled by transmission to, the PIBS.

A purchaser shall not be bound to see to the application of the purchase moneys, nor shall his title to the PIBS be affected by any irregularity in or invalidity of the proceedings relating to the sale.

The Society shall account to the PIBS holder or other person entitled thereto for the net proceeds of sale and shall be deemed to be his debtor, and not a trustee for him, in respect thereof.

No interest shall be payable in respect of the net proceeds and the Society shall not be required to account for any moneys earned thereon.

Any moneys not accounted for to the PIBS holder or other person entitled to the PIBS shall be carried to a separate account and shall be a permanent debt of the Society. Moneys carried to a separate account may be either employed in the business of the Society or invested in such manner (other than in Shares in the Society) as the Board may from time to time think fit.

8. Variation of these Conditions

- (1) These Conditions may be varied by the Society with the consent in writing of the holders of three-quarters in principal amount of the PIBS or with the sanction of a resolution passed at a separate meeting of the PIBS holders held in accordance with Condition 9 by a majority of three-quarters in principal amount of such holders voting in person or by proxy.
- (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 as a class.
- (3) These Conditions do not limit the rights of Members to change the Rules.
- (4) Any amendment to the Rules which is both (a) inconsistent with the provisions of these Conditions and (b) materially prejudicial to the interests of the PIBS holders as a class shall not limit any rights of PIBS holders to bring an action for breach of contract against the Society in circumstances where the Society is in breach of the terms of these Conditions nor afford the Society any defence to any claim made in any such proceedings.

9. Meetings of PIBS holders

All the provisions of the Rules relating to general meetings of the Society or to proceedings at general meetings shall apply, mutatis mutandis, to every separate meeting of PIBS holders except that:

- (a) the necessary quorum at any such meeting shall be two persons holding or representing by proxy at least one third in principal amount of the PIBS;
- (b) PIBS holders shall, on a poll, have one vote in respect of every £1,000 principal amount of PIBS held by them; and
- (c) a poll may be demanded by any one PIBS holder whether present in person or by proxy.

10. 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:

- (1) 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
- (2) 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 BUILDING SOCIETIES ACT AND THE ROLE OF THE BUILDING SOCIETIES COMMISSION

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 special resolutions of the members of each amalgamating society and by borrowing members' resolutions (as defined in Schedule 2 to the Act) of the borrowing members of each amalgamating society and confirmation by the Commission. The Act provides that on the date specified by the central office of the Registry of Friendly Societies (the "Central Office") all the property, rights and liabilities (which would include the PIBS) 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 special resolutions of the members of the transferor society and the transferee society, and by borrowing members' resolutions of the borrowing members of the transferor society and the transferee society. However, the resolutions of the transferee society are not required if the Building Societies Commission (the "Commission") consents to the transfer proceeding by a resolution of its board of directors only. The transfer must be confirmed by the Commission. The Act provides that on the date specified by the Central Office and to the extent provided in the instrument of transfer, the property, rights and liabilities of the transferor society shall by virtue of the Act be transferred to and vested in the transferee society, whether or not otherwise capable of being transferred or assigned. In the event of a transfer of all or part of the property and/or all or some of the liabilities of the Society the PIBS would, pursuant to their terms, become deferred shares in the transferee society without any alteration of their terms.

Conversion

Sections 97 to 102 of the Act permit a building society to transfer the whole of its business to a company which has been specially 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 special resolution of the members and by a borrowing members' resolution and the society must obtain the confirmation of the Commission to the transfer and its terms. If the Commission confirms the transfer, 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, the PIBS 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 notes 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 investing 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 investing members' shares (including PIBS) are, as explained above, converted into deposits with the successor. If the transfer is to a company specially formed by the society, shareholders of the society who were eligible to vote on the transfer, are members on the qualifying day specified in the transfer agreement and retain a deposit with the successor must be given rights to a priority liquidation distribution (as defined by the Act) should the successor be wound up. These rights are protected by the successor granting a charge over its property or undertaking. On any such transfer, investing members of the society who were members on the qualifying date but not entitled to vote on the transfer resolution will receive a cash bonus equal to their notional share of reserves of the society. If the transfer is to an existing company, any distribution of funds (apart from the statutory cash bonus referred to above) may only be made to certain investing 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.

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

General

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

USE OF PROCEEDS

The net proceeds of the issue of the PIBS (estimated to amount to approximately £9,819,600) will be used by the Society for its general funding purposes. It is intended that the principal amount of PIBS (£10,000,000) will be treated for capital adequacy purposes as core capital.

NEWCASTLE BUILDING SOCIETY

1. History and Description of the Society

The present Society results from the merger in 1980 of the Grainger Building Society, which was established in 1863, and the Newcastle upon Tyne Permanent Building Society, which was established in 1861. These societies had themselves arisen from the amalgamations and mergers of a number of local societies. The address of the principal office of the Society is Hood Street, Newcastle upon Tyne NE1 6JP.

The Society is now the twenty-sixth largest building society in the United Kingdom with consolidated assets (including the assets of subsidiaries) of £1,021 million, based on the unaudited consolidated balance sheet as at 30 June 1992. The Society has 55 branches and approximately 250 full agency branches, principally in the north of England and the Scottish lowlands. The Society was the first UK building society to provide investment, mortgage and related building society services on the European mainland. The Society currently operates two branches in Gibraltar.

The average number of persons employed by the Society and its subsidiaries (the "Group") during the year ended 31 December 1991 was 482 compared to 467 in the year ended 31 December 1990. At 31 December 1991, the Society had approximately 132,000 investors and 32,000 borrowers.

The Society's ranking amongst the largest 30 building societies by asset size at 31 January 1992, on the basis of a number of important criteria, is as follows:

Criteria	Ranking
Return on mean reserves	5
Return on mean assets	7=
Provisions against commercial assets expressed as a percentage of pre-tax profits	7
Cost/income ratio	19
Asset growth	19
Profit after tax	20

Source: KPMG Building Societies Unit, Building Societies Database, May 1992. All information in the Database has been extracted from published sources, being primarily the latest financial statements of building societies up to and including those for the year ended 31 January 1992, including those which had announced, at that date, their intention to merge or have, subsequent to that date, merged.

2. Form, Status and Ownership

The Society is a building society within the meaning of the Act. It operates in accordance with the Act, subsequent regulations and orders made thereunder and the Society's registered Rules and Memorandum. The Society is registered with the Central Office of the Registry of Friendly Societies in London, Register Number 233 B. The affairs of the Society are conducted under the direction of a Board of Directors, who are elected and who serve in accordance with the Rules and Memorandum. The Board is responsible to the Members for the proper conduct of the affairs of the Society and appoints and supervises executives who are responsible to the Board for the daily management of the Society.

The Society is a mutual organisation. A Share in the Society is not the same as a share in a company incorporated under the Companies Acts and voting power is not weighted according to the number or value of Shares held. The Society has two types of Members, investing Members and borrowing Members. In order to vote, investing Members and borrowing Members must satisfy certain requirements laid down by the Act and the Rules of the Society. In general, qualifying investing Members each have one vote at any general meeting of the Society; qualifying borrowing Members are only entitled to vote in certain limited circumstances and, when so entitled, are also entitled to one vote.

A PIBS holder who is an investing Member otherwise than by virtue of his holding a PIBS will only have one vote in the Society.

3. Business of the Society

(a) Mortgage lending business

The principal purpose of the Society, as stated in Clause 2 of its Memorandum, is "that of raising, primarily by the subscriptions of the Members of the Society, a stock or fund for making to them advances secured on land for their residential use".

The Society's retail funds are raised through a wide range of investment accounts and products for savers. The Society also raises funds through the wholesale money markets.

The core lending business of the Society is the granting of advances to individuals to finance the purchase of freehold and leasehold residential property on the security of a first mortgage on the property. At 31 December 1991, the Society had outstanding mortgage advances secured on residential property of approximately £728 million and outstanding mortgage advances secured on commercial property of approximately £42 million. Interest earned on mortgage advances in the year ended 31 December 1991 amounted to approximately £95 million.

Applications for mortgage loans for house purchases may be submitted to any one of the Society's branches or directly to the Society's principal office. In each case the Society follows a strict procedure prior to making an offer of an advance. On receipt of an application, an inspection and valuation of the property is made by one of a panel of qualified valuers. Subject to the valuer's report and various other factors including the income of the applicant, the Society will make an offer of an advance. Where an advance exceeds 75 per cent. of the lower of the valuation and cost of a property, the Society will obtain additional protection, normally through the use of mortgage guarantee insurance ("MGI").

The Society is currently negotiating revised arrangements with its principal insurers for MGI cover for new residential mortgages. It is expected that under the terms of the new MGI arrangements, for each claim the Society will be able to recover the lesser of 80 per cent. of the loss or the amount of the indemnity.

Processing of all mortgage applications is subject to quality assurance procedures to ensure that all applications are of the quality required and that the quality of administration is of the highest standard.

All applications for commercial loans are submitted to the commercial lending department where a financial viability assessment is performed. The applications are reviewed and inspected by members of the Society's staff. Applications for commercial loans for projects which do not meet the Society's suitability criteria are refused. An individual loan of up to £1 million is dealt with under delegated authorities from the Board. A loan of between £1 million and £2 million requires authorisation from a senior executive committee. A loan in excess of £2 million requires authorisation from the Board.

It is the Board's present policy not to engage in Class 3 lending.

In common with other UK building societies, the Society is subject to statutory limitations on diversification of its lending activities. At present a maximum of 20 per cent. of the Society's total commercial assets can be invested in Class 2 Assets (advances secured on land other than residential property) and Class 3 Assets (commercial assets other than advances secured on land).

In the year ended 31 December 1991, the Society's new mortgage advances totalled approximately £194 million compared to £200 million and £169 million in 1990 and 1989 respectively. The number of new mortgages completed in 1991 was 6,528 compared to 6,620 and 5,515 in 1990 and 1989 respectively.

(b) Loan loss experience on mortgage lending

The level of arrears and bad debts on the Society's residential mortgage lending has been significantly lower than that of many other building societies. The Society believes that this is due both to the Society's prudent lending policies and to the fact that most of its mortgage lending relates to properties in the north of England and the Scottish lowlands, which have not suffered the sizeable falls in property prices which have occurred in other areas of Great Britain. These factors have assisted the Society when compared to lenders with different business, geographical and lending patterns.

The Society monitors its Class 2 lending closely and has a prudent policy of making provisions against all accounts where recovery is in doubt. Advances to housing associations are restricted to 80 per cent. of the lower of the valuation and cost of a property and other Class 2 lending is restricted to 75 per cent. of the lower of the valuation and cost of a property.

At 31 December 1991, the Society and its subsidiaries held provisions of £1,846,000; of this total, £1,716,000 related to residential mortgage loans and £130,000 to Class 2 lending. Within these provisions are amounts totalling, in aggregate, approximately £1 million, which the Society is seeking to recover by litigation that it has commenced or is in the process of commencing. Any such amounts recovered will be recognised in the appropriate accounting period.

The existing accounting policy for providing for mortgage losses adopted by the Society is, in the belief of the Directors, in line with current best practice as identified in the letter issued by the Building Societies Commission dated 4 December 1991 to the chief executives of all building societies.

(c) Other businesses

The Society has taken cautious advantage of the gradual easing of restrictions on the type of business in which building societies are permitted to engage under the Act. Diversification from its core business has been both limited and selective. At 31 December 1991, investments in such businesses totalled approximately £8 million. The Group's activities now include the following:

- **Mortgage financing**—a wholly-owned subsidiary of the Society acquires mortgage assets. Over the past two years this subsidiary has acquired the mortgage assets of the Gibraltar-based Heritage Building Society and the Liverpool-based Sun Building Society.
- **Financial Services**—a wholly-owned subsidiary of the Society operates as an independent financial adviser under the terms of the Financial Services Act 1986. The subsidiary offers advice on a range of financial products, including investment, life assurance, pension-related products, personal equity plans and unit trusts.
- **Property**—the Society's wholly-owned property development subsidiary and its majority-owned property sales subsidiary undertake small residential property developments.
- **Estate Agency**—Newcastle Estate Agents Limited, a wholly-owned subsidiary of the Society, operates a nine branch chain of estate agencies in the north-east of England.
- **New Principal Office**—the Society has formed a wholly-owned subsidiary which will be engaged in the supervision of the construction of the Society's new principal office in Newcastle upon Tyne city centre. Further details are set out in the material contracts section on page 41 of this document.

(d) Source of Income

The principal source of income for the Group is interest earned on mortgage advances. In the year ended 31 December 1991, this income totalled approximately £95 million.

Income from the liquid assets of the Group was approximately £19 million in the year ended 31 December 1991. In addition, fees for insurance commission and income from rent and other sources were approximately £8 million.

(e) Non-Retail Funding Activities

Savings from the personal sector are the primary source of funds for building societies. However, the Society has raised significant funds from non-retail sources.

The breakdown of non-retail funding of the Society at 31 December 1991 was as follows:

	£'m
Time deposits owed to banks	28
Other time deposits.....	32
Other deposits and loans.....	3
Shares (not held by individuals).....	78
	141
	141

The Society does not have any subordinated debt.

(f) Current Trading and Prospects

In recent years the Society has built on its strong financial position and is confident that it will continue to do so in the future. This will be achieved by the controlled expansion of its existing and traditional areas of business and, where appropriate, further measured diversification into profitable new business areas.

FINANCIAL SUMMARY

The following is a summary of the Society's unaudited consolidated income and expenditure account for the six months ended 30 June 1992 and audited consolidated income and expenditure accounts for each of the three years ended 31 December 1991:

	<i>Years ended 31 December</i>			<i>Six months</i>
	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>ended 30</i>
	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>	<i>June 1992</i>
	<i>£'m</i>	<i>£'m</i>	<i>£'m</i>	<i>Unaudited</i>
				<i>£'m</i>
Interest receivable.....	87.5	114.4	113.7	54.2
Interest payable.....	71.9	95.7	91.7	43.5
Net interest receivable.....	15.6	18.7	22.0	10.7
Other income and charges.....	3.3	4.2	7.2	3.2
	18.9	22.9	29.2	13.9
Management expenses	10.0	11.8	15.2	7.7
	8.9	11.1	14.0	6.2
Provisions for loans, advances and guarantees	—	0.2	1.8	0.2
Profit on ordinary activities before taxation....	8.9	10.9	12.2	6.0
Tax on profit on ordinary activities	3.1	3.9	3.9	2.0
Profit for the financial year transferred to				
general reserve	5.8	7.0	8.3	4.0

The following is a summary of the Society's unaudited consolidated balance sheet as at 30 June 1992 and audited consolidated balance sheets as at the end of each of the three years ended 31 December 1991:

	<i>As at 31 December</i>			<i>As at 30</i>
	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>June 1992</i>
	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>	<i>Unaudited</i>
	<i>£'m</i>	<i>£'m</i>	<i>£'m</i>	<i>£'m</i>
Assets				
Liquid assets	150.3	150.6	185.0	172.8
Commercial assets				
Advances secured on residential property	554.7	657.5	727.5	782.4
Other advances secured on land.....	18.1	30.1	42.3	46.9
Other commercial assets.....	0.7	3.8	4.3	5.4
	573.5	691.4	774.1	834.7
Fixed assets	6.5	7.8	9.8	10.4
Other assets	1.5	2.3	2.6	2.8
Total assets	731.8	852.1	971.5	1,020.7
Liabilities and reserves				
Retail funds and deposits	596.1	687.8	765.1	789.6
Non-retail funds and deposits	86.3	103.9	140.6	167.8
Other liabilities.....	14.8	19.0	16.3	9.9
Provisions for liabilities and charges	0.2	—	—	—
General reserve.....	34.4	41.4	49.5	53.4
Total liabilities and reserves	731.8	852.1	971.5	1,020.7

Note: The figures have been extracted from the unaudited management accounts for the six months 30 June 1992 and the audited consolidated accounts of the Society for the three years ended 31 December 1991 and have been rounded to one place of decimals for presentational purposes.

CONSOLIDATED CAPITALISATION AND INDEBTEDNESS

The following table is a summary of the Society's consolidated shareholders' funds and indebtedness as at 30 June 1992 and 31 December 1991:

	<i>31 December 1991 Audited £'000</i>	<i>30 June 1992 Unaudited £'000</i>
Shareholders' funds		
Shares	841,789	872,951
General reserve	49,456	53,432
Total shareholders' funds	891,245	926,383
Indebtedness		
Time deposits owed to banks	28,048	36,553
Other time deposits	32,066	46,340
Other deposits and loans	2,822	516
Retail funds and deposits	967	942
Other liabilities and provisions	16,309	9,940
Total indebtedness	80,212	94,291
Total capitalisation	971,457	1,020,674

Save for the amounts included in the unaudited summary of the Society's consolidated shareholders' funds and indebtedness as at 30 June 1992 above and for the issue of the PIBS (which has not been reflected above), at the date of this Offering Circular there has been no material change in the capitalisation of the Society and its subsidiaries since 31 December 1991.

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

No shares of the Society or any of its subsidiaries are under option or have been agreed to be put under option to any person.

BOARD OF DIRECTORS

The names of the Directors and the Secretary of the Society, their responsibilities within the Society, their business occupation and other non-Group directorships as at the date of this Offering Circular are given below. The business address of each of the Directors is that of the principal office of the Society given at the back of this document.

<u>Name</u>	<u>Responsibilities within the Society</u>	<u>Business Occupation and other non-Group Directorships</u>
Kenneth James Hilton FCA, FTII	Chairman (non-executive)	Chartered Accountant Ascham House School Trust Ltd
Anthony Arthur Edward Glenton MBE, TD, DL, FCA	Vice Chairman (non-executive)	Chartered Accountant Port of Tyne Authority
David William Midgley FCBSI, MBIM	Group Managing Director	Building Society Executive Feversham School Newcastle upon Tyne Council for the Disabled North Tyneside Family Health Services Authority
Edward Allan Cowan FCIS	Deputy Chief Executive	Building Society Executive
William Grant Cochrane	Director (non-executive)	Financial Consultant Caledonian MacBrayne Ltd City Merchants High Yield Trust PLC Edinburgh Investment Trust plc Lasmo plc Macallan-Glenlivet P.L.C. TR Property Investment Trust PLC
Eric Davey JP	Director (non-executive)	Retired Central Banker North East Innovation Centre Sea Fish Industry Authority
James Whaley Heppell	Director (non-executive)	Surveyor Grainger Newcastle Properties Ltd Lindisfarne Properties Ltd St. Cuthbert Newcastle Estates Ltd
Christopher James Hilton MA	Director (non-executive)	Solicitor Eversheds Legal Services Ltd
Robert Noel David Stephenson OBE, FCA	Director (non-executive)	Company Director Newcastle Racecourses Ltd Newcastle Theatre Royal Ltd Thornaby Leisure Ltd North Housing Association Ltd
Norman Leonard Coates FCBSI, ACIB, MBIM	Secretary	Building Society Executive

ACCOUNTANTS' REPORT

Set out below is a report by BDO Binder Hamlyn, reporting accountants.



BDO Binder Hamlyn
Chartered Accountants

Pearl Assurance House 7 New Bridge Street
Newcastle upon Tyne NE1 8BQ

The Directors
Newcastle Building Society
Hood Street
Newcastle upon Tyne
NE1 6JP

The Directors
Charterhouse Bank Limited
1 Paternoster Row
St. Paul's
London
EC4M 7DH

8 September 1992

Dear Sirs

We have examined the audited financial statements of Newcastle Building Society ("the Society") and its subsidiaries (together "the Group") for the three years ended 31 December 1991 ("the reported period"). Our work has been carried out in accordance with the Auditing Guideline: Prospectuses and the reporting accountant.

We have acted as auditors to the Group throughout the reported period. No audited financial statements have been prepared for the Group in respect of any period subsequent to 31 December 1991.

The financial information set out below is based on the audited financial statements of the Group. No adjustments were considered necessary.

In our opinion the financial information set out below gives a true and fair view of the profit and source and application of funds of the Group for each of the periods stated and of the state of affairs of the Group at the dates stated.

We have also reviewed the information contained in the Annual Business Statement for the year ended 31 December 1991 set out on pages 33 to 35 of the Offering Circular dated 8 September 1992 other than the details of directors and officers. In our opinion, that information gives a true representation of those matters referred to therein.

We have also reviewed the Directors' Report for the year ended 31 December 1991 set out on pages 36 to 38 of the Offering Circular dated 8 September 1992. In our opinion, the information given therein is consistent with the accounting records and the audited financial statements of the Group for the year ended 31 December 1991.

ACCOUNTING POLICIES

The significant accounting policies consistently adopted in preparing the financial information set out below are as follows:

Accounting convention

The financial information has been prepared under the historical cost convention.

Basis of consolidation

The financial information consolidates the financial statements of the Society and its subsidiaries made up to the end of each financial period.

Goodwill

Goodwill arising on consolidation as a result of the acquisition of subsidiaries is written off against reserves in the year of acquisition.

Depreciation

Depreciation is calculated on cost on the bases and at the annual rates set out below to write down tangible fixed assets to their estimated residual values over their expected useful economic lives:

Leasehold buildings	—over the term of the lease
Office equipment	—15%–25% reducing balance
Computer equipment	—20% straight line
Fixtures and fittings	—15% reducing balance
Motor vehicles	—25% reducing balance

Depreciation has not been provided on freehold buildings since it is the Society's policy to maintain these buildings to the highest standards and by reference to their estimated residual values any depreciation charge would not be material.

Leasing commitments

Assets held under finance lease agreements are included in fixed assets and depreciated in accordance with the above depreciation policy. Finance charges are charged to the income and expenditure account so as to produce a constant periodic rate of charge on the remaining balance of the obligation. Operating lease rentals are charged to the income and expenditure account on a straight line basis.

Liquid assets

Liquid assets are stated at cost price, adjusted to include interest accrued to the date of the balance sheet, less provisions.

Provisions for losses on commercial assets

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

Throughout the year and at the year end individual assessments are made of all advances and loans which are in possession or in arrears by more than three months or where fraud has been identified, and specific provision is made against those advances and loans which, in the opinion of the directors, are impaired and where the extent of the likely losses can be estimated with reasonable accuracy.

Interest income from loans which are in possession and on which a loss is projected, is no longer credited to the income and expenditure account. Interest up to this point is credited to interest receivable and provision made as appropriate.

Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes except to the extent that the directors consider that a liability will not crystallise.

Pensions

The Society operates an externally managed pension scheme on behalf of directors and staff. The scheme is funded by contributions partly from employees and partly from the Group at rates determined by independent actuaries. These contributions are invested separately from the Group's assets.

The cost of providing pensions is spread on a systematic and rational basis over the period during which the Group expects to benefit from the members' services. The pension costs and any necessary provisions are assessed in accordance with the advice of the independent actuaries. Variations from the regular cost are spread over the average remaining service lives of the current employees.

GROUP INCOME AND EXPENDITURE ACCOUNTS

		<i>Years ended 31 December</i>		
		1989	1990	1991
		£'000	£'000	£'000
	<i>Note</i>			
Interest receivable	2	87,529	114,386	113,682
Interest payable	3	71,964	95,672	91,696
Net interest receivable		15,565	18,714	21,986
Other income and charges				
Commissions receivable		2,272	2,830	3,556
Commissions payable		(452)	(450)	(503)
Other financial charges		(7)	(14)	(15)
Other operating income	4	1,559	1,775	4,148
		3,372	4,141	7,186
		18,937	22,855	29,172
Management expenses				
Staff costs	1	4,124	5,086	5,868
Depreciation of fixed assets		718	659	1,015
Other expenses	5	5,152	6,041	8,270
		9,994	11,786	15,153
		8,943	11,069	14,019
Provisions for loans, advances and guarantees		30	216	1,846
Profit on ordinary activities before taxation		8,913	10,853	12,173
Tax on profit on ordinary activities	6	3,086	3,840	3,896
Profit on ordinary activities after taxation		5,827	7,013	8,277
Minority interests		19	—	—
Profit for the financial year transferred to general reserve	17	5,846	7,013	8,277

GROUP BALANCE SHEETS

	Note	As at 31 December		
		1989 £'000	1990 £'000	1991 £'000
Assets				
Liquid assets.....	7	150,295	150,615	184,986
Commercial assets				
Advances secured on residential property.....	8	554,757	657,441	727,522
Other advances secured on land.....	8	18,142	30,104	42,255
Other commercial assets.....	9	691	3,804	4,303
		573,590	691,349	774,080
Fixed assets.....	10	6,492	7,799	9,771
Other assets.....	11	1,467	2,299	2,620
Total assets		<u>731,844</u>	<u>852,062</u>	<u>971,457</u>
Liabilities and reserves				
Shares and deposits				
Retail funds and deposits.....	12	596,104	687,772	765,087
Non-retail funds and deposits.....	13	86,280	103,927	140,605
Other liabilities				
Income tax.....		8,335	10,238	8,105
Corporation tax payable.....	14	3,278	4,049	4,002
Other creditors.....	15	3,226	4,667	4,194
		14,839	18,954	16,301
Provisions for liabilities and charges.....	16	227	9	8
Total liabilities		<u>697,450</u>	<u>810,662</u>	<u>922,001</u>
General reserve.....	17	34,413	41,419	49,456
Society's funds.....		731,863	852,081	971,457
Minority interests.....		(19)	(19)	—
Total liabilities and reserves		<u>731,844</u>	<u>852,062</u>	<u>971,457</u>

GROUP STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

	<i>Years ended 31 December</i>		
	<i>1989</i>	<i>1990</i>	<i>1991</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Source of funds			
Increase in free capital (see below)	5,116	5,699	6,065
Advances and loans repaid by borrowers	77,093	85,850	112,250
Net receipts from retail funds and deposits	88,260	91,668	77,315
Net receipts from non-retail funds and deposits	19,044	17,647	36,678
Other items	2,531	3,065	—
Total source of funds	<u>192,044</u>	<u>203,929</u>	<u>232,308</u>
Application of funds			
Increase in liquid assets	22,018	320	34,371
Increase in other commercial assets	691	3,113	499
Advances and loans made to borrowers	169,335	200,496	194,482
Other items	—	—	2,956
Total application of funds	<u>192,044</u>	<u>203,929</u>	<u>232,308</u>
Increase in free capital			
Source of funds			
Profit on ordinary activities after taxation and minority interests	5,846	7,013	8,277
Adjustment for items not involving the movement of funds:			
Depreciation of tangible fixed assets	718	659	1,015
Minority interest in losses	(19)	—	—
Funds generated by operations	<u>6,545</u>	<u>7,672</u>	<u>9,292</u>
Other sources of funds			
Disposal of tangible fixed assets	91	651	355
	<u>6,636</u>	<u>8,323</u>	<u>9,647</u>
Application of funds			
Purchase of tangible fixed assets	1,006	2,617	3,342
Goodwill written off	497	7	240
Dividend paid to minority	17	—	—
Increase in free capital	<u>5,116</u>	<u>5,699</u>	<u>6,065</u>
The above statements include in respect of the acquisition of subsidiaries during the year ended 31 December 1989:			
	<i>Net assets acquired</i>		
Goodwill	497		
Tangible fixed assets	28		
Other liabilities	(30)		
	<u>495</u>		
	<i>Discharged by</i>		
Cash	<u>495</u>		

NOTES TO THE FINANCIAL INFORMATION

1. Particulars of employees

The average number of persons employed during the reported period was:

	<i>Full-time</i>			<i>Part-time</i>		
	<i>Years ended 31 December</i>			<i>Years ended 31 December</i>		
	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>
Principal and administration offices.....	111	136	155	3	5	9
Branches and subsidiary companies.....	151	159	170	164	167	148
	<u>262</u>	<u>295</u>	<u>325</u>	<u>167</u>	<u>172</u>	<u>157</u>

Their total remuneration was:

	<i>Years ended 31 December</i>		
	<i>1989</i>	<i>1990</i>	<i>1991</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Wages and salaries	3,530	4,387	5,014
Social Security costs	250	306	390
Other pension costs	344	393	464
	<u>4,124</u>	<u>5,086</u>	<u>5,868</u>

Included in the above was:

Directors' remuneration	<u>213</u>	<u>249</u>	<u>275</u>
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2. Interest receivable

	<i>Years ended 31 December</i>		
	<i>1989</i>	<i>1990</i>	<i>1991</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Interest on secured lending	72,214	96,681	95,164
Interest on fixed interest liquid assets	14,803	17,051	16,658
Net losses on realisation of fixed interest liquid assets	(29)	(1,038)	—
Interest on other liquid assets	541	1,692	1,860
	<u>87,529</u>	<u>114,386</u>	<u>113,682</u>

3. Interest payable

	<i>Years ended 31 December</i>		
	<i>1989</i>	<i>1990</i>	<i>1991</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
On retail shares and deposits.....	65,284	85,481	79,446
On non-retail shares and deposits	6,680	10,191	12,250
	<u>71,964</u>	<u>95,672</u>	<u>91,696</u>

4. Other operating income

	<i>Years ended 31 December</i>		
	<i>1989</i>	<i>1990</i>	<i>1991</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Rents receivable	86	83	108
Other income.....	1,473	1,692	4,040
	<u>1,559</u>	<u>1,775</u>	<u>4,148</u>

"Other income" includes sales by subsidiaries of development property during the year ended 31 December 1991 amounting to £2,115,000 (1990: £Nil; 1989: £Nil).

5. Other expenses

	Years ended 31 December		
	1989	1990	1991
	£'000	£'000	£'000
Remuneration and expenses of auditors.....	54	54	61
Operating lease rentals.....	374	477	548
Other expenses.....	4,724	5,510	7,661
	<u>5,152</u>	<u>6,041</u>	<u>8,270</u>

"Other expenses" includes cost of sales of development property sold by subsidiaries during the year ended 31 December 1991 amounting to £2,107,000 (1990: £Nil; 1989: £Nil).

6. Tax on profit on ordinary activities

	Years ended 31 December		
	1989	1990	1991
	£'000	£'000	£'000
Corporation tax—current.....	3,240	4,058	4,006
Corporation tax—prior year.....	—	—	(109)
Decrease in deferred taxation (note 16).....	(154)	(218)	(1)
	<u>3,086</u>	<u>3,840</u>	<u>3,896</u>

7. Liquid assets

	As at 31 December		
	1989	1990	1991
	£'000	£'000	£'000
Cash at bank and in hand repayable from the date of the balance sheet in the ordinary course of business as follows:			
On demand.....	10,645	23,146	17,215
In not more than 3 months.....	41,175	50,606	52,793
In more than 3 months but not more than 1 year.....	65,071	52,020	57,591
In more than 1 year but not more than 5 years.....	—	2,027	2,021
	116,891	127,799	129,620
Other securities, issued by public bodies, maturing:			
In not more than 1 year.....	6,400	7,368	16,428
In more than 1 year but not more than 5 years.....	27,004	12,037	10,888
Issued by other borrowers, maturing:			
In not more than 1 year.....	—	3,411	28,050
	33,404	22,816	55,366
	<u>150,295</u>	<u>150,615</u>	<u>184,986</u>

8. Commercial assets

	Advances & loans secured on residential property			Other advances & loans secured on land			Total		
	As at 31 December			As at 31 December			As at 31 December		
	1989	1990	1991	1989	1990	1991	1989	1990	1991
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 December..	554,793	657,657	729,238	18,142	30,104	42,385	572,935	687,761	771,623
Provision for losses.....	36	216	1,716	—	—	130	36	216	1,846
	<u>554,757</u>	<u>657,441</u>	<u>727,522</u>	<u>18,142</u>	<u>30,104</u>	<u>42,255</u>	<u>572,899</u>	<u>687,545</u>	<u>769,777</u>

Analysis of provision for losses on commercial assets:

	<i>Advances & loans secured on residential property</i>	<i>Other advances & loans secured on land</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
At 1 January 1989			
Specific provision	46	3	49
Amount written off during the year..	(34)	(3)	(37)
Increase in provision during the year	<u>24</u>	<u>—</u>	<u>24</u>
At 31 December 1989			
Specific provision	36	—	36
Amount written off during the year..	(34)	—	(34)
Increase in provision during the year	<u>214</u>	<u>—</u>	<u>214</u>
At 31 December 1990			
Specific provision	216	—	216
Amount written off during the year..	(201)	(5)	(206)
Increase in provision during the year	<u>1,701</u>	<u>135</u>	<u>1,836</u>
At 31 December 1991			
Specific provision	<u>1,716</u>	<u>130</u>	<u>1,846</u>

9. Other commercial assets

	<i>As at 31 December</i>		
	<i>1989</i>	<i>1990</i>	<i>1991</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Residential property for resale and land held for development.....	691	3,804	4,292
Unsecured loans.....	—	—	11
	<u>691</u>	<u>3,804</u>	<u>4,303</u>

Residential property for resale and land held for development includes interest capitalised amounting to £599,000 at 31 December 1991 (1990: £400,000; 1989: £Nil).

10. Fixed assets

	Freehold land and buildings	Leasehold land and buildings	Office equipment fixtures & fittings motor vehicles	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 1991	4,467	1,867	4,648	10,982
Additions during year	378	631	2,333	3,342
Disposals	(138)	(76)	(344)	(558)
At 31 December 1991	<u>4,707</u>	<u>2,422</u>	<u>6,637</u>	<u>13,766</u>
Depreciation				
At 1 January 1991	—	824	2,359	3,183
Charge for year	—	195	820	1,015
Disposals	—	(72)	(131)	(203)
At 31 December 1991	<u>—</u>	<u>947</u>	<u>3,048</u>	<u>3,995</u>
Net book value at 31 December 1991	<u>4,707</u>	<u>1,475</u>	<u>3,589</u>	<u>9,771</u>
Net book value at 31 December 1990	<u>4,467</u>	<u>1,043</u>	<u>2,289</u>	<u>7,799</u>
Net book value at 31 December 1989	<u>4,014</u>	<u>803</u>	<u>1,675</u>	<u>6,492</u>

	<i>As at 31 December</i>		
	1989 £'000	1990 £'000	1991 £'000
Included in leasehold land and buildings			
Leaseholds over 50 years	92	87	253
Other leaseholds	711	956	1,222
	<u>803</u>	<u>1,043</u>	<u>1,475</u>

11. Other assets

	<i>As at 31 December</i>		
	1989 £'000	1990 £'000	1991 £'000
Other debtors and prepayments	<u>1,467</u>	<u>2,299</u>	<u>2,620</u>

12. Retail funds and deposits

	<i>As at 31 December</i>		
	1989 £'000	1990 £'000	1991 £'000
Retail funds and deposits all repayable on demand from the date of the balance sheet in the ordinary course of business comprise:			
Shares	595,661	687,340	764,120
Deposits	443	432	967
	<u>596,104</u>	<u>687,772</u>	<u>765,087</u>

13. Non-retail funds and deposits

	<i>As at 31 December</i>		
	<i>1989</i>	<i>1990</i>	<i>1991</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Non-retail funds and deposits comprise:			
Shares.....	49,409	63,455	77,669
Deposits and Loans.....	36,871	40,472	62,936
	<u>86,280</u>	<u>103,927</u>	<u>140,605</u>
Repayable from the date of the balance sheet in the ordinary course of business as follows:			
On demand.....	30,891	46,133	65,304
In not more than 3 months.....	30,884	50,474	39,522
In more than 3 months but not more than 1 year.....	16,881	2,526	17,522
In more than 1 year but not more than 5 years.....	5,606	3,785	17,247
In more than 5 years.....	2,018	1,009	1,010
	<u>86,280</u>	<u>103,927</u>	<u>140,605</u>

14. Corporation tax

	<i>As at 31 December</i>		
	<i>1989</i>	<i>1990</i>	<i>1991</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Corporation tax due within 1 year.....	<u>3,278</u>	<u>4,049</u>	<u>4,002</u>

15. Other creditors

	<i>As at 31 December</i>		
	<i>1989</i>	<i>1990</i>	<i>1991</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Amounts due within 1 year:			
Obligations under finance lease agreements (see below).....	—	255	553
Other creditors.....	3,226	4,067	3,052
	<u>3,226</u>	<u>4,322</u>	<u>3,605</u>
Amounts due after 1 year:			
Obligations under finance lease agreements.....	—	600	1,142
Due within 1 year (included above).....	—	(255)	(553)
	<u>—</u>	<u>345</u>	<u>589</u>
Total other creditors.....	<u>3,226</u>	<u>4,667</u>	<u>4,194</u>

16. Provision for liabilities and charges

	<i>Provided</i>			<i>Not provided</i>		
	<i>As at 31 December</i>			<i>As at 31 December</i>		
	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>
<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	
Deferred taxation:						
The balance at 31 December is made up as follows:						
Timing differences:						
Short term timing differences	227	—	—	—	—	—
Accelerated capital allowances.....	—	9	8	—	—	—
Additional potential liability in respect of capital allowances in advance of depreciation on additions to land and buildings and rolled over capital gains...	—	—	—	520	600	630
	<u>227</u>	<u>9</u>	<u>8</u>	<u>520</u>	<u>600</u>	<u>630</u>

17. General reserve

	<i>As at 31 December</i>		
	<i>1989</i>	<i>1990</i>	<i>1991</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
At 1 January.....	29,064	34,413	41,419
Profit for the financial year.....	5,846	7,013	8,277
Goodwill written off.....	(497)	(7)	(240)
At 31 December.....	<u>34,413</u>	<u>41,419</u>	<u>49,456</u>

18. Leases

	<i>As at 31 December</i>		
	<i>1989</i>	<i>1990</i>	<i>1991</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Operating leases:			
The Group is committed in the year ahead to the following payments under operating lease agreements in respect of land and buildings:			
Commitment expires:			
Within 1 year.....	9	65	46
2 to 5 years.....	99	101	92
Over 5 years.....	261	298	414
	<u>369</u>	<u>464</u>	<u>552</u>

Finance leases:

The Group is committed to the following repayments under finance lease agreements where repayment commences in the following year:

	<i>As at 31 December</i>		
	<i>1989</i>	<i>1990</i>	<i>1991</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Within 1 year.....	—	315	86
2 to 5 years.....	—	944	342
	<u>—</u>	<u>1,259</u>	<u>428</u>

19. Capital commitments

	<i>As at 31 December</i>		
	<i>1989</i>	<i>1990</i>	<i>1991</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Capital commitments not provided for in these accounts:			
Contracted for	343	638	704
Authorised but not contracted for	<u>1,250</u>	<u>1,740</u>	<u>—</u>

Capital commitments in respect of finance lease commitments disclosed in note 18 amounted to £270,000 at 31 December 1991 (1990: £606,000; 1989: £Nil).

20. Pensions

The Society operates a group pension scheme of the defined benefit type. Costs are assessed by a qualified actuary on the basis of triennial valuations using the projected unit method with a five year control period.

The last formal actuarial valuation of the scheme was at 1 July 1990. The results of that valuation indicated that the market value of the scheme's assets were £4,314,785. The actuarial value of the assets represented 105% of the value of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The main assumptions used in the actuarial valuation at 1 July 1990 were:

Rate of investment return	9.0% per year
Rate of increase in salaries	7.5% per year
Rate on increase to pensions in payment	5.0% per year
Rate of dividend increases from UK ordinary shares	4.5% per year

The above are long term assumptions which the actuary considers to be appropriate taken as a whole.

Most of the surplus revealed by the valuation is to be applied in improving the benefits of the scheme. Consequently no adjustment to the annual contribution rate is deemed to be necessary in order to show a fair pension charge. As from 1 July 1990, the contribution rates paid by the Society and by scheme members were 15% and 5% respectively.

21. Principal subsidiaries

	<i>Place of registration</i>	<i>Major activity</i>	<i>Class of shares held</i>	<i>Share Capital</i>		<i>Interest of Society</i>
				<i>Authorised</i>	<i>Issued</i>	
N.B.S. Financial Services Ltd	England	Financial Services	Ordinary	£25,000	£25,000	100%
Newcastle Estate Agents Ltd.....	England	Estate Agency	Ordinary Preference	£500,000	£100	100%
Adamscastle Ltd	England	Builders	Ordinary	£500,000	£374,900	100%
Adamson Newcastle Ltd.....	England	Property Sales	Ordinary	£1,000	£1,000	100%
Newcastle Mortgage Corporation Ltd	England	Mortgage Financiers	Ordinary	£1,000	£1,000	50.1%
				£10,000	£7,000	100%

All the subsidiaries operate wholly in Great Britain apart from Newcastle Mortgage Corporation Ltd which also operates in Gibraltar.

22. Contingent liability

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

Yours faithfully,

BDO Binder Hamlyn
Chartered Accountants
Registered Auditor

ANNUAL BUSINESS STATEMENT

The Annual Business Statement set out on pages 33 to 35 has been extracted from the Annual Report and Accounts of the Society for the year ended 31 December 1991. The reference in paragraph 5 of the Annual Business Statement to "the Overview" is to a section of the Annual Report and Accounts of the Society for the year ended 31 December 1991 and not to this document.

“1. Statutory ratios and percentages

	<i>Ratio at 31 December 1991 %</i>	<i>Statutory limit %</i>
Calculated in accordance with the Building Societies Act 1986 and, where appropriate, with the Building Societies (Aggregation) Rules 1990		
A. Non-retail funds and deposits as a percentage of shares and deposits	15.50	40
B. Deposits as a percentage of shares and deposits	6.97	50
As a percentage of total commercial assets:		
C. Advances secured on residential property (class 1 assets)	93.99	N/A
D. Advances secured on land, other than residential property (class 2 assets)	5.46	N/A
E. Other commercial assets (class 3 assets)	0.55	10
F. Class 2 assets and class 3 assets	6.01	20
		<i>£'000</i>
Non-retail funds and deposits as used in ratio A represent:		
Shares		77,673
Deposits and loans		62,936
		140,609
Less accrued interest		1,734
		138,875
Shares and deposits as used in ratios A and B represent:		
Shares		764,120
Deposits		967
Non-retail funds and deposits		140,609
		905,696
Less accrued interest		9,452
		896,244
Deposits as used in ratio B represent:		
Retail deposits		967
Non-retail deposits and loans		62,936
		63,903
Less accrued interest		1,433
		62,470
Total commercial assets, as used in ratios C, D, E and F represent:		
Advances secured on residential property		727,522
Advances secured on land other than residential property		42,255
Other commercial assets		4,303
		774,080
Commercial assets, other than advances secured on residential property, as used in ratio F represent:		
Advances secured on land other than residential property		42,255
Other commercial assets		4,303
		46,558

2. Other percentages

	31 December 1991	31 December 1990
	%	%
Gross capital as a percentage of shares and deposits	5.46	5.23
Free capital as a percentage of share and deposits	4.38	4.25
Liquid assets as a percentage of total assets	19.04	17.68
Profit after taxation as a percentage of:		
Mean reserves	18.22	18.50
Mean total assets	0.91	0.89

The above percentages have been prepared from the Society's Group balance sheet. Gross capital represents the general reserve. Free capital represents the general reserve and general loss provisions less fixed assets. Shares and deposits represent the total of retail and non-retail funds. Mean reserves are the average of 1990 and 1991 general reserves. Mean total assets are the average of the 1990 and 1991 total assets. Profit after taxation is the profit on ordinary activities after taxation.

3. Average interest rates

	<i>Average amount outstanding during year £'000</i>	<i>Interest earned £'000</i>	<i>Interest paid £'000</i>	<i>Average yield %</i>	<i>Average rate paid %</i>
(Calculated from the Group accounts)					
Liquid assets	167,801	18,518	—	11.04	—
Secured advances	728,661	95,164	—	13.06	—
Retail funds and deposits	726,430	—	79,446	—	10.94
Non-retail funds and deposits	122,266	—	12,250	—	10.02

4. Associated bodies not carrying on a business

Name	<i>Authorised Share Capital £</i>	<i>Issued Share Capital £</i>	<i>% owned directly by the Society</i>
Bank of Newcastle Ltd	1,000	2	100
Newcastle Bank Ltd	1,000	1,000	100
Strachans (Newcastle) Ltd	1,000	2	100

5. New activities

Details of new activities by the Society and its subsidiaries are referred to in the Overview and the Directors' Report.

Directors and other Officers

<i>Directors</i>	<i>Date of birth</i>	<i>Date of appointment</i>	<i>Occupation</i>	<i>Other directorships</i>
K J Hilton FCA, FTII <i>Chairman</i>	27.6.22	1.12.69	Chartered Accountant	Ascham House School Trust Ltd Bank of Newcastle Ltd Newcastle Bank Ltd Newcastle Mortgage Corporation Ltd Strachans (Newcastle) Ltd
A A E Glenton MBE, TD, DL, FCA <i>Vice Chairman</i>	21.3.43	20.11.87	Chartered Accountant	Newcastle Mortgage Corporation Ltd Port of Tyne Authority
D W Midgley FCBSI, MBIM <i>Group Managing Director</i>	1.2.42	23.1.87	Building Society Executive	Adamscastle Ltd Adamson Newcastle Ltd Bank of Newcastle Ltd Feversham School NBS Financial Services Ltd Newcastle Bank Ltd Newcastle Estates Agents Ltd Newcastle Mortgage Corporation Ltd Newcastle upon Tyne Council for the Disabled North Tyneside Family Health Services Authority Strachans (Newcastle) Ltd
E A Cowan FCIS <i>Deputy Chief Executive</i>	19.3.39	17.7.87	Building Society Executive	Newcastle Mortgage Corporation Ltd
E Davey JP	16.1.33	16.12.88	Retired Central Banker	Newcastle Mortgage Corporation Ltd North East Innovation Centre Sea Fish Industry Authority
J W Heppell	30.8.47	5.12.80	Surveyor	Adamscastle Ltd Adamson Newcastle Ltd Grainger Newcastle Properties Ltd Lindisfarne Properties Ltd Newcastle Estate Agents Ltd St Cuthbert Newcastle Estates Ltd
C J Hilton MA	19.1.50	1.1.78	Solicitor	Eversheds Legal Services Ltd Newcastle Estate Agents Ltd
D C Kirk FCII, FBIM	19.8.25	1.9.85	Retired Insurance Company Executive	NBS Financial Services Ltd Pannal Golf Club (Harrogate) Ltd
R N D Stephenson OBE, FCA	10.6.32	24.4.90	Company Director	NBS Financial Services Ltd Newcastle Racecourses Ltd Newcastle Theatre Royal Ltd Thornaby Leisure Ltd Tyne & Wear Enterprise Trust

Other Officers

N L Coates FCBSI, ACIB, MBIM <i>Secretary</i>			Building Society Executive	
L B Cowan <i>General Manager</i>			Building Society Executive	
W M Magowan FCBSI, MCIM <i>General Manager</i>			Building Society Executive	
P W Rowley BSc (Hons), FCIB, FFA, MBIM, MICM <i>General Manager</i>			Building Society Executive	Enterprise 5 Housing Association Ltd Newcastle Education Business Partnership Ltd

Documents marked 'private and confidential' may be served on the above named Directors at the following address:
Messrs. Watson Burton, 20 Collingwood Street, Newcastle upon Tyne NE1 1LB.

Two Directors are employed on two year rolling service contracts which commenced on *1 July 1988."

DIRECTORS' REPORT

The Directors' Report set out on pages 36 to 38 has been extracted from the Annual Report and Accounts of the Society for the year ended 31 December 1991. The reference in the Directors' Report to "Note 12 to the Accounts" refers to Note 12 of the Annual Report and Accounts of the Society for the year ended 31 December 1991 and not to this document.

"The directors are pleased to present the Annual Report and Accounts for the year ended 31 December 1991.

Business Objectives and Activities

The principal objective of the Society is to attract investors funds, through the provision of a competitive range of personal savings services, in order to make available advances secured on land for the residential use of members and customers. This mainstream activity is supported by a range of related financial products as authorised by the Building Societies Act 1986, both through the Society and its subsidiary companies. The Society will continue to expand and diversify into those areas which complement existing products and services. It is the Board's intention that the Society will continue as an independent organisation.

Review of the Year

The Society continued its progressive trend of successful performance.

The total pre-tax profit amounted to £12.17 million. Allowing for taxation, £8.28 million was added to reserves. The gross capital of the Group (general reserve) now stands at £49.46 million and free capital (general reserve less fixed assets) £39.69 million being 5.46 per cent. and 4.38 per cent. respectively of total share and deposit liabilities.

The Society was able to increase its capital base organically during the year and in consequence, it was not necessary to resort to subordinated debt or third party capital in order to maintain the free capital ratio.

An increase of £119.40 million brought total Group assets at the year end to £971.46 million, representing a growth rate of 14.01 per cent.

Liquid assets in the form of cash and securities were £184.99 million, representing 19.04 per cent. of total assets.

Despite reduced demand in a depressed housing market, where overall business levels were affected adversely by low confidence, new mortgage lending, largely to home owners, progressed steadily throughout the year, with new advances totalling £194.48 million, only 3 per cent. below 1990's record performance.

At the 31 December 1991 there were 248 mortgages where repayments were more than 12 months in arrears, the total amount being £1,629,978. The Society has provisioned fully for all anticipated mortgage losses. The Society follows the recommendations on best practice in this context in line with the recent Building Societies Commission Note on arrears and provisioning.

Net receipts from shares and deposits were satisfactory at £114 million. For our size, we needed only modest recourse to money markets and there is ample flexibility to tap wholesale opportunities from time to time as our treasury operations continue to diversify and become more sophisticated. We maintained our presence in the Sterling Commercial Paper market throughout the year and there is a continued availability to utilise the facility when market forces are attractive enough to do so. Our wholesale funding is well below the average for the industry and, unlike many competitors, gives us sufficient headroom within the statutory limit, providing greater manoeuvrability to switch between wholesale and retail funding in response to interest rate differentials.

Future Developments

A new branch at Bristol will open for business during 1992. A number of other branches are scheduled for relocation to more advantageous sites and others will be refurbished. The Society will complete its major capital investment programme to replace and update its computer installations at branches with greatly improved IBM equipment providing a superior service to members and customers.

The Newcastle Mortgage Corporation Limited will continue its acquisition of mortgage assets that build upon the base created in 1991 with the purchase of the Heritage Building Society's portfolio. Already in 1992, the Newcastle Mortgage Corporation has acquired the mortgage assets of the Sun Building Society.

Adamscastle Limited will continue its development programme to enable the expanded Group to acquire land, develop housing, sell the units and underwrite consequential mortgage business.

Newcastle Estate Agents Limited will relocate its Ponteland office and operate from new premises in Gosforth, Cramlington and Fenham.

NBS Financial Services Limited which acquired Hamptons of North Shields during the course of 1991 will continue to develop its life and general insurance lines, building on the substantial customer base that is now well established.

Fixed Assets

Changes in fixed assets during the year are detailed in Note 12 to the Accounts. In the opinion of the Directors, the market value of interests in land and buildings at the balance sheet date is in excess of the book value.

Political Contributions and Charitable Donations

The Society made donations amounting to £4,500 for distribution to various local charities. There were no political contributions during the year.

Staff

As an acknowledgement of the contribution made by the staff to the continuing success of the Society, the Board operate a profit sharing scheme for all staff members, thereby enabling staff to benefit from the improved performance achieved by the Society. Further refinement of performance related rewards to staff will develop in 1992.

Full and fair consideration is given to the employment of disabled persons, having regard to their abilities and aptitude. Suitable training is given both to employees who have become disabled during their employment and to disabled persons employed to ensure that they have a career development in common with other members of staff. The Society is committed to effective communication and consultation at all levels. Active steps are taken to ensure that employee consultation is adequate and ongoing. The Banking, Insurance and Finance Union has negotiating rights on behalf of all staff up to and including Branch Manager level.

Directors

During the year, the Society established a Scottish Board under the Chairmanship of Mr. W. G. Cochrane. He joined the main Board of the Society with effect from 1 January 1992 and his wide commercial experience and expertise will strengthen greatly the Board in years to come.

The members of the Board who served during the year were:

Mr. K. J. Hilton	Mr. E. Davey
Mr. A. A. E. Glenton	Mr. J. W. Heppell
Mr. D. W. Midgley	Mr. C. J. Hilton
The Rt. Hon. Lord Ravensworth	Mr. D. C. Kirk
(to 28 February 1991)	Mr. R. N. D. Stephenson
Mr. E. A. Cowan	

Messrs. E. Davey, C. J. Hilton and D. C. Kirk retire by rotation at the Annual General Meeting under Rule 32(1). Being eligible, they offer themselves and are recommended for re-election.

The Board is delighted that Lord Ravensworth accepted the appointment as President of the Society, thereby enabling it to retain the benefit of his many years of experience within the Board Room.

The interests of the Directors in the subsidiaries of the Society are as shown in the Annual Business Statement.

Auditors

The auditors, Messrs. BDO Binder Hamlyn retire and it is proposed to re-appoint them.

K. J. Hilton FCA, FTII
Chairman"

UNITED KINGDOM TAXATION

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

1. On payment of interest on the PIBS an amount must be withheld by the Society on account of United Kingdom income tax at the basic rate (currently 25 per cent.). Certain classes of taxpayer (such as tax exempt investors and individuals whose taxation income is below their personal allowance) may be able to reclaim all or part of any tax deducted. Holders of PIBS who are not resident in the United Kingdom may be able to recover all or part of the tax deducted pursuant to the provisions of an applicable double taxation convention and may be able to make an individual claim to the relevant tax authorities for payment of interest gross. Notwithstanding that interest is received net of a basic rate income tax deduction, holders of the PIBS who are (a) individuals or (b) companies carrying on a trade in the United Kingdom through a branch or agency may, depending on the circumstances, be liable to pay further United Kingdom tax on the interest received.
2. PIBS are within the accrued income scheme. Accordingly, a disposal of PIBS by a PIBS holder, who is resident or ordinarily resident in the United Kingdom or who carries on a trade in the United Kingdom through a branch or agency to which the PIBS are attributable, may give rise to a charge to tax on income in respect of an amount representing interest on the PIBS which has accrued since the preceding interest payment date. However, the accrued income scheme does not apply, *inter alia*, to individuals who do not hold securities with a nominal value of more than £5,000 at any time in both the year of assessment in which the relevant interest period on the PIBS ends and the preceding year of assessment.
3. The PIBS will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a PIBS holder will not give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of capital gains
4. No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue or transfer of the PIBS or on their redemption.
5. The rules allowing certain United Kingdom resident individual investors to receive building society interest gross on certification that such investors are unlikely to be liable to pay any amount by way of income tax for the year in which the interest is paid do not apply to interest paid on PIBS.

MARKETING ARRANGEMENTS

The issue of the PIBS has been underwritten by Charterhouse Bank, a member of the Securities and Futures Authority. Charterhouse Bank has agreed pursuant to a placing agreement dated 8 September 1992 (the "Placing Agreement") as agent of the Society to procure subscribers, or otherwise as principal to subscribe itself, for the PIBS. The placing is conditional upon, *inter alia*, the PIBS being admitted by the London Stock Exchange to the Official List by not later than 16 September 1992 or such later date as may be agreed between the Society and Charterhouse Bank. In connection with the placing, the Society has agreed to pay a fee to Charterhouse Bank and a commission to Charterhouse Bank of 1.125 per cent. of the aggregate nominal value of the PIBS and any premium on issue thereof, from which Charterhouse Bank will pay a commission to Charterhouse Tilney, the brokers to the issue. The Placing Agreement contains certain warranties, representations and indemnities in favour of Charterhouse Bank from the Society.

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

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

All applicable provisions of the Financial Services Act 1986 with respect to anything done in relation to the PIBS in, from, or otherwise involving the United Kingdom must be complied with. Any document received in connection with the issue of the PIBS, other than any document which consists of or of part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules made under Part IV of the Financial Services Act 1986, may be issued or passed on to any person in the United Kingdom only if that person is of a kind described in Article 9(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1988 as amended or to whom the advertisement may otherwise lawfully be issued or passed on.

Save for having obtained approval for this document by the London Stock Exchange pursuant to listing rules made under Part IV of the Financial Services Act 1986 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 Charterhouse Bank that would, or is intended to, permit a public offer of the PIBS in any country or jurisdiction where action for that purpose is required. The PIBS may not, directly or indirectly, be 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 Offering Circular (whether in its preliminary or final form) nor any other circular, prospectus, form of acceptance, 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. Each subscriber will agree that it will observe the provisions of this paragraph.

Neither the Society nor Charterhouse Bank 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

Save for the unaudited financial information for the six months ended 30 June 1992 set out on pages 18 and 19, 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 31 December 1991, being the date to which the latest published accounts were made up.

Litigation

There are no legal or arbitration proceedings pending or threatened against the Society or its subsidiaries which may have, or have had during the past 12 months, a significant effect on the Group's financial position taken as a whole.

Auditors

The consolidated accounts of the Society for the three years ended 31 December 1991 have been audited in accordance with United Kingdom auditing standards by BDO Binder Hamlyn, Chartered Accountants, Pearl Assurance House, 7 New Bridge Street, Newcastle upon Tyne NE1 8BQ. The auditors have given and have not withdrawn their consent to the issue of this Offering Circular with their Accountants' Report in the form and context in which it appears.

Documents for Inspection

Copies of the following documents may be inspected at the offices of Norton Rose M5 Group Limited, Kempson House, Camomile Street, London EC3A 7AN, during usual 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 of the Society;
- (ii) the consolidated audited accounts of the Society and its subsidiaries for each of the years ended 31 December 1990 and 31 December 1991;
- (iii) the material contracts and Directors' service contracts referred to below;
- (iv) a draft (subject to modification) of the PIBS Certificate (including the Special Conditions of Issue of the PIBS);
- (v) the agreement for the appointment of the Registrar; and
- (vi) the written consent of BDO Binder Hamlyn referred to above.

Resolution

The issue of the PIBS was authorised by a resolution of the Board dated 21 August 1992.

Expenses

The overall cost of the issue of the PIBS by the Society, including all commissions and expenses, is estimated to amount to £225,000.

Material Contracts

Save as disclosed below, no member of the Group has entered into any material contract (other than in the ordinary course of business) within the two years immediately preceding the date of this document:

- (i) the Placing Agreement referred to in the section entitled "Marketing Arrangements" on page 40; and
- (ii) an agreement dated 7 August 1992 between City and Northern Properties Limited (1), City and Northern Limited (2) and the Society's wholly-owned subsidiary, Strachans (Newcastle) Limited (3) to the value of £6,865,000, relating to the development of the new principal office of the Society on land adjoining Market Street and John Dobson Street, Newcastle upon Tyne, pursuant to which City and Northern Properties Limited is to undertake construction and refurbishment works following which Strachans (Newcastle) Limited is to purchase a long leasehold interest in the premises. In accordance with the Act, the Society will be obliged to discharge the liabilities of Strachans (Newcastle) Limited if that company is unable to discharge them out of its own assets.

Directors' Interests

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

Each of the Directors is a Member of the Society and accordingly is entitled to one vote at General Meetings.

Neither any Director nor any child, stepchild (in each case under the age of 18) or spouse of any Director has any interests in any PIBS of the Society.

Guarantees and Loans

The only outstanding loans granted by the Society or any of its subsidiaries to Directors or for their benefit are an aggregate of £1,670,332, representing mortgage loans made by the Society. No guarantees have been provided by the Society or any of its subsidiaries to any Director.

Employee Schemes

There are no existing schemes for involving the Directors or any employees of the Society or any of its subsidiaries in any capital of the Society or any of its subsidiaries. However, the Group operates profit sharing schemes for the benefit of executives and employees.

Amounts Payable to Directors

The aggregate of the remuneration paid and benefits in kind granted to the Directors in respect of the year ended 31 December 1991 was £256,000. It is estimated that the aggregate remuneration paid and benefits in kind granted (excluding any amounts payable under the profit sharing schemes referred to in the section entitled "Employee Schemes" above) to the Directors, including proposed Directors, for the current financial year will be approximately £314,000.

Directors' Service Contracts

Mr. D. W. Midgley has a two year rolling service contract with the Society at a current annual salary of £100,000.

Mr. E. A. Cowan has a two year rolling service contract with the Society at a current annual salary of £61,000.

Save as disclosed above, there are no service contracts existing or proposed between the Directors and the Society or any of its subsidiaries which do not expire or are not terminable by the employing entity within one year without payment of compensation (other than statutory compensation).

Rules of the Society relating to Directors

(a) Restrictions on voting

The Rules prohibit a Director from voting as a Director in regard to any contract, or proposal therefor, in which he is interested, whether directly or indirectly, or upon any matter arising out of it.

(b) Remuneration of and pensions and gratuities for Directors

The Rules provide for the Board to determine the annual remuneration of the Directors as members of the Board (exclusive of any remuneration paid in respect of executive duties), subject to such annual remuneration not exceeding 3p per £100 of total assets of the Society as at the first day of the financial year of the Society in which payment is made. The Board may also approve the payment to any Director for professional or other work done by him on behalf of the Society in addition to his usual services as a Director, and for reasonable travelling, hotel and other expenses incurred while attending Society business. The Board is also empowered to approve the provision of pension, life assurance, sickness, annuity and other funds or schemes and may grant other pensions, allowances, gratuities, donations and bonuses to or for the benefit of past or present Directors, their spouses, children and dependants.

(c) Borrowing powers

The powers of the Directors to borrow are subject to the limits set out in the Building Societies Act 1986 (as amended or supplemented from time to time) and other statutory provisions from time to time in force relating to building societies.

(d) Retirement under an age limit

The Rules provide for one-third of the Directors or (if their number is greater) for those Directors who were not elected or re-elected at either of the last two Annual General Meetings to retire at the Annual General Meeting in each year. A Director who retires by rotation is eligible for re-election, provided he is qualified under the Rules at the date of the Annual General Meeting at which he retires and is less than 70 years of age on that date.

Registrar

The Society has appointed The Royal Bank of Scotland plc (the "Registrar") at its specified office at PO Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 4BR, to maintain the Register of PIBS holders at such specified office. It is intended that the Registrar will act as the agent of the Society for the purposes of maintaining the Register of PIBS holders, accepting instructions for, and effecting, transfers of PIBS, issuing PIBS Certificates to new PIBS holders, receiving requests for the replacement of, and replacing, damaged, lost, stolen or destroyed PIBS Certificates and making payments in respect of the PIBS as they fall due.

PIBS Certificates

The Registrar will send a PIBS Certificate to each registered holder of a PIBS (or to the first named of joint holders) by post within one month of the issue of the PIBS and, thereafter, following a transfer, within one month of the transferee's name being entered in the PIBS Register as the registered holder of the PIBS, in each case at the risk of the person entitled thereto. No temporary documents of title will be issued.

Form of Transfer

Transfers of the PIBS may be carried out by completing a Stock Transfer Form (Companies ST1) and submitting it together with the relevant PIBS Certificate to the Registrar in accordance with paragraph 6 of "Summary of the Key Provisions of the Rules of the Society relating to the PIBS".

PRINCIPAL OFFICE OF THE SOCIETY

Hood Street,
Newcastle upon Tyne NE1 6JP

REGISTRAR

The Royal Bank of Scotland plc,
Registrars Department,
PO Box 435, Owen House,
8 Bankhead Crossway North,
Edinburgh EH11 4BR

LEGAL ADVISERS

To the Society
Booth & Co.,
Sovereign House,
South Parade,
Leeds LS1 1HQ

To the Manager and Underwriter
Clifford Chance,
Royex House,
Aldermanbury Square,
London EC2V 7LD

AUDITORS AND REPORTING ACCOUNTANTS

BDO Binder Hamlyn,
Chartered Accountants,
Pearl Assurance House,
7 New Bridge Street,
Newcastle upon Tyne NE1 8BQ

MANAGER AND UNDERWRITER

Charterhouse Bank Limited,
1 Paternoster Row,
St. Paul's,
London EC4M 7DH

SPONSOR AND STOCKBROKER

Charterhouse Tilney,
1 Paternoster Row,
St. Paul's,
London EC4M 7DH