

## Offering Circular



*(Incorporated in England under the Building Societies Act 1986)*

**£25,000,000**  
**12<sup>7</sup>/<sub>8</sub> per cent. Undated Mandatorily Convertible**  
**Subordinated Notes**  
**convertible into**  
**12<sup>7</sup>/<sub>8</sub> 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 £25,000,000 12<sup>7</sup>/<sub>8</sub> per cent. Undated Mandatorily Convertible Subordinated Notes (the "Notes") of Skipton Building Society (the "Society") to be admitted to the Official List of the London Stock Exchange.

Application has also been made to the London Stock Exchange for the £25,000,000 12<sup>7</sup>/<sub>8</sub> per cent. Permanent Interest Bearing Shares (the "PIBS"), comprising 25,000 PIBS of £1,000 each, of the Society to be admitted to the Official List of the London Stock Exchange with effect from the Conversion Date (as defined in Condition 7 of the Notes).

The Notes will be direct, unsecured and subordinated obligations of the Society, claims in respect of which will be subordinated, *inter alia*, to the claims of (i) all unsubordinated creditors of the Society including, so long as the Society is a building society, members holding shares (other than deferred shares) of the Society in respect of principal and interest due in respect of those shares, and (ii) all subordinated creditors of the Society except those ranking *pari passu* with, or junior to, the Notes.

The Notes will have no final maturity date and may be redeemed only in the event of a winding up of the Society, subject as provided herein. The Notes will be mandatorily converted into PIBS with effect from and including the Conversion Date.

Neither the Trust Deed constituting the Notes nor the Notes will contain any negative pledge, restriction on the conduct or on the transfer of the business of the Society or any event of default other than that set out in Condition 9(a) of the Notes. The Conditions of the Notes will not include, *inter alia*, a cross default provision. Attention is also drawn to the description under "Certain Provisions of the Building Societies Act and the Building Societies Commission" of the ways in which a building society can, without the consent of Noteholders, transfer its rights and obligations to another building society or convert into a company pursuant to the relevant legislation.

The Notes will be issued in registered form on or about 5th March, 1992.

---

**Issue Price: 100.476 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 22.

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

**Hoare Govett Corporate Finance Limited**

**Salomon Brothers International Limited**

The date of this Offering Circular is 27th February, 1992.

*This document contains particulars given in compliance with the listing rules made by the London Stock Exchange for the purpose of giving information with regard to the Society, the Notes and the PIBS. The Directors of the Society, whose names appear on page 30, 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, Hoare Govett Corporate Finance Limited (the "Arranger") or Salomon Brothers International Limited ("Salomon Brothers"). Neither the delivery of this document nor any subscription, sale or purchase made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Society since the date hereof.*

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

*The Notes and 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 of, or an invitation by or on behalf of the Society or the Arranger or Salomon Brothers to subscribe for or purchase, any of the Notes and/or the PIBS, when issued. The distribution of this document and the offering of the Notes and the PIBS in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Society, the Arranger and Salomon Brothers to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offering and sales of the Notes and the PIBS and on distribution of this document, see "Marketing Arrangements" below.*

**The information contained in this document is intended for sophisticated investors capable of understanding the nature of the Notes and the PIBS and the risks attaching to them. Accordingly, attention is drawn to certain risk factors set out on page 22.**

*In this document, unless otherwise specified or the context otherwise requires, references to "pounds", "penny", "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.*

## TABLE OF CONTENTS

	<i>Page</i>
Conditions of the Notes	3
Summary of Certain Provisions of the Proposed New Rules of the Society	12
Special Conditions of Issue of the PIBS	16
Risk Factors	22
Certain Provisions of the Building Societies Act and the Building Societies Commission	23
Skipton Building Society	25
Financial Summary	28
Consolidated Capitalisation and Indebtedness	29
Board of Directors	30
Financial Statements	31
United Kingdom Taxation	53
Use of Proceeds	55
Marketing Arrangements	56
General Information	57

## CONDITIONS OF THE NOTES

*The following is the text of the Conditions of the Notes which (except for the paragraphs in italics and subject to amendment) will be endorsed on each certificate in respect of Notes:*

The £25,000,000 12 $\frac{7}{8}$  per cent. Undated Mandatorily Convertible Subordinated Notes (the "Notes", which expression in these Conditions, unless the context otherwise requires, shall include any further notes issued pursuant to Condition 15 and forming a single series with the Notes) of Skipton Building Society (the "Society") are constituted by a trust deed (the "Trust Deed") dated 5th March, 1992 and made between the Society and Royal Exchange Trust Company Limited (the "Trustee", which expression shall include any successor thereto) as trustee for the holders of the Notes (the "Noteholders"). The issue of the Notes was authorised by a resolution of the Board of Directors of the Society passed on 25th February, 1992. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed and the registrar's agreement (the "Registrar's Agreement") dated 5th March, 1992 and made between the Society, Northern Registrars Limited as initial registrar (the "Registrar", which expression shall include any successor thereto) and the Trustee are available for inspection during normal business hours at the principal office of the Trustee, being at the date hereof at One Aldgate, London EC3N 1RE, and at the specified office of the Registrar. The Noteholders are entitled to the benefit of, bound by, and deemed to have notice of, all the provisions of the Trust Deed and the Registrar's Agreement applicable to them.

### 1. Form and Denomination

- (a) The Notes are in registered form and are issued fully-paid in principal amounts of £1,000.
- (b) The Society, the Registrar and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the registered holder of any Note as the absolute owner for all purposes (whether or not the Note shall be overdue and notwithstanding any notice of ownership or writing on the certificate in respect of the Note or any notice of previous loss or theft of the certificate in respect of the Note).

### 2. Transfer

- (a) Title to the Notes will pass upon the registration of transfers in accordance with the provisions of the Registrar's Agreement and the Trust Deed.
- (b) The Notes may be transferred in whole or in part by the transferor depositing the certificate in respect of the Notes to be transferred for registration of the transfer of the Notes at the specified office of the Registrar, with a form of transfer in any form approved by the Society duly completed and signed by or on behalf of the transferor, and upon the Registrar after due and careful enquiry being satisfied with such documents and the identity of the transferor and subject to such reasonable regulations as the Society and the Registrar may (with the prior approval of the Trustee) prescribe. Subject as provided herein, the Registrar will, within 14 London business days of such deposit (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), send by mail (at the risk of the transferee) to such address as the transferee may request a new certificate in respect of the Notes transferred. In the case of the transfer of some only of the Notes represented by a certificate, a new certificate in respect of the balance of the Notes not transferred will be so sent (at the risk of the transferor) to the transferor.
- (c) In the event of the mandatory conversion of the Notes under Condition 7, the Society shall not be required to register or procure registration of the transfer of Notes during the period beginning on the fifteenth day before the Conversion Date (as defined in Condition 7) and ending on the Conversion Date (both inclusive).
- (d) Registration of transfers will be effected without charge by, or on behalf of, the Society or the Registrar, but subject to the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the transfer or registration.

- (e) The initial specified office of the initial Registrar is set out in Condition 17. The Society reserves the right, subject to the approval of the Trustee, at any time to vary or terminate the appointment of the Registrar and to appoint another Registrar provided that it will maintain a Registrar having a specified office in a place approved by the Trustee so long as any of the Notes are outstanding (as defined in the Trust Deed). Notice of any termination or appointment and of any changes in the specified office will be given to the Noteholders promptly by the Society in accordance with Condition 12.

### **3. Status and Subordination**

- (a) The Notes and all amounts payable in respect thereof are direct, unsecured and subordinated obligations of the Society, conditional as described below, and rank and will rank *pari passu* without any preference among themselves. The claims of the Trustee and the Noteholders against the Society in respect of the Notes are and will be subordinated to:

(i) the claims of all unsubordinated creditors of the Society, including, so long as the Society is a building society, members holding shares (which are not deferred shares (as defined in the Trust Deed)) in the Society as regards the principal and interest due in respect of those shares;

(ii) the claims of creditors of the Society whose claims are, or are expressed to be, subordinated to all unsubordinated creditors of the Society, including, so long as the Society is a building society, members holding shares (which are not deferred shares) in the Society as regards the principal and interest due in respect of those shares, but not further or otherwise; and

(iii) the claims (save those mentioned below) of other subordinated creditors of the Society,

but are not and will not be subordinated to and rank and will rank *pari passu* and rateably with or, as the case may be, ahead of:

(iv) so long as the Society is a building society, the claims of members holding deferred shares in the Society;

(v) so long as the Society is a building society, the claims of members holding shares (which are not deferred shares) in the Society other than as regards the principal and interest due in respect of those shares; and

(vi) the claims of subordinated creditors of the Society which rank or are expressed to rank *pari passu* with, or junior to, the claims of the Trustee and/or the Noteholders against the Society in respect of the Notes.

- (b) No amount of principal or interest (including Arrears (as defined below)) in respect of the Notes shall be payable except on satisfaction of the following conditions and, in the case of sub-paragraphs (b)(i) and (iii), to the extent that:

(i) the Society could make payment of such amount and still be solvent;

(ii) either (A) if, at the time for payment of such amount, the Society is a building society, the Board of Directors of the Society has not certified to the Trustee that it is of the opinion that there is, or, immediately after the making of the payment of the full amount which would but for this paragraph (b) be due and payable at such time, there would be, a failure by the Society to satisfy the first criterion of prudential management set out in section 45(3) of the Building Societies Act 1986 (the "Act") or (B) if, at the time for payment of such amount, the Society has transferred the whole of its business to a successor pursuant to sections 97 to 102 of the Act, a dividend has been declared or paid on any class of share capital of the successor in the six months immediately preceding such time for payment or, where the time for payment shall fall on or prior to the Interest Payment Date (as defined in Condition 4) following such transfer, either a dividend has been declared or paid since such transfer on any class of share capital of the successor or any payment of principal or interest in respect of the Notes has been made by the Society, in each case in the six months immediately preceding the time for such payment; and

- (iii) the Society can make such payment, in whole or in part, rateably with payments in respect of Other Pari Passu Claims (as defined below) then payable,

Provided that in a winding up of the Society in England the conditions referred to in sub-paragraphs (b)(ii) and (iii) shall not apply.

- (c) For the purposes of these Conditions:

- (i) the Society shall be solvent if (A) in the case of any determination as to solvency falling to be made prior to an order being made or an effective resolution being passed for the winding up of the Society, it is able to pay its debts as they fall due, and (B) in any case, its Assets exceed its Liabilities (each as defined below) and for these purposes a report as to the solvency of the Society by two Directors of the Society or (in certain circumstances described in the Trust Deed) the auditors of the Society or (if applicable) its liquidator shall, in the absence of proven error, be treated and accepted by the Society, the Trustee and the Noteholders as correct and sufficient evidence thereof;

- (ii) "Assets" means the total assets of the Society and "Liabilities" means the total liabilities of the Society in respect of the claims to which the claims of the Trustee and/or the Noteholders against the Society in respect of the Notes are expressed to be subordinated in paragraph (a) above, all as shown by the then latest published audited balance sheet of the Society, but adjusted for contingencies and for subsequent events, all valued in such manner as the two Directors, the auditors or the liquidator (as the case may be) referred to in sub-paragraph (c)(i) above may determine; and

- (iii) "Other Pari Passu Claims" means claims of creditors of the Society which are subordinated so as to rank (to the satisfaction of the Trustee) *pari passu* with the claims of the Trustee and the Noteholders against the Society in respect of the Notes.

- (d) Notwithstanding the provisions of paragraph (b) above, on any Interest Payment Date there may be paid in addition to any interest in respect of the Notes which is then payable in compliance with the conditions of paragraph (b) above, if and to the extent that the Society so elects, such interest (if any) then due on such Interest Payment Date but which is not payable only because of failure to satisfy either or both of the conditions set out in sub-paragraphs (b)(ii) and (b)(iii) above but the Society shall not have any obligation to make such further payment and any failure to do so shall not constitute a default by the Society for any purpose. Any interest due but not payable on an Interest Payment Date because of the conditions in paragraph (b) above shall, so long as the same remains unpaid, constitute "Arrears". Each amount of Arrears shall become due and payable on the first date on which, and to the extent that, the Society could pay such amount, in whole or in part, rateably with all other amounts of Arrears in compliance with all the conditions set out in paragraph (b) above.

Any reference in these Conditions to interest shall be deemed also to refer to any Arrears.

- (e) If at any time an order is made or an effective resolution is passed for the winding up (save as a result of an amalgamation, transfer of engagements or transfer of business under sections 93, 94 or 97 to 102 of the Act) in England of the Society at a time when the Society is a building society, each Note shall, subject as provided in paragraph (b) above, become immediately due and repayable and claims in respect of each Note shall be capable of proof in such winding up, but only to the extent of, and in, such amounts, if any, as would have been payable in respect of the Note if, on the day prior to the commencement of the winding up and thereafter, the holder of the Note was a holder of a deferred share in the Society issued on terms which carry a preferential right to a return of assets in the winding up over the holders of all other deferred shares for the time being in the Society and entitles the holder thereof to receive on a return of capital in such winding up an amount equal to the unpaid principal amount of the Note, any Arrears and interest accrued on the unpaid principal amount of the Note to the date of repayment.
- (f) If at any time an order is made or an effective resolution is passed for the winding up in England of the Society at a time when the Society has transferred the whole of its business to a successor pursuant to sections 97 to 102 of the Act, each Note shall, subject as provided in paragraph (b) above, become immediately due and repayable and claims in respect of each Note shall be capable of proof in such winding up, but only to the extent of, and in, such amounts, if any, as would have been payable in respect of the Note if, on the day prior to the commencement of the

winding up and thereafter, the holder of the Note was a holder of a preference share in the capital of the successor having a preferential right to a return of assets in a winding up over the holders of all other classes of issued shares for the time being in the capital of the successor and entitling the holder thereof to receive on a return of capital in such winding up an amount equal to the unpaid principal amount of the Note, any Arrears and interest accrued on the unpaid principal amount of the Note to the date of repayment.

*N.B. See also the provisions of Condition 14 in the event of a transfer of the business of the Society to a successor under sections 97 to 102 of the Act.*

#### **4. Interest**

The Notes bear interest from and including 5th March, 1992 (the "Issue Date") at the rate of 12 $\frac{7}{8}$  per cent. per annum (less tax where appropriate) payable, subject as provided in Condition 3, in arrear on:

- (i) 31st July, 1992 in respect of the period from and including the Issue Date to and including 31st July, 1992 amounting to £52.56 (less tax where appropriate) per Note;
- (ii) 31st January, 1993 in respect of the period from but excluding 31st July, 1992 to and including 31st January, 1993 amounting to £64.55 (less tax where appropriate) per Note;
- (iii) 31st July, 1993 in respect of the period from but excluding 31st January, 1993 to but excluding 31st July, 1993 amounting to £64.38 (less tax where appropriate) per Note; and
- (iv) thereafter by equal half-yearly instalments on 31st January and 31st July in each year (together with 31st July, 1992, 31st January, 1993 and 31st July, 1993, each an "Interest Payment Date").

Each Note will cease to bear interest from the date of repayment pursuant to Condition 3(e) or 3(f), as the case may be, or, if earlier, the Interest Payment Date immediately preceding the Conversion Date. 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 rounding the resultant figure to the nearest penny (half a penny being rounded upwards).

#### **5. Payments**

All payments in respect of the Notes will be made by sterling cheque drawn on a bank in England and posted on the day (other than a Saturday or a Sunday) on which banks are open for business in England immediately preceding the relevant due date, and made payable, to the sole or first named holder of the Notes appearing in the register of the Noteholders (the "Register") at the close of business on the date (the "Record Date") being the fifteenth day before the relevant due date at his address shown in the Register on the Record Date. Upon application of the sole or first named holder to the specified office of the Registrar, not less than ten days before the due date for any payment in respect of the Notes, the payment may be made by transfer on the due date to a sterling account maintained by the payee with a bank in England.

#### **6. Redemption and Purchase**

*N.B. In order that the Notes may be treated as supplementary capital of the Society for the purposes of the Building Societies (Supplementary Capital) Order 1988 made under the Act or as capital designated as 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), no purchase of Notes by, or on behalf of, the Society or any Subsidiary (as defined in the Trust Deed), may be made without the prior consent of the Building Societies Commission so long as the Society or any substituted principal debtor is a building society or of the Bank of England if the Society or any substituted principal debtor is or becomes an authorised institution under the Banking Act 1987, such consent being referred to herein and in the Trust Deed as the "Requisite Consent".*

- (a) The Society shall not be at liberty to redeem the Notes.
- (b) The Society or any Subsidiary (as defined in the Trust Deed) may, provided that as at the date of purchase there are no existing Arrears, at any time purchase Notes in the open market or otherwise at any price provided that the Requisite Consent (as defined in the Trust Deed) for the relevant purchase has been obtained prior to making any such purchase. In the case of purchases by tender, tenders must be available to all Noteholders alike. All Notes which are purchased by or on behalf of the Society or any Subsidiary (except purchases made in the ordinary course of business of a dealer in securities) or which are repaid pursuant to Condition 3(e) or 3(f) will forthwith be cancelled and accordingly may not be either reissued or resold.

#### **7. Conversion to PIBS**

On the date (the "Conversion Date") being the day immediately after the first Interest Payment Date after (i) the registration by the central office of the Registry of Friendly Societies of an alteration in the form or substantially in the form (subject to Condition 13) set out in the Trust Deed (the "Alteration") to the Society's Rules to permit the issue by the Society of deferred shares classified as permanent interest bearing shares or, if later, (ii) the date notified by the Society to the Registry of Friendly Societies as the date on which the Society intends the Alteration to take effect (expected to be in July 1992) and, subject as provided below and to the Society not having transferred its business to a successor in accordance with sections 97 to 102 of the Act and provided that there are no existing Arrears, the Notes will automatically convert into fully-paid 12 $\frac{3}{4}$ % per cent. permanent interest bearing shares (the "PIBS") of the Society subject to and in accordance with the Trust Deed. The special conditions of issue of the PIBS will be in the form set out in the Trust Deed with such modifications as may be approved by the Trustee or the Noteholders in accordance with Condition 13. The registration of the Noteholders in the Register will be cancelled as from the Conversion Date, the Notes will be cancelled and the Society will register, or procure the registration of, each registered holder of a Note as the registered holder of a PIBS of £1,000 principal amount in a register of members of the Society. The Society will give the Noteholders not less than 21 nor more than 30 days' notice of the conversion in accordance with Condition 12 specifying the Conversion Date and the period during which transfers of Notes may not be made in accordance with Condition 2. The Society will also send a PIBS certificate to each registered holder of a PIBS (or the first named of joint holders) by mail within one month of the Conversion Date at the risk of the person entitled thereto together with instructions for the disposal of the certificates in respect of the Notes.

The Notes will not convert into PIBS if the Conversion Date does not occur on or before 1st April, 1993.

#### **8. Unclaimed Interest Resulting in Void Notes**

A Note will become void if, during a period of twelve years, at least three interest payments in respect of the relevant Note have become payable, no interest payment in respect thereof has been claimed and no cheque in respect of interest in respect thereof has been cashed.

#### **9. Event of Default and Enforcement**

- (a) If a default is made in the payment of any interest in respect of the Notes or any of them for a period of fourteen days or more after any date upon which such interest is due and payable (because all the conditions to such payment set out in Condition 3 are satisfied) the Trustee at its discretion may institute proceedings in England (but not elsewhere) for the winding up of the Society.
- (b) No remedy against the Society, other than the institution of proceedings for the winding up in England of the Society or the proving or claiming in any winding up of the Society, shall be available to the Trustee or the Noteholders for the recovery of amounts owing in respect of the Notes or under the Trust Deed (other than the Trustee's remuneration or expenses). For the avoidance of doubt, no payment of principal in respect of the Notes may be made by the Society nor may the Trustee accept the same otherwise than during or after the winding up of the Society.

- (c) Without prejudice to paragraph (b) above or to its rights under paragraph (a) above, the Trustee may, at its discretion and without further notice, institute such proceedings against the Society as it may think fit to enforce any obligation, condition or provision binding on the Society under the Notes or the Trust Deed (other than any obligation for the payment of any principal, interest or Arrears in respect of the Notes), provided that the Society shall not as a consequence of such proceedings be obliged to pay any sum or sums representing or measured by reference to principal or interest or Arrears in respect of the Notes sooner than the same would otherwise have been payable by it.
- (d) The Trustee shall not be bound to institute proceedings as referred to in paragraph (a) or (c) above to enforce the obligations of the Society under the Trust Deed or the Notes unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-third in principal amount of the Notes then outstanding and (ii) it shall have been indemnified to its satisfaction.
- (e) No Noteholder shall be entitled to institute any of the proceedings referred to in paragraph (a) or (c) above, or to prove or claim in any winding up of the Society, except that if the Trustee, having become bound to proceed against the Society as aforesaid, fails to do so, or, being able to prove or claim in any winding up of the Society, fails to do so, in each case within a reasonable period and such failure is continuing, then any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute such proceedings and/or prove or claim in any winding up of the Society to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do in respect of his Notes.

#### **10. Covenants of the Society**

The Society has covenanted in the Trust Deed that:

- (i) so long as it remains a building society and any of the Notes is outstanding it will not issue any shares which are by their terms deferred or subordinated other than deferred shares; and
- (ii) it will propose and recommend to the members of the Society at the Annual General Meeting of the Society due to take place on 27th April, 1992 (or any adjourned such meeting) a special resolution to effect the Alteration.

A breach of either of the covenants of the Society described above (or any other covenants on the part of the Society contained in the Trust Deed) will not, by reason only of such breach, constitute an event of default or result in the Society being obliged to pay any sum or sums representing or measured by reference to principal or interest or Arrears in respect of the Notes sooner than the same would otherwise be payable by it.

#### **11. Replacement of certificates in respect of Notes**

Should any certificate in respect of Notes be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar, or any other place approved by the Trustee and of which notice shall have been given in accordance with Condition 12, upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, indemnity and security as the Society may reasonably require. Mutilated or defaced certificates in respect of Notes must be surrendered before replacements will be issued.

#### **12. Notices**

All notices to the Noteholders will be valid if sent by prepaid post to each person shown on the Register as being a holder of Notes (but only to the first named of joint holders). Such notices shall be deemed to have been given on the fourth London business day after the date of mailing.



### **13. Meetings of Noteholders, Modification and Waiver**

- (a) The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes so held or represented, except that, at any meeting the business of which includes the modification of certain of these Conditions and/or certain provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Notes for the time being outstanding and except also that, at any meeting the business of which includes any direction or authority to the Trustee to institute proceedings for the winding up of the Society, the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-half, in principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.
- (b) The Trustee may agree, without the consent of the Noteholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed (including modification of the special conditions of issue of the PIBS and the form of the Alteration) which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or to any modification thereof which is of a formal, minor or technical nature or is made to correct a manifest error. If the Building Societies Commission exercises its powers under section 45(5) of the Act specifying as a description of capital resources of building societies shares other than deferred shares which are by their terms deferred or subordinated, then any modification to these Conditions and the Trust Deed permitting the Society to issue such shares shall be deemed not to be materially prejudicial to the interests of the Noteholders provided that such shares will rank after the Notes, and the Trustee will agree to any such modification requested by the Society.
- (c) If the Building Societies Commission exercises its powers under section 45(5) of the Act specifying conditions or requirements (the "Requirements") to be satisfied for building society perpetual subordinated debt to be aggregated with building society reserves and the Notes do not satisfy the Requirements then the Trustee will, provided the modifications are, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders, agree with the Society, without the consent of the Noteholders, to such modifications (the "Modifications") to these Conditions and the Trust Deed as are necessary, in the opinion of the Society, for the Notes to satisfy the Requirements.

In deciding whether the Modifications are or are not materially prejudicial to the interests of the Noteholders:

- (i) the Trustee shall not take into account whether undated subordinated issues are commercially available at that time or the terms of any other undated subordinated issues;
- (ii) amendments to the subordination provisions of the Notes shall not by themselves be regarded as materially prejudicial provided that the ranking of the Notes is not adversely affected; and
- (iii) insertion of provisions into these Conditions restricting the creation of subordinated debt ranking junior to the Notes shall not by itself be regarded as materially prejudicial to the interests of the Noteholders.
- (d) Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders by the Society as soon as practicable thereafter in accordance with Condition 12.

#### **14. Substitution**

If the Society shall:

- (i) amalgamate with one or more building societies under section 93 of the Act or transfer all or some of its engagements (where such engagements include its liability as principal debtor under the Trust Deed and the Notes) to another building society under section 94 of the Act; or
- (ii) transfer its business to a successor in accordance with sections 97 to 102 of the Act,

the successor will, pursuant to such sections, automatically be substituted in place of the Society as principal debtor under the Trust Deed and the Notes without any prior approval thereof being required from the Noteholders or the Trustee and references to the Society herein shall be construed accordingly.

In the case of a substitution of an entity other than a building society in accordance with (ii) above, the Society shall procure that the successor will execute a deed supplemental to the Trust Deed in such form as shall, to the satisfaction of the Trustee, ensure that these Conditions and/or the Trust Deed shall be varied or supplemented so as to contain such other provisions as the Trustee may reasonably require provided that:

- (A) no such variations or supplements will be made which would or might cause any of the Notes to be excluded from the financial resources of the successor considered appropriate by the Bank of England for the purposes of paragraph 4(2) of schedule 3 to the Banking Act 1987; and
- (B) such variations or supplements are limited to dealing with matters arising out of the procedure by which the transfer takes place and the constitution of the successor, including a provision which ensures that the rights of the Noteholders are subordinated or postponed to the claims of the holders of qualifying shares (as defined in section 100(3) or (4) of the Act) in the Society in respect of the claims arising by virtue of section 100(2) (a) or (b) respectively of the Act and to the claims of other unsubordinated creditors of such successor.

In addition, notwithstanding (B) but subject to (A) above, if the successor is an authorised institution under the Banking Act 1987 these Conditions and/or the Trust Deed shall be varied or supplemented in any way in which the Trustee may reasonably require and to which the Bank of England consents.

*N.B. Attention is drawn to "Certain Provisions of the Building Societies Act and the Building Societies Commission" below.*

#### **15. Further Issues**

The Society shall be at liberty from time to time without the consent of the Noteholders to create and issue further notes or bonds either 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 notes or bonds of any series (including the Notes) constituted by the Trust Deed or any deed supplemental thereto or upon such terms as to interest, conversion, redemption, premium, ranking and otherwise as the Society may at the time of the issue thereof determine. Any such further notes or bonds if they are to form a single series with the outstanding notes or bonds of any series constituted by the Trust Deed or any deed supplemental thereto shall, and any other further notes or bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

#### **16. Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances.

**17. Registrar**

The Society has appointed Northern Registrars Limited at its specified office at Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA as the initial Registrar. The Registrar will send a certificate to each registered holder of the Notes (or to the first named of joint holders) by mail within one month of the Issue Date and, thereafter, following a transfer, in accordance with Condition 2(b), in each case at the risk of the person entitled thereto. No temporary documents of title will be issued.

**18. Governing Law**

The Trust Deed, the Notes and the Registrar's Agreement are governed by, and will be construed in accordance with, English law.

**SUMMARY OF CERTAIN PROVISIONS OF THE PROPOSED NEW RULES OF THE SOCIETY  
(to be proposed for adoption at the next Annual General Meeting of the Society (the "New Rules"))**

Assuming adoption of the New Rules at the next Annual General Meeting of the Society, the rights and restrictions which will be attached to the PIBS will be set out in the New Rules and/or in the special conditions of issue of the PIBS which appear on page 16. Set out below is a summary of certain provisions of the New Rules and certain provisions of the Act insofar as they relate to the PIBS. Terms defined in the New Rules will, unless the context otherwise requires, have the same meanings when used in this summary.

**1. General**

A PIBS holder will be a member of the Society. Each PIBS holder and all persons claiming through him or on his account or under the New Rules shall be bound by the New Rules and by the provisions of the Society's Memorandum.

A PIBS holder shall, on demand, be given a copy of the New 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 Commission, if he has already been given a copy.

**2. Register**

The Society shall maintain records comprising the register of members in which shall be entered the name and address of each PIBS holder. Each PIBS holder will be 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 of PIBS shall also be registered in the records of the Society.

*The Society intends to appoint Northern Registrars Limited as its registrar for the PIBS (see page 58).*

**3. Title**

Except as otherwise provided in the New Rules, the Society shall be entitled to treat the sole, or in the case of two or more holders, the first named registered holder of any PIBS as denoted in the register as the absolute owner thereof and accordingly it shall not, except as ordered by a court of competent jurisdiction or as required by statute, 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 or be held responsible for omitting or neglecting to recognise any such claim.

**4. PIBS Certificates**

Each PIBS holder shall be entitled (unless the Board determines otherwise), without payment, to receive one share certificate for all those PIBS of any one class held by him. Every share certificate shall be issued under the common seal of the Society.

**5. Replacement of PIBS Certificates**

A PIBS holder shall immediately give notice in writing to the Society if he discovers that his PIBS Certificate is missing. If a PIBS Certificate is defaced, damaged, stolen, worn-out, lost or destroyed, it may be replaced without fee but on such terms (if any) as to evidence and indemnity and to payment of any exceptional out of pocket expenses of the Society investigating the evidence and preparing the indemnity as the Board may decide and, where it is defaced, damaged or worn-out, delivery of the old PIBS Certificate to the Society.

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

## **6. Transfers**

A fully paid PIBS may be transferred to any person and no charge shall be made in respect of any entries in the register of members concerning transfers.

The transfer of a PIBS may be effected in any form approved by the Board. The transferor shall remain the holder of the PIBS until the transfer is registered in the register of members. The Society may retain any instrument of transfer which is registered.

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 any year and notice of such suspension shall be given by advertisement in not less than two national daily newspapers.

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

The Board may decline to issue or register a transfer of any PIBS to more than four persons jointly.

## **7. Meetings**

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

The rights of members of the Society to vote depend upon when the voting date for the meeting occurs. The following is only a summary of the provisions of the Act in relation to voting on resolutions other than a borrowing members' resolution.

In the case of the Annual General Meeting and of a meeting which occurs during that part of a financial year preceding the conclusion of the Annual General Meeting, a person is entitled to vote if he holds a share (which may include a PIBS) on the voting date for the meeting, was also a member of the Society at midnight on the last day of the financial year before the voting date and:

- (i) (being an individual) is not a minor on the voting date;
- (ii) (in the case of a joint holding of shares) is the joint holder who is named first in the Register in respect of the shares;
- (iii) held shares (which may include PIBS) in the Society to the value of not less than £100 at midnight on the last day of the financial year before the voting date; and
- (iv) has not ceased to be a member of the Society at some time between midnight on the last day of the financial year before the voting date and the voting date.

In the case of a meeting which occurs during that part of a financial year which follows the conclusion of the Annual General Meeting in that year, a person is entitled to vote if he holds a share (which may include a PIBS) on the voting date for the meeting, was also a member of the Society at midnight on the last day of the financial year before the voting date and:

- (i) (being an individual) is not a minor on the voting date;
- (ii) (in the case of a joint holding of shares) is the joint holder who is named first in the Register in respect of the shares;
- (iii) held shares (which may include a PIBS) in the Society to the value of not less than £100 at the beginning of the period of 56 days immediately preceding the relevant voting date for the meeting (the "qualifying shareholding date"); and

- (iv) has not ceased to be a member of the Society at some time between midnight on the qualifying shareholding date and the voting date.

Each PIBS holder will, subject to the above, have one vote at general meetings of the Society regardless of the principal amount of PIBS or any other shares in the Society held by that holder.

At a general meeting of the Society ten members who are entitled to vote at the meeting and who are present in person, by proxy, by attorney or by representative as provided in the New Rules may demand a poll.

The New Rules may only be altered by the abolition, rescission or variation of any rule by passing a resolution as a special resolution, which is a resolution passed by not less than three quarters of the number of members of the Society qualified to vote and voting in person or by proxy on the resolution.

A body corporate entitled to vote on a resolution may by resolution of its directors or other governing body expressed in a deed or other duly executed instrument authorise a person (who need not be a member) to act as its representative at a meeting or adjourned meeting.

## **8. Winding up and Dissolution**

If the Society shall be wound up or dissolved by consent (*other than in connection with the transfer of the business of the Society to a company or an amalgamation of the Society or a transfer of the Society's engagements*) any surplus assets remaining after payment to creditors of all sums due to them, to members of the amounts standing to their credit in respect of their shares (with all interest due thereon), not being deferred shares, to qualifying holders of deferred shares of the relevant proportion of the amounts respectively paid up in relation to those shares (with interest due thereon) and to all other persons entitled to prior payment of the amounts owing to them (but so that payments to members shall be made according to their priority under the terms and conditions of issue of their respective shares, and if there are insufficient assets to repay all members the amounts paid up on their shares (with all interest due thereon) no repayments and no payment of interest shall be made in respect of any deferred share until after all sums standing to the credit of members in respect of all other shares have been repaid in full) shall either be applied in accordance with the instrument of dissolution (if any) or, where there is no such instrument, be distributed as follows:

- (a) to the qualifying holders of any or all of the deferred shares (including PIBS) to the extent (if any) required by the terms and conditions of issue thereof, provided that the aggregate amount so distributed shall not in any circumstances exceed an amount equal to 20 per cent. of the value of the surplus assets; and
- (b) the balance shall be divided among qualifying members in proportion to the amounts which stand to their credit in respect of their shares (other than deferred shares) as at the date of the commencement of the dissolution or winding up. For this purpose a qualifying member is a person who holds, on the date of the commencement of the dissolution or winding up, shares in the Society.

*Holders of the PIBS which will be issued after the adoption of the New Rules will not be entitled to any of the surplus assets pursuant to paragraph (a) above.*

## **9. Unclaimed Interest**

In certain circumstances set out in the New Rules, the Society shall be entitled to sell for the best price reasonably obtainable any PIBS in respect of which no interest has been claimed during a period of 12 years. The Society must first give written notice to the Quotations Department of the London Stock Exchange of its intention to sell the PIBS. The Society shall be indebted to the former PIBS holder or other person entitled to the PIBS for an amount equal to the net proceeds of sale of the PIBS.

## **10. Disputes and Legal Proceedings**

Subject to the provisions of section 1 of the Courts and Legal Services Act 1990, section 85 of and Schedule 14 to the Act provide that no court other than the High Court of Justice in England shall have

jurisdiction to hear and determine disputes between a building society and a member in his capacity as a member or a representative of a member in that capacity in respect of any rights or obligations arising from the New Rules or the Act. 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.

Complaints by members who are individuals may be made to the Building Societies Ombudsmen in accordance with section 83 of the Act.

## 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 Skipton Building Society.
- (2) "PIBS" means the 12% per cent. Permanent Interest Bearing Shares of the Society and, unless the context otherwise requires, includes any further deferred shares issued pursuant to Condition 9 and forming a single series with the PIBS.
- (3) "Notes" means the £25,000,000 12% per cent. Undated Mandatorily Convertible Subordinated Notes of the Society convertible into PIBS.
- (4) 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.
- (5) PIBS holders are bound by, and are deemed to have notice of, the Rules.
- (6) **The PIBS:**
  - (a) are deferred shares for the purposes of the Building Societies Act 1986 (the "Act");
  - (b) are not protected investments for the purposes of payments out of the Building Societies Investor Protection Fund provided for under the Act;
  - (c) are not withdrawable; and
  - (d) are permanent interest bearing shares for the purposes of the Rules.
- (7) The expressions "Creditors" and "Relevant Supervisory Consent" shall have the meanings given thereto in Conditions 4(2) and 4(4) respectively.
- (8) Upon a transfer of a PIBS the Society will procure that the new PIBS holder is issued with a PIBS Certificate within 14 days after the lodgement of the instrument of transfer.

### 2. Form and Denomination

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

### 3. Interest

- (1) The PIBS bear interest from and including the Conversion Date (as defined in Condition 7 of the Notes) at the rate of 12% per cent. per annum (less tax where appropriate) payable, subject as provided below, in arrear:
  - (i) on whichever is the first to occur of either 31st January, 1993 or 31st July, 1993 after the Conversion Date in respect of the period from and including the Conversion Date to but excluding such date amounting to £64.55 (less tax where appropriate) per PIBS (in the case of 31st January, 1993) or £64.38 (less tax where appropriate) per PIBS (in the case of 31st July, 1993), and
  - (ii) thereafter by equal half-yearly instalments on 31st January and 31st July in each year.

The period from the Conversion Date to whichever is the first to occur of either 31st January, 1993 or 31st July, 1993 after the Conversion Date and 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 rounding the resultant figure to the nearest penny (half a 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 with the Society,

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

For the purposes of this paragraph (2):

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

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

(3) Interest in respect of the PIBS shall not be paid or credited for any Interest Period specified by 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, the payment or crediting in full of the interest would cause or contribute to such a failure by the Society,

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

#### **4. Repayment**

(1) The PIBS constitute permanent non-withdrawable deferred shares in the Society and have no specified final maturity.

(2) The PIBS will become repayable on the date that an instrument or order is made or an effective resolution is passed for the winding up or, otherwise than by virtue of section 93(5), section 94(10), section 97(9) or section 97(10) of the Act, dissolution of the Society but only if and subject to the condition that all sums due from the Society to Creditors claiming in the winding up or dissolution have been paid in full.

For the purposes of these Conditions, "Creditors" means all creditors (including all subordinated creditors) of the Society and 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 England and posted on the day (other than a Saturday or a Sunday) on which banks are open for business in England immediately preceding the relevant due date, and made payable, to the PIBS holder or to the Representative Joint Shareholder appearing in the register of members of the Society at the close of business on the fifteenth day before the relevant due date (the "Record Date") at his address shown in the register of members of the Society on the Record Date. Upon application of the PIBS holder or the Representative Joint Shareholder to the Society, in the form from time to time prescribed by the Society, not less than ten days before the due date for any payment in respect of 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 England.

## **6. Succession and Transfers**

- (1) Upon an amalgamation by the Society with another building society under section 93 of and Schedule 16 to the Act or a transfer of its engagements to any extent to another building society under section 94 of and Schedule 16 to the Act, the PIBS shall be deferred shares in the 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 (2)) to every qualifying member of the Society as in respect of a deposit made with the successor corresponding in amount to the value of the qualifying shares held by the member in the Society.

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

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

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 each Deposit will occur either automatically on the date occurring five years after the vesting date (or as soon as reasonably practicable thereafter) or earlier subject to such conditions as the board of 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 Bonds would not be that more than the permitted proportion (as defined in section 101 of the Act) of the total indebtedness of the successor on its debentures would be held by, or by nominees for, the holder of each 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 Bonds will be such as to secure in the opinion of the Board that they will be 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 Bonds will, not later than the time at which notice is given to members of resolutions to be proposed to approve such transfer, be available for inspection by PIBS holders at the principal office of the Society at that time and, subject as provided above, will be determined by the Board in its absolute discretion.

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

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

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

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

#### **8. Meetings of PIBS Holders**

- (1) The Society alone may at any time convene a separate meeting of the PIBS holders. Every meeting shall be held at such place as the Society may approve.
- (2) At least 21 clear days' notice specifying the place, day and hour of the meeting shall be given to the PIBS holders on the Society's register 35 days prior to the date specified for the meeting by sending it by post to the registered address of the Primary Holder of the PIBS. The notice shall state generally the nature of the business to be transacted at the meeting and the terms of any resolution to be proposed to alter these Conditions.
- (3) Some person (who may but need not be a PIBS holder) nominated in writing by the Society shall be entitled to take the chair at every meeting but if no nomination is made or if at any meeting the person nominated shall not be present within fifteen minutes after the time appointed for holding the meeting the PIBS holders present shall choose one of their number to be chairman.
- (4) At any meeting one or more persons present in person or by proxy and holding or representing in the aggregate not less than one-third of the principal amount of the PIBS for the time being outstanding shall form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum be present at the commencement of business. Every question submitted to the meeting (other than the choosing of a chairman which will be decided by a simple majority) shall be decided by a poll by one or more persons present and holding PIBS or being proxies and representing in aggregate three-quarters of the principal amount of the PIBS represented at such meeting voting in favour of such question.
- (5) If within 15 minutes after the time appointed for any meeting a quorum is not present the meeting shall stand adjourned for such period, being not less than 14 days nor more than 42 days, and at such place as may be appointed by the chairman and if at the adjourned meeting a quorum shall not be present within half an hour from the time appointed for the adjourned meeting the PIBS holders present in person or by proxy at the adjourned meeting shall be a quorum.

- (6) Notice of any adjourned meeting shall be given in the same manner as notice of an initial meeting but as if 10 were substituted for 21 in paragraph (2).
- (7) A poll shall be taken in such manner as the chairman directs and the result of the poll shall be deemed to be the resolution of the meeting.
- (8) The chairman may with the consent of (and shall if directed by) any meeting adjourn the same from time to time and from place to place but no business shall be transacted at any adjourned meeting except business which might lawfully (but for lack of required quorum) have been transacted at the meeting from which the adjournment took place.
- (9) Any director or officer of the Society and its lawyers may attend and speak at any meeting. Save as provided above no person shall be entitled to attend and speak nor shall any person be entitled to vote at any meeting of the PIBS holders unless he is the Primary Holder of PIBS or is a proxy thereof.
- (10) Subject as provided in paragraph (9) at any meeting every person who is present shall have one vote in respect of each £1,000 in principal amount of the PIBS so held or in respect of which he is a proxy.

Any person entitled to more than one vote need not use all his votes or cast all the votes to which he is entitled in the same way.

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

- (15) The accidental omission to send notice of a separate meeting or to send any document required to be sent with the notice or otherwise before the meeting to, or the non-receipt of notice of a separate meeting or any such document as aforesaid by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

**9. Further Issues**

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

- (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.

## RISK FACTORS

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

- (a) the principal amount of the Notes and, when issued, the PIBS is not repayable and the PIBS are not withdrawable and accordingly the only way that the Notes and, when issued, 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 (which may mean that the investor does not recoup his investment) which may be subject to usual brokers' commissions and, in the case of the Notes, stamp duty;
- (b) in a winding up or dissolution of the Society, the claims of the PIBS holders will rank behind all other creditors of the Society and the claims of members holding shares (other than deferred shares) as to principal and interest;
- (c) claims in respect of the Notes will be subordinated to the claims of all unsubordinated creditors of the Society including, so long as the Society is a building society, members holding shares (other than deferred shares) of the Society in respect of principal and interest and all subordinated creditors of the Society except those ranking *pari passu* with, or junior to, the Notes;
- (d) neither the PIBS nor the Notes are protected investments for the purposes of the Building Societies Investor Protection Fund;
- (e) payments in respect of the Notes are conditional, as described in "Conditions of the Notes — Status and Subordination", on, *inter alia*, the Society being solvent at the time of payment and satisfying prescribed levels of capital;
- (f) interest in respect of the PIBS shall not be payable where to make payment would result in the Society's capital falling below prescribed levels if the Directors of the Society resolve that such interest should not be paid or where the Society has not paid interest in respect of deposits or shares (other than deferred shares);
- (g) if the Society does not make an interest payment in respect of the PIBS in accordance with paragraph (f) above such interest will be cancelled; and
- (h) subject as provided in Condition 7 of the Notes, the Notes will be mandatorily converted into PIBS with effect from and including the Conversion Date (as defined in Condition 7 of the Notes).

## **CERTAIN PROVISIONS OF THE BUILDING SOCIETIES ACT AND 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 of the Act) of the borrowing members of each amalgamating society and confirmation by the Building Societies Commission (the "BSC"). 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 Notes and, when issued, 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 BSC consents to the transfer proceedings by a resolution of its board of directors only. The transfer must be confirmed by the BSC. 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 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 BSC to the transfer and its terms. If the BSC confirms the transfer then the Act provides that on the vesting date (as defined in the Act) all the property, rights and liabilities (which would include the Notes) 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 bonds of the successor subject as provided therein.

Where, in connection with any transfer, rights are to be conferred on members of the society to acquire shares in priority to other subscribers, the right is restricted to 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 who 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 Notes and 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 BSC is required before any such change can take place.

#### **General**

The BSC is required to have regard to the position of the Noteholders and 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 (if issued) and the expression "depositors" includes the Noteholders.



## SKIPTON BUILDING SOCIETY

### 1. History and Description of the Society

The Society was formed in 1853. It was incorporated under the Building Societies Act 1874 as the Skipton and District Permanent Benefit Building Society and adopted its present name in 1929. The address of the principal office of the Society is The Bailey, Skipton, North Yorkshire BD23 1DN.

At 31st December, 1991, the Society was the fourteenth largest United Kingdom building society in terms of consolidated assets. At 31st December, 1991, the Society had 56 high street branches and four regional mortgage centres. The average number of persons employed by the Society and its subsidiaries during the year ended 31st December, 1991 was 1,100 compared to 845 and 545 in the years ended 31st December, 1990 and 1989, respectively.

At 31st December, 1991, the Society had a customer base of 287,000 investors and 56,800 borrowers. Total assets at that date were approximately £2,715 million, of which loans secured by mortgage were approximately £2,158 million.

### 2. Form, Status and Ownership

The Society is incorporated under the Act for an unlimited duration. It operates in accordance with the Act, regulations and orders made thereunder and the Society's registered Rules and Memorandum. The Society is a building society within the meaning of the Act and is registered with the Central Office of the Registry of Friendly Societies in London, Register Number 518B. The affairs of the Society are conducted and managed by 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, with both retail investors and borrowers having membership. A member is entitled to one vote (subject to certain conditions). It is possible for one person to have both an investing member's vote and a borrowing member's vote. A PIBS holder who is an investing member other 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 to raise, 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 obtains funds from the retail market through personal savings and deposit accounts and raises funds in the wholesale money markets. It advances funds so raised mainly to borrowers on the security of first mortgages on freehold and leasehold property.

The Society offers a variety of savings accounts and investment products to personal customers.

The Society's branches are mainly concentrated in the Yorkshire and Lancashire area but the branch network includes offices in the East Midlands, London and the South East and Scotland. To diversify the source of mortgage business, regional mortgage centres have been opened in Birmingham, Sheffield, Bristol and Glasgow.

Mortgage assets represent a large part of the Society's assets. Of these £1,910 million relate to advances secured on residential property and £248 million on advances secured on commercial property.

Applications for mortgage loans for house purchases may be submitted to any one of the Society's branches, regional mortgage centres or agents 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 through the use of mortgage guarantee insurance.

All mortgage applications are submitted to the quality assurance department 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 plans 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. Individual loans in excess of £250,000 also require authorisation by the credit and lending working group, which includes in its composition both executive and non-executive directors of the Society. Loans in excess of £750,000 require authorisation from the Board of Directors.

In the year ended 31st December, 1991, the Society's new mortgage advances totalled approximately £593 million. The number of mortgages completed in 1991 was 9,805.

**(b) Loan loss experience on mortgage lending**

Prior to 1990, the Society's losses on lending had been minimal. However, high interest rates in 1990 and 1991 have resulted in a greater number of borrowers being unable to meet their commitments to their building society or other lender. The resultant falls in house prices and turnover have prevented borrowers in this unfortunate position from selling their houses to repay their debts. The Society has, along with other lenders, suffered increased losses with a total of £5 million written off in 1991. In view of the poor state of the market, the Society has set aside significant provisions amounting to £24 million to meet potential losses on the mortgage book. The Society has made advances secured on commercial property for over thirty years with minimal losses until 1991. The provisions at 31st December, 1991 include £15 million in respect of commercial loans. The Society continues to lend on commercial property, specialising at the current time on lending on the security of professional offices.

The existing policy for providing for mortgage losses adopted by the Society is, in the belief of the Society, in line with current best practice as identified in the letter to the Chief Executives of all authorised building societies dated 4th December, 1991, issued by the Building Societies Commission and accordingly compliance with such letter will not result in any significant change to the basis of provisioning of the Society.

As at 31st December, 1991, the Society had 166 mortgage accounts which were 12 or more months in arrears, excluding mortgages in possession. This represented 0.3 per cent. of borrowers.

**(c) Other business**

Diversification from activities traditionally carried out by building societies has been minimal, except to the extent that traditional skills have been marketed in innovative ways. In particular, the Society's subsidiary, Homeloan Management Limited, is a third party mortgage administrator, offering the experience gained by the Society over many years to lenders who do not wish to set up their own mortgage administration. No statistics are available but it is estimated that this company has a 70 per cent. share of this market. Other business areas outside the core business include:

- Independent Financial Advice — Skipton Financial Services Limited has a team of professional advisors who provide life assurance products to their customers.
- Software Sales — The Society's computer systems have been marketed under the name UFSS and sales have been made to a number of major lenders.

- **Computer Bureau** — A service is offered to other lenders who wish to utilise the Society's computer hardware. One building society is currently a customer and a further client is expected to commence using the hardware shortly.

**(d) Source of Income**

The principal source of income for the Society is interest earned on mortgage advances. In the year ended 31st December, 1991, this income totalled £267 million.

Income from the Society's liquid assets generated £50 million in that year. In addition, fees for insurance commission, rent and other sources generated £11 million.

**(e) Non-Retail Funding Activities**

Savings from the personal sector are the primary source of funds for building societies. However, the Society has taken significant steps to raise funds from the wholesale money markets principally in the form of certificates of deposit, time deposits and negotiable bonds.

The breakdown of wholesale and retail funding of the Society at 31st December, 1991 was as follows:

	(millions of pounds)
Certificates of deposit .....	94.6
Time deposits .....	238.8
Negotiable bonds .....	58.8
Amounts due to banks .....	66.0
Other deposits and loans .....	17.8
Shares .....	2,014.3
	<u>2,490.3</u>

## FINANCIAL SUMMARY

The following is a summary of the Society's audited consolidated income and expenditure accounts for the three years ended 31st December, 1991:

	<i>Year ended 31st December,</i>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
	<i>(in millions of pounds)</i>		
Interest receivable .....	316.8	292.0	191.4
Interest payable .....	(272.8)	(252.1)	(162.6)
Net interest receivable .....	44.0	39.9	28.8
Other income and charges .....	28.2	17.0	10.3
	<u>72.2</u>	<u>56.9</u>	<u>39.1</u>
Amortisation of intangible fixed assets .....	(0.3)	(0.1)	—
	<u>71.9</u>	<u>56.8</u>	<u>39.1</u>
Management expenses .....	(36.2)	(21.4)	(14.1)
	<u>35.7</u>	<u>35.4</u>	<u>25.0</u>
Provision for losses on loans, advances and guarantees .....	(24.2)	(3.3)	(0.2)
<b>Profit on ordinary activities before tax</b> .....	<b>11.5</b>	<b>32.1</b>	<b>24.8</b>
Tax on profit on ordinary activities .....	(2.1)	(11.0)	(8.9)
<b>Profit for the financial year</b> .....	<b>9.4</b>	<b>21.1</b>	<b>15.9</b>

The following is a summary of the Society's audited consolidated balance sheets as at the end of each of the three years ended 31st December, 1991:

	<i>Year ended 31st December,</i>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
	<i>(in millions of pounds)</i>		
<b>Assets:</b>			
Liquid assets .....	492.3	376.3	264.3
Advances secured on residential property .....	1,910.0	1,619.7	1,271.5
Other advances secured on land .....	264.7	182.6	102.8
Other commercial assets .....	—	—	—
Tangible fixed assets .....	31.9	27.5	16.3
Intangible fixed assets .....	6.9	7.3	—
Other assets .....	11.5	10.1	7.4
<b>Total assets</b> .....	<b>2,717.3</b>	<b>2,223.5</b>	<b>1,662.3</b>
<b>Liabilities:</b>			
Retail funds and deposits .....	2,078.2	1,773.0	1,288.9
Non-retail funds and deposits .....	478.7	294.0	263.2
<b>Total</b> .....	<b>2,556.9</b>	<b>2,067.0</b>	<b>1,552.1</b>
Other liabilities .....	30.1	47.3	32.9
Provision for liabilities and charges .....	6.9	5.3	4.5
Subordinated liabilities .....	25.3	15.2	5.1
<b>General reserve</b> .....	<b>98.1</b>	<b>88.7</b>	<b>67.7</b>
<b>Total liabilities and reserves</b> .....	<b>2,717.3</b>	<b>2,223.5</b>	<b>1,662.3</b>

*Note: The figures have been extracted from the audited accounts of the Society 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 audited consolidated shareholders' funds and indebtedness as at 31st December, 1990 and 31st December, 1991:

	<i>31st December, 1991</i>	<i>31st December, 1990</i>
	<i>(in millions of pounds)</i>	<i>(in millions of pounds)</i>
<b>Shareholders' Funds:</b>		
Shares .....	2,014.3	1,727.7
General Reserve .....	98.1	88.7
Revaluation Reserve .....	—	—
<b>Total Shareholders' Funds</b> .....	<b>2,112.4</b>	<b>1,816.4</b>
<b>Indebtedness:</b>		
Time Deposits .....	237.7	156.3
Deposits and Loans from Banks .....	66.0	34.0
Other Deposits and Loans .....	17.8	22.1
Certificates of Deposit .....	94.6	15.5
Negotiable Bonds .....	58.8	64.4
Other Liabilities and Provisions .....	37.0	52.6
Accrued Interest .....	67.7	47.0
Subordinated Bonds .....	25.3	15.2
<b>Total Indebtedness</b> .....	<b>604.9</b>	<b>407.1</b>
<b>Total Capitalisation</b> .....	<b>2,717.3</b>	<b>2,223.5</b>

Save for the issue of the Notes (which have 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 31st December, 1991.

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

Under the terms of the Homeloan Management Limited Share Option Scheme, J.G. Goodfellow, I.R. Hepworth, J.A. Jeanes and R.S. Blizzard each have options to subscribe for 60 ordinary shares in the capital of Homeloan Management Limited. These options are exercisable at a price of £1,500 per share and, other than in the case of death, retirement on the grounds of ill-health or redundancy or a merger or transfer of the business of the Society (pursuant to the provisions of sections 93 to 100 of the Building Societies Act 1986) are exercisable between 26th January, 1995 and 25th January, 2005. In addition, the executors of the late T. Adams are entitled to exercise options held by Mr. Adams over, in aggregate, 120 ordinary shares in Homeloan Management Limited at a price of £1,500 per share and this right is exercisable not later than 17th July, 1992. Each participant has the right to sell the shares allotted on exercise of the options to the Society at market value.

Save as aforesaid, no shares of the Society or any of its subsidiaries is under option or has been agreed to be put under option to any person.

## BOARD OF DIRECTORS

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

<i>Name</i>	<i>Responsibilities within the Society</i>	<i>Business Occupation and Other Directorships</i>
Harry Gillies Fell	Chairman (non-executive)	Builders Merchant Director — Robert Fell & Sons Limited Director — Associated Heating Equipment Distribution Limited
John Parker Rycroft	Vice-Chairman (non-executive)	Textile Manufacturer Director — Gisburn Fabrics Limited
Brian Braithwaite-Exley	Director (non-executive)	Self Employed Director — Tuff-Link Limited Director — The Ribblesdale Trust
Hugh Thomas Fattorini	Director (non-executive)	Merchant Director — Thomas Fattorini Limited and subsidiary companies
John Graham Goodfellow	Chief Executive	Building Society Executive Director
John Brian Haggas	Director (non-executive)	Managing Director Managing Director — John Haggas PLC and subsidiary companies
Ian Richard Hepworth	Director	Building Society Executive Director
John Arthur Jeanes	Director	Building Society Executive Director
Richard Arthur Stockdale	Director (non-executive)	Farmer Director — Yorkshire Salmon Limited

The Financial Statements, Annual Business Statement and Directors' Report set out on pages 31 to 51 have been extracted from audited accounts of the Society and its subsidiaries (the "Group") for the year ended 31st December, 1991 (save for the figures for 1989 which have been extracted from the audited accounts of the Group for the year ended 31st December, 1990)

**FINANCIAL STATEMENTS  
GROUP INCOME AND EXPENDITURE ACCOUNT**

	<i>Notes</i>	<u>1991</u>	<u>1990</u>	<u>1989</u>
		<i>(in thousands of pounds)</i>		
Interest receivable .....	2	316,765	291,972	191,423
Interest payable .....	3	272,751	252,063	162,612
Net interest receivable .....		<u>44,014</u>	<u>39,909</u>	<u>28,811</u>
Other income and charges .....	5	28,213	16,955	10,287
		<u>72,227</u>	<u>56,864</u>	<u>39,098</u>
Amortisation of intangible fixed assets .....	15	369	88	—
		<u>71,858</u>	<u>56,776</u>	<u>39,098</u>
Management expenses .....	6	36,199	21,376	14,117
		<u>35,659</u>	<u>35,400</u>	<u>24,981</u>
Provision for losses on loans, advances and guarantees .....	12	24,191	3,325	181
Profit on ordinary activities before tax .....		<u>11,468</u>	<u>32,075</u>	<u>24,800</u>
Tax on profit on ordinary activities .....	10	2,057	11,020	8,867
Profit for the financial year .....	21	<u>9,411</u>	<u>21,055</u>	<u>15,933</u>

**SOCIETY INCOME AND EXPENDITURE ACCOUNT**

	<i>Notes</i>	<u>1991</u>	<u>1990</u>	<u>1989</u>
		<i>(in thousands of pounds)</i>		
Interest receivable .....	2	316,503	291,887	191,422
Interest payable .....	3	272,724	251,936	162,631
Net interest receivable .....		<u>43,779</u>	<u>39,951</u>	<u>28,791</u>
Income from associated bodies .....	4	3,650	—	—
Other income and charges .....	5	10,503	10,065	8,155
		<u>57,932</u>	<u>50,016</u>	<u>36,946</u>
Amortisation of intangible fixed assets .....		—	—	—
		<u>57,932</u>	<u>50,016</u>	<u>36,946</u>
Management expenses .....	6	21,610	15,701	12,605
		<u>36,322</u>	<u>34,315</u>	<u>24,341</u>
Provision for losses on loans, advances and guarantees .....	12	24,191	3,325	181
Profit on ordinary activities before tax .....		<u>12,131</u>	<u>30,990</u>	<u>24,160</u>
Tax on profit on ordinary activities .....	10	2,107	10,710	8,636
Profit for the financial year .....	21	<u>10,024</u>	<u>20,280</u>	<u>15,524</u>

The notes on pages 35 to 43 form part of these Accounts.

## GROUP BALANCE SHEET

	<i>Notes</i>	<i>1991</i>	<i>1990</i>	<i>1989</i>
<i>(in thousands of pounds)</i>				
<b>Assets</b>				
Liquid assets .....	11	492,250	376,269	264,319
Commercial assets				
Advances secured on residential property .....		1,909,972	1,619,667	1,271,501
Other advances secured on land .....		264,714	182,646	102,803
Other commercial assets .....	13	—	—	—
Tangible fixed assets .....	14	31,927	27,497	16,289
Intangible fixed assets .....	15	6,916	7,285	—
Other assets .....		11,491	10,099	7,347
<b>Total Assets</b> .....		<b>2,717,270</b>	<b>2,223,463</b>	<b>1,662,259</b>
<b>Liabilities and Reserves</b>				
Shares and deposits				
Retail funds and deposits .....	16	2,078,247	1,772,990	1,288,847
Non-retail funds and deposits .....	17	478,683	294,021	263,236
Other liabilities .....	18	30,078	47,348	32,891
Provision for liabilities and charges .....	19	6,850	5,269	4,533
Subordinated liabilities .....	20	25,304	15,138	5,110
<b>Total Liabilities</b> .....		<b>2,619,162</b>	<b>2,134,766</b>	<b>1,594,617</b>
General reserve .....	21	98,108	88,697	67,642
<b>Total Liabilities and Reserves</b> .....		<b>2,717,270</b>	<b>2,223,463</b>	<b>1,662,259</b>

*The notes on pages 35 to 43 form part of these Accounts.*



## SOCIETY BALANCE SHEET

	<i>Notes</i>	<u>1991</u>	<u>1990</u>	<u>1989</u>
<i>(in thousands of pounds)</i>				
<b>Assets</b>				
Liquid assets .....	11	491,713	374,955	264,163
Commercial assets				
Advances secured on residential property .....		1,909,972	1,619,667	1,271,501
Other advances secured on land .....		247,856	175,918	102,803
Other commercial assets .....	13	42,761	26,662	3,752
Tangible fixed assets .....	14	14,678	14,627	12,820
Intangible fixed assets .....		—	—	—
Other assets .....		7,640	6,960	5,753
<b>Total Assets</b> .....		<u>2,714,620</u>	<u>2,218,789</u>	<u>1,660,792</u>
<b>Liabilities and Reserves</b>				
Shares and deposits				
Retail funds and deposits .....	16	2,078,247	1,772,990	1,288,847
Non-retail funds and deposits .....	17	479,793	294,241	263,386
Other liabilities .....	18	26,541	43,624	31,572
Provision for liabilities and charges .....	19	7,040	5,125	4,486
Subordinated liabilities .....	20	25,304	15,138	5,110
<b>Total Liabilities</b> .....		<u>2,616,925</u>	<u>2,131,118</u>	<u>1,593,401</u>
General reserve .....	21	97,695	87,671	67,391
<b>Total Liabilities and Reserves</b> .....		<u>2,714,620</u>	<u>2,218,789</u>	<u>1,660,792</u>

*The notes on pages 35 to 43 form part of these Accounts.*

**STATEMENT OF THE SOURCE AND  
APPLICATION OF FUNDS**

	<i>1991</i>	<i>1990</i>	<i>1989</i>
	<i>Consolidated</i>	<i>Consolidated</i>	<i>Consolidated</i>
	<i>(in thousands of pounds)</i>		
<b>Source of Funds:</b>			
Increase in free capital (see below) .....	20,884	13,537	11,977
Advances and loans repaid by borrowers .....	215,317	190,787	186,500
Net receipts from retail funds and deposits including capitalised interest .....	305,257	484,143	292,921
Net receipts from non-retail funds and deposits .....	184,662	30,785	82,967
Decrease in liquid assets .....	—	—	24,681
Increase in provisions and other liabilities .....	—	15,221	12,405
<b>Total source of funds</b> .....	<b>726,120</b>	<b>734,473</b>	<b>611,451</b>
<b>Application of Funds:</b>			
Increase in liquid assets .....	115,981	111,950	—
Advances and loans made to borrowers .....	593,224	619,771	604,957
Increase in other operating assets .....	1,392	2,752	6,494
Decrease in provisions and other liabilities .....	15,523	—	—
<b>Total application of funds</b> .....	<b>726,120</b>	<b>734,473</b>	<b>611,451</b>
<b>Increase in Free Capital</b>			
<b>Source of Funds</b>			
Profit on ordinary activities after tax .....	9,411	21,055	15,933
Adjustment for items not involving the movement of funds:			
Depreciation of tangible fixed assets .....	3,622	2,539	2,132
Amortisation of intangible fixed assets .....	369	88	—
General provision for mortgage losses .....	5,534	975	(51)
Profit on sale of fixed assets .....	(56)	(34)	(210)
<b>Funds generated from operations</b> .....	<b>18,880</b>	<b>24,623</b>	<b>17,804</b>
<b>Funds from Other Sources</b>			
Disposal of tangible fixed assets .....	1,059	289	375
Issue of subordinated debt .....	10,000	10,000	—
<b>Application of Funds</b>			
Purchase of tangible fixed assets .....	(9,055)	(14,002)	(6,202)
Purchase of intangible fixed assets .....	—	(7,373)	—
<b>Increase in Free Capital</b> .....	<b>20,884</b>	<b>13,537</b>	<b>11,977</b>

**Summary of the Effects of Acquisition of Subsidiaries**

	<i>1991</i>	<i>1990</i>		<i>1991</i>	<i>1990</i>
	<i>(in thousands of pounds)</i>			<i>(in thousands of pounds)</i>	
Net assets acquired			Discharged by		
Tangible fixed assets .....	—	1,355	Cash paid .....	—	4,957
Goodwill .....	—	7,373			
Other liabilities (net) .....	—	(3,771)			
	<b>—</b>	<b>4,957</b>		<b>—</b>	<b>4,957</b>
	<b>—</b>	<b>4,957</b>		<b>—</b>	<b>4,957</b>

*The notes on pages 35 to 43 form part of these Accounts.*

**SKIPTON BUILDING SOCIETY**  
**Notes to the Accounts**

**1. Principal Accounting Policies**

**Accounting convention**

The accounts are drawn up under the historical cost convention and in accordance with applicable accounting standards.

**Basis of consolidation**

The consolidated income and expenditure account and balance sheet incorporate the accounts of the Society and all its subsidiaries all of which are made up to 31st December and are prepared on a uniform basis throughout the Group.

**Goodwill**

The excess of the cost of shares in subsidiaries over the fair value of the net tangible assets at the date of acquisition is included in the balance sheet as goodwill. Goodwill is written off over its useful economic life which is estimated to be 20 years.

**Income tax**

Income tax on interest relates to the interest on shares, deposits and loans charged in these accounts.

**Corporation tax**

Corporation tax is charged in the accounts on the profit on ordinary activities as adjusted for taxation purposes.

**Deferred taxation**

Provision is made using the liability method for taxation which is deferred as a result of items included in these accounts being dealt with in a different period for taxation purposes only to the extent that it is likely that such taxation will become payable in the foreseeable future.

**Depreciation and other amounts written off tangible fixed assets**

Depreciation is calculated to write off the cost of tangible fixed assets over their estimated useful lives as set out below on a straight line basis unless stated otherwise.

Freehold and long leasehold premises	100 years from 1st January 1978 or subsequent date of acquisition
Refurbishment of freehold and long leasehold premises	10 years
Short leasehold premises	Period of lease
Office and computer equipment bought after 31st December 1985	5 years
Office and computer equipment bought before 1st January 1986	15% of net book value
Other	25% of net book value

Major fixed asset purchases are depreciated on a monthly basis from the date utilisation commences. Other items receive a full year's depreciation charge in the year of purchase.

Profits and losses on the sale of these assets are included as depreciation except where these are material, where they are separately disclosed.

**Leased assets**

Fixed assets subject to finance leases are shown as tangible fixed assets and depreciated in accordance with the accounting policy above. The capital amounts outstanding under such contracts are included under other creditors. The interest element is charged against profits over the period of the lease.

The rental costs of all operating leases are charged against profits as incurred.

**Repairs and renewals**

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

**Liquid assets**

Liquid assets are stated at their cost to the Society, adjusted to exclude accrued interest at the date of purchase. A similar adjustment is also made on realisation. Where the adjusted purchase price differs from maturity value, the premium or discount is amortised or released over the period to maturity.

**Pension costs**

The Society operates a defined benefit pension scheme administered by trustees, the funds of which are separate from those of the Society. Contributions are transferred to the trustees on a regular basis to secure the benefits provided under the rules of the scheme. Contributions are charged to revenue and are included in staff costs.



## 6. Management expenses

	<i>Consolidated</i>		<i>Society</i>	
	1991	1990	1991	1990
	(in thousands of pounds)			
Wages and salaries .....	14,585	8,622	7,849	6,050
Social security costs .....	1,201	625	562	412
Other pension costs (Note 23) .....	823	838	559	657
<b>Total staff costs .....</b>	<b>16,609</b>	<b>10,085</b>	<b>8,970</b>	<b>7,119</b>
Depreciation of tangible fixed assets (net of profit on sale of tangible fixed asset) .....	3,566	2,505	2,571	2,312
<b>Other expenses .....</b>	<b>16,024</b>	<b>8,786</b>	<b>10,069</b>	<b>6,270</b>
	<b>36,199</b>	<b>21,376</b>	<b>21,610</b>	<b>15,701</b>
Included in other expenses are the following charges:				
Hire of equipment .....	1,992	815	—	141
Remuneration of auditors .....	101	95	65	73

Mortgage Systems Limited and its subsidiaries were acquired on 2nd October, 1990 and are included in consolidated income and expenditure from that date.

## 7. Staff Numbers

The average number of persons including the executive Directors and part-time staff employed by the Society and the Group during the year was as follows:

	<i>Consolidated</i>		<i>Society</i>	
	1991	1990	1991	1990
On the Society's business:				
Principal office and administration centre .....	351	288	351	288
Branch offices .....	301	292	301	292
On the subsidiaries' business .....	448	265	—	—
	<b>1,100</b>	<b>845</b>	<b>652</b>	<b>580</b>

## 8. Directors' Emoluments

	1991	1990
	(in thousands of pounds)	
Services as Director .....	116	94
Other services .....	250	156
	<b>366</b>	<b>250</b>

Other services includes pension contributions of £27,540 (1990 – £37,953).

The emoluments of the Chairman amounted to £25,000 (1990 – £22,000) and the highest paid Director £90,020 (1990 – £128,811) excluding pension contributions.

The emoluments of the Directors, were in the range:

	1991	1990
£ 10,001 – £ 15,000 .....	4	4
£ 15,001 – £ 20,000 .....	1	1
£ 20,001 – £ 25,000 .....	1	1
£ 45,001 – £ 50,000 .....	2	—
£ 60,001 – £ 65,000 .....	1	—
£ 90,001 – £ 95,000 .....	1	—
£125,001 – £130,000 .....	—	1

## 9. Directors' Loans and Transactions

Under the staff mortgage scheme there was an amount outstanding of £173,138 at 31st December, 1991 to three full time Directors. There were further outstanding mortgage loans at that date granted in the ordinary course of business to eight persons who are connected to Directors, amounting in aggregate to £366,717.

A register is maintained in the head office of the Society which shows details of all loans, transactions and arrangements with Directors and connected persons. A statement, for the current financial year, of the appropriate details contained in the register will be available for inspection at the head office for a period of 15 days up to and including the annual general meeting.

## 10. Taxation

	<i>Consolidated</i>		<i>Society</i>	
	<i>1991</i>	<i>1990</i>	<i>1991</i>	<i>1990</i>
	<i>(in thousands of pounds)</i>			
The tax charge for the year comprises:				
UK corporation tax at 33.25% (1990 – 35%) .....	1,081	10,364	544	10,150
Deferred taxation				
– adjustment arising from change in tax rate .....	(302)	—	(293)	—
– charge for the year .....	1,883	736	2,208	639
Overprovided in previous year .....	(605)	(80)	(352)	(79)
	<u>2,057</u>	<u>11,020</u>	<u>2,107</u>	<u>10,710</u>

The Group charge for corporation tax has been reduced by the utilisation of tax losses amounting to £1,054,000. In addition one company in the Group purchased group relief from a former fellow subsidiary for a sum less than the taxation otherwise payable. This resulted in a reduction in the tax charge of £136,000. The Society's income includes dividends from subsidiaries which are not subject to taxation.

## 11 Liquid Assets

	<i>Consolidated</i>		<i>Society</i>	
	<i>1991</i>	<i>1990</i>	<i>1991</i>	<i>1990</i>
	<i>(in thousands of pounds)</i>			
(a) Liquid assets comprise:				
Cash in hand .....	2,305	2,904	2,305	2,904
Cash with banks				
– deposits .....	286,838	167,234	286,301	165,920
– certificates of deposit .....	66,500	77,500	66,500	77,500
UK Government securities .....	—	16,026	—	16,026
Other securities				
– issued by public bodies .....	35,729	39,037	35,729	39,037
– issued by other borrowers .....	70,892	40,946	70,892	40,946
Interest accrued .....	29,986	32,622	29,986	32,622
	<u>492,250</u>	<u>376,269</u>	<u>491,713</u>	<u>374,955</u>

(b) Liquid assets are repayable from the date of the balance sheet in the ordinary course of business as follows:

	<i>Consolidated</i>		<i>Society</i>	
	<i>1991</i>	<i>1990</i>	<i>1991</i>	<i>1990</i>
	<i>(in thousands of pounds)</i>			
Cash with banks, repayable				
On demand .....	3,238	34,334	2,701	33,020
In not more than three months .....	253,600	110,400	253,600	110,400
In more than three months but not more than one year .....	27,000	20,500	27,000	20,500
In more than one year but not more than five years .....	3,000	4,000	3,000	4,000
Certificates of deposit				
In not more than three months .....	29,500	57,500	29,500	57,500
In more than three months but not more than one year .....	37,000	12,000	37,000	12,000
In more than one year but not more than five years .....	—	6,000	—	6,000
	<u>353,338</u>	<u>244,734</u>	<u>352,801</u>	<u>243,420</u>
UK Government securities, maturing				
In not more than one year .....	—	1,014	—	1,014
In more than one year but not more than five years .....	—	15,012	—	15,012
	<u>—</u>	<u>16,026</u>	<u>—</u>	<u>16,026</u>
Other securities, maturing				
In not more than one year .....	45,583	18,302	45,583	18,302
In more than one year .....	61,038	61,681	61,038	61,681
	<u>106,621</u>	<u>79,983</u>	<u>106,621</u>	<u>79,983</u>

(c) UK Government securities are all listed and had the following market value at the year end:

Book value .....	—	16,026	—	16,026
Market value .....	—	15,257	—	15,257

Other securities include listed investments which had the following market value at the year end:

Book value .....	46,892	38,946	46,892	38,946
Market value .....	46,774	38,759	46,774	38,759

## 12. Provision for losses

Provision against Group and Society commercial assets has been made as follows:

	<i>Residential property</i>	<i>Other advances secured on land</i>	<i>Total</i>
	<i>(in thousands of pounds)</i>		
At 1st January, 1991			
— specific .....	992	1,458	2,450
— general .....	1,000	—	1,000
	<u>1,992</u>	<u>1,458</u>	<u>3,450</u>
Increase in provision during year			
— specific .....	5,623	13,611	19,234
— general .....	3,034	2,500	5,534
	<u>10,649</u>	<u>17,569</u>	<u>28,218</u>
Amounts written off during year			
— specific .....	(2,389)	(2,585)	(4,974)
At 31st December, 1991			
— specific .....	4,226	12,484	16,710
— general .....	4,034	2,500	6,534
	<u>8,260</u>	<u>14,984</u>	<u>23,244</u>

The amount charged in the income and expenditure account represents losses written off in the year, together with the net change in the provision, less amounts recovered or estimated to be recoverable.

## 13. Other commercial assets

Other commercial assets comprise the investment in the Society's subsidiaries made up as follows:

	<i>1991</i>	<i>1990</i>
	<i>(in thousands of pounds)</i>	
Share capital .....	4,973	4,973
Amounts due from subsidiaries .....	37,788	21,689
	<u>42,761</u>	<u>26,662</u>

Details of the Society's subsidiaries are noted in section 4 of the Annual Business Statement.

## 14. Tangible fixed assets

	<i>Land and Buildings</i>						
	<i>Buildings</i>		<i>Long</i>		<i>Short</i>	<i>Office</i>	<i>Motor</i>
	<i>Freehold</i>	<i>Under Construction</i>	<i>Leasehold</i>	<i>Leasehold</i>	<i>Leasehold</i>	<i>Equipment</i>	<i>Vehicles</i>
	<i>(in thousands of pounds)</i>						
<b>Consolidated</b>							
<b>Cost</b>							
At 1st January, 1991 .....	8,960	10,572	502	918	16,906	1,549	39,407
Transfers .....	15,527	(15,527)	—	—	—	—	—
Additions .....	669	4,955	828	24	1,908	671	9,055
Disposals .....	(88)	—	—	(33)	(1,495)	(533)	(2,149)
At 31st December, 1991	<u>25,068</u>	<u>—</u>	<u>1,330</u>	<u>909</u>	<u>17,319</u>	<u>1,687</u>	<u>46,313</u>
<b>Depreciation</b>							
At 1st January, 1991 .....	1,275	1	42	292	9,749	551	11,910
Transfers .....	1	(1)	—	—	—	—	—
Charged in year .....	411	—	52	110	2,703	346	3,622
Disposals .....	(4)	—	—	(34)	(904)	(204)	(1,146)
At 31st December, 1991	<u>1,683</u>	<u>—</u>	<u>94</u>	<u>368</u>	<u>11,548</u>	<u>693</u>	<u>14,386</u>
<b>Net book value</b>							
At 31st December, 1991	<u>23,385</u>	<u>—</u>	<u>1,236</u>	<u>541</u>	<u>5,771</u>	<u>994</u>	<u>31,927</u>
At 31st December, 1990	<u>7,685</u>	<u>10,571</u>	<u>460</u>	<u>626</u>	<u>7,157</u>	<u>998</u>	<u>27,497</u>

Included in fixed assets above are assets held under finance leases and hire purchase contracts as follows:

	<i>1991</i>	<i>1990</i>
	<i>(in thousands of pounds)</i>	
<b>Net book value</b>		
Office equipment .....	613	1,030
Motor vehicles .....	199	370
	<u>812</u>	<u>1,400</u>
<b>Depreciation charged in year</b>		
Office equipment .....	153	44
Motor vehicles .....	16	35
	<u>169</u>	<u>79</u>

	<i>Land and Buildings</i>					<i>Motor Vehicles</i>	<i>Total</i>
	<i>Freehold</i>	<i>Long Leasehold</i>	<i>Short Leasehold</i>	<i>Office Equipment</i>			
<i>(in thousands of pounds)</i>							
<b>Society</b>							
<b>Cost</b>							
At 1st January, 1991 .....	8,960	417	918	12,470	860	23,625	
Additions .....	669	828	24	1,371	646	3,538	
Disposals .....	(88)	—	(33)	(1,452)	(306)	(1,879)	
At 31st December, 1991 .....	<u>9,541</u>	<u>1,245</u>	<u>909</u>	<u>12,389</u>	<u>1,200</u>	<u>25,284</u>	
<b>Depreciation</b>							
At 1st January, 1991 .....	1,275	38	292	7,081	312	8,998	
Charged in year .....	334	49	110	1,882	254	2,629	
Disposals .....	(4)	—	(34)	(870)	(113)	(1,021)	
At 31st December, 1991 .....	<u>1,605</u>	<u>87</u>	<u>368</u>	<u>8,093</u>	<u>453</u>	<u>10,606</u>	
<b>Net book value</b>							
At 31st December, 1991 .....	<u>7,936</u>	<u>1,158</u>	<u>541</u>	<u>4,296</u>	<u>747</u>	<u>14,678</u>	
At 31st December, 1990 .....	<u>7,685</u>	<u>379</u>	<u>626</u>	<u>5,389</u>	<u>548</u>	<u>14,627</u>	

#### 15. Intangible fixed assets

The intangible fixed assets are made up of goodwill on the purchase of subsidiaries.

	<i>Consolidated</i>	
	<i>1991</i>	<i>1990</i>
<i>(in thousands of pounds)</i>		
At 1st January .....	7,285	—
Acquired during the year .....	—	7,373
Amortised during the year .....	(369)	(88)
At 31st December .....	<u>6,916</u>	<u>7,285</u>

Goodwill acquired during the year is made up as follows:

	<i>Consolidated</i>	
	<i>1991</i>	<i>1990</i>
<i>(in thousands of pounds)</i>		
Cash paid .....	—	4,957
Less: Book value of assets acquired .....	—	(652)
Fair value adjustments		
Accounting policy adjustment .....	—	(642)
Computer systems rationalisation .....	—	(733)
Other provisions .....	—	(389)
	<u>—</u>	<u>2,416</u>
	<u>—</u>	<u>7,373</u>

#### 16. Retail funds and deposits

	<i>Consolidated and Society</i>	
	<i>1991</i>	<i>1990</i>
<i>(in thousands of pounds)</i>		
<b>Shares</b>		
Repayable on demand .....	1,879,719	1,727,701
Repayable in more than three months but less than one year .....	134,634	—
<b>Deposits</b>		
Repayable on demand .....	4,816	6,332
Accrued interest .....	59,078	38,957
	<u>2,078,247</u>	<u>1,772,990</u>



17. Non-retail funds and deposits

	<i>Consolidated</i>		<i>Society</i>	
	<i>1991</i>	<i>1990</i>	<i>1991</i>	<i>1990</i>
	<i>(in thousands of pounds)</i>			
<b>(a) Non-retail funds and deposits comprise:</b>				
Amounts owed to banks .....	66,000	34,000	66,000	34,000
Other deposits and loans				
Time deposits .....	237,661	156,334	238,771	156,554
Certificates of deposit .....	94,620	15,500	94,620	15,500
Negotiable bonds .....	58,806	64,372	58,806	64,372
Other deposits .....	13,029	15,766	13,029	15,766
	470,116	285,972	471,226	286,192
Accrued interest .....	8,567	8,049	8,567	8,049
	<u>478,683</u>	<u>294,021</u>	<u>479,793</u>	<u>294,241</u>

**(b) Non-retail funds and deposits are repayable as follows:**

	<i>Amounts</i>	<i>Time</i>	<i>Certificates</i>	<i>Negotiable</i>	<i>Other</i>	<i>Total</i>
	<i>owed to</i>	<i>Deposits</i>	<i>of Deposit</i>	<i>Bonds</i>	<i>deposits</i>	
	<i>(in thousands of pounds)</i>					
<b>Consolidated</b>						
<b>At 31st December, 1991</b>						
Repayable on demand .....	—	—	—	—	13,029	13,029
In not more than three months .....	28,000	200,136	76,000	5,651	—	309,787
In more than three months but not more than one year .....	18,000	20,075	18,620	—	—	56,695
In more than one year but not more than five years .....	20,000	17,450	—	23,905	—	61,355
In more than five years .....	—	—	—	29,250	—	29,250
	<u>66,000</u>	<u>237,661</u>	<u>94,620</u>	<u>58,806</u>	<u>13,029</u>	<u>470,116</u>
<b>At 31st December, 1990</b>						
Repayable on demand .....	—	—	—	—	15,766	15,766
In not more than three months .....	11,000	102,184	4,500	10,303	—	127,987
In more than three months but not more than one year .....	3,000	36,125	11,000	—	—	50,125
In more than one year but not more than five years .....	20,000	18,025	—	24,361	—	62,386
In more than five years .....	—	—	—	29,708	—	29,708
	<u>34,000</u>	<u>156,334</u>	<u>15,500</u>	<u>64,372</u>	<u>15,766</u>	<u>285,972</u>
<b>Society</b>						
<b>At 31st December, 1991</b>						
Repayable on demand .....	—	—	—	—	13,029	13,029
In not more than three months .....	28,000	201,246	76,000	5,651	—	310,897
In more than three months but not more than one year .....	18,000	20,075	18,620	—	—	56,695
In more than one year but not more than five years .....	20,000	17,450	—	23,905	—	61,355
In more than five years .....	—	—	—	29,250	—	29,250
	<u>66,000</u>	<u>238,771</u>	<u>94,620</u>	<u>58,806</u>	<u>13,029</u>	<u>471,226</u>
<b>At 31st December, 1990</b>						
Repayable on demand .....	—	—	—	—	15,766	15,766
In not more than three months .....	11,000	102,404	4,500	10,303	—	128,207
In more than three months but not more than one year .....	3,000	36,125	11,000	—	—	50,125
In more than one year but not more than five years .....	20,000	18,025	—	24,361	—	62,386
In more than five years .....	—	—	—	29,708	—	29,708
	<u>34,000</u>	<u>156,554</u>	<u>15,500</u>	<u>64,372</u>	<u>15,766</u>	<u>286,192</u>



## 21. General reserve

	<i>Consolidated</i>		<i>Society</i>	
	<u>1991</u>	<u>1990</u>	<u>1991</u>	<u>1990</u>
		<i>(in thousands of pounds)</i>		
At 1st January .....	88,697	67,642	87,671	67,391
Profit for the financial year .....	9,411	21,055	10,024	20,280
At 31st December .....	<u>98,108</u>	<u>88,697</u>	<u>97,695</u>	<u>87,671</u>

## 22. Contingent liability and capital commitments

### (a) Building Societies Investor Protection Fund

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

### (b) Capital commitments at 31st December for which no provision has been made in the accounts, were as follows:

	<i>Consolidated</i>		<i>Society</i>	
	<u>1991</u>	<u>1990</u>	<u>1991</u>	<u>1990</u>
		<i>(in thousands of pounds)</i>		
Contracted but not provided for .....	867	4,423	177	126
Authorised but not contracted for .....	—	—	—	—

## 23. Pensions

The Society operates a defined benefit pension scheme covering the majority of the Group's permanent employees. The scheme funds are administered by trustees and are independent of the Society's finances. Contributions are determined on the advice of the scheme actuary on the basis of triennial valuations.

The latest valuation as at 1st April, 1991 showed that the calculated Regular Contribution Rate was 12.8 per cent. per annum. This figure was further adjusted by 2.4 per cent. per annum to take account of experience deficits which are being amortised over 14 years, the average remaining service lifetime of employees. The method of amortising the experience deficits has been to express it as a level percentage of projected salaries.

The actuarial method used in the valuation was the Project Unit Credit Method. The most significant assumptions were the valuation rate of interest of 8.5 per cent. per annum, salary growth of 7.0 per cent. per annum and an increase in future dividends of 3.5 per cent. per annum.

At the valuation date, the market value of the Scheme's assets was £2,777,900. This value should not be confused with the amount available on surrender (Discontinuance Surrender Value) which would take into account the "clawback" provisions relating to the switch to the current managed fund contract. The actuarial value of the Scheme's assets represented 61 per cent. of the benefits that had accrued to members, based on salaries projected to Normal Retirement Date or the date of earlier withdrawal.

On a current funding the estimated amount by which the value of the assets on wind up of the Scheme falls short of covering the current cost of securing all the members' accrued benefits with allowance only for statutory revaluations applying on leaving service is £1,576,000 which the Actuary has recommended should be amortised by increased contribution rates.

## 24. Leases

The maturity of obligations under finance leases is as follows:

	<i>Consolidated</i>		<i>Society</i>	
	<u>1991</u>	<u>1990</u>	<u>1991</u>	<u>1990</u>
		<i>(in thousands of pounds)</i>		
Within one year .....	177	675	—	—
Over one year				
In the second to fifth years inclusive .....	20	208	—	—
	197	883	—	—
Less: Future finance charges .....	—	45	—	—
	<u>197</u>	<u>838</u>	<u>—</u>	<u>—</u>

Future commitments due within one year under operating leases are as follows:

	<i>Consolidated</i>		<i>Society</i>	
	<u>1991</u>	<u>1990</u>	<u>1991</u>	<u>1990</u>
		<i>(in thousands of pounds)</i>		
On leases expiring:				
Within one year .....	—	79	—	—
Within two to five years .....	2,025	1,792	—	—
	<u>2,025</u>	<u>1,871</u>	<u>—</u>	<u>—</u>

**ANNUAL BUSINESS STATEMENT**  
for the year ended 31st December, 1991

**1. Statutory ratios**

The Building Societies Act 1986 lays down limits on the amount (expressed as a percentage) of investment in certain assets and the amount (also expressed as a percentage) of funds raised as deposits and as non-retail funds. The Society's ratios at 31st December, 1991 were:

	Amount £000s	%	Statutory Limit
a) Non-retail funds and deposits as a percentage of shares and deposits .....	495,116	19.69	40%
b) Deposits as a percentage of shares and deposits .....	499,932	19.88	50%
c) As a percentage of total commercial assets:			
(i) Advances secured on residential property which are defined as Class 1 assets .....	1,909,972	86.77	N/A
(ii) Advances secured on land other than residential property which are defined as Class 2 assets .....	263,945	11.99	N/A
(iii) Other commercial assets which are defined as Class 3 assets .....	27,253	1.24	10%
(iv) Total of Class 2 assets and Class 3 assets .....	291,198	13.23	20%

**Explanation of terms**

The amounts shown in the accounts for shares and deposits, both retail and non-retail, include interest accrued but not yet payable at the balance sheet date. The above ratios are calculated excluding the interest accrued but not yet payable as shown in the following analyses:

	£000s
Non-retail funds and deposits as used in ratio (a) represent:	
Non-retail funds and deposits (Note 17) .....	478,683
Subordinated liabilities (Note 20) .....	25,304
	<u>503,987</u>
Less accrued interest .....	8,871
	<u>495,116</u>
Shares and deposits as used in ratios (a) and (b) represent:	
Retail funds and deposits (Note 16) .....	2,078,247
Non-retail funds and deposits (Note 17) .....	478,683
Subordinated liabilities (Note 20) .....	25,304
	<u>2,582,234</u>
Less accrued interest .....	67,949
	<u>2,514,285</u>
Deposits as used in ratio (b) represent:	
Retail deposits (Note 16) .....	4,816
Non-retail funds and deposits (Note 17) .....	478,683
Subordinated liabilities (Note 20) .....	25,304
	<u>508,803</u>
Less accrued interest .....	8,871
	<u>499,932</u>

	£000s
Total commercial assets as used in ratio (c) represent:	
Advances secured on residential property .....	1,909,972
Other advances secured on land .....	263,945
Other commercial assets .....	<u>27,253</u>
	<u>2,201,170</u>
Class 2 assets and Class 3 assets in ratio (c) (iii) and (c) (iv) represent:	
Advances secured on land other than residential property	
Class 2 .....	263,945
Class 3 .....	<u>27,253</u>
	<u>291,198</u>

A subsidiary of the Society has purchased £16,858,000 of advances secured on residential property. The Society obtained an accountant's certificate that £16,089,000 of these are Class 2 assets but has foregone the expense in respect of the most recent purchase totalling £769,000 which are therefore Class 3 assets.

Reference to notes in this section refer to the notes to the accounts on pages 35 to 43.

## 2. Other percentages

The following ratios are considered useful in the consideration of a society's accounts and in comparison with other societies:

	At 31st December	
	1991	1990
Gross capital as a percentage of share and deposit liabilities (excluding accrued interest) .....	4.90%	5.10%
Free capital as a percentage of share and deposit liabilities (excluding accrued interest) .....	3.61%	3.44%
Liquid assets (including accrued interest) as a percentage of total assets .....	18.1%	16.9%
- Profit after taxation as a percentage of:	Ratio for	
	1991	1990
Mean reserves .....	10.1%	26.9%
Mean total assets .....	0.38%	1.08%

Mean reserves and mean total assets are calculated respectively as the average of the general reserve at 31st December, 1990 and 1991 and the total assets at those dates.

The Building Societies Commission has determined that certain liabilities with original duration exceeding five years which rank as subordinate to shareholders, depositors and other creditors may be included as part of the capital structure. The other element of gross capital is the Society's general reserve. Free capital is defined as gross capital plus general provision for mortgage losses less fixed assets as shown in the Society's balance sheet.

### 3. Information relating to directors and other officers at 31st December, 1991

The Board of Directors, their dates of birth, year of appointment as Director and their private addresses at 31st December, 1991 were:

	Date of Birth	Year of Appointment	
H.G. Fell	28.03.31	1978	Bodkyn House, Otterburn, Skipton
J.P. Rycroft	29.07.25	1979	Summerrgill, Kirkby Malham, Skipton
B. Braithwaite-Exley	30.11.27	1975	Pant Head, Austwick, Lancaster
H.T. Fattorini	15.07.34	1974	Skipton Castle, Skipton
J.G. Goodfellow	10.01.47	1991	160 Skipton Road, Barnoldswick
J.B. Haggas	20.05.31	1976	Low Austby, Nesfield, Ilkley
I.R. Hepworth	03.04.49	1991	27 Queens Drive, Ilkley
J.A. Jeanes	22.03.40	1991	Brackenley Grange, Embsay, Skipton
R.A. Stockdale	25.11.32	1974	Manor House, Hebden, Skipton

The Society's managers at 31st December, 1991 were:

R.S. Blizzard  
 J. W. Dawson  
 G. Jolly  
 J.A. Scotter  
 R. J. Steel  
 E.G. Styles  
 I. T. Walker

The occupation of all the managers is that of building society executive.

The Directors' business occupations and their directorships in companies that are not subsidiaries of the Society at 31st December, 1991 were:

H.G. Fell	Builders Merchant	Robert Fell & Sons Limited Associated Heating Equipment Distribution Limited
J.P. Rycroft	Textile Manufacturer	Gisburn Fabrics Limited
B. Braithwaite-Exley	Self Employed	Tuff-Link Limited The Ribblesdale Trust
H.T. Fattorini	Merchant	Thomas Fattorini Limited and subsidiary companies
J.G. Goodfellow	Chief Executive	—
J.B. Haggas	Managing Director	John Haggas plc and subsidiary companies
I.R. Hepworth	Building Society Executive	—
J.A. Jeanes	Building Society Executive	—
R.A. Stockdale	Farmer	Yorkshire Salmon Limited

Mr. Jeanes is a Director of all the Society's subsidiaries listed in Note 4 below. Mr. Goodfellow is a Director of all these subsidiaries except Secondary Marketing Investment Conduit Limited and Mr. Hepworth is a Director of all the subsidiaries except the last four listed in Note 4.

No Director has a service contract.

Directorships of the Society's managers at 31st December, 1991 were as follows:

R.S. Blizzard	Homeloan Management Limited Approved Storage Limited Commercial Mortgage Systems Ltd. Mortgage Systems Limited Equity Systems Limited Index Linked Mortgage & Investment Company Limited Skipton Computer Services Limited Skipton Limited Skipton Group Limited Secondary Marketing Investment Conduit (No.1) Ltd Secondary Marketing Investment Conduit (No.2) Ltd Secondary Marketing Investment Conduit (No.3) Ltd Secondary Marketing Investment Conduit (No.4) Ltd Savings Management Limited
J.A. Scotter	Skipton Financial Services Limited

No other managers held any directorships.

#### 4. Associated Bodies

The Society beneficially and directly owns all the share capital, made up of ordinary shares, of the following companies, which are registered in England:

Commercial Mortgage Systems Limited	Mortgage Processor
Homeloan Management Limited	Mortgage Processor
Skipton Computer Services Limited	Computer Service Supplier
Skipton Financial Services Limited	Independent Intermediary
Skipton Mortgage Corporation Limited	Appropriate Mortgage Company
Skipton Premises Limited	Property Developer
Skipton Limited	Dormant
Skipton Group Limited	Dormant
Approved Storage Limited	Dormant
Equity Systems Limited	Dormant
Index Linked Mortgage & Investment Company Ltd.	Dormant
Mortgage Systems Limited	Dormant
Savings Management Limited	Dormant
Secondary Marketing Investment Conduit Limited	Dormant
Secondary Marketing Investment Conduit (No.1) Ltd	Dormant
Secondary Marketing Investment Conduit (No.2) Ltd	Dormant
Secondary Marketing Investment Conduit (No.3) Ltd	Dormant
Secondary Marketing Investment Conduit (No.4) Ltd	Dormant

Skipton Computer Services Limited is marketing computer systems throughout the world.

The other trading companies operate solely in the U.K.

**5. Average Interest Rates**

Average interest rates paid on retail and non-retail funds and deposits and interest received on liquid assets and on secured advances are as follows:

	Average Amount Outstanding £000s	Interest Earned £000s	Interest Paid £000s	Average Yield %	Average Interest Paid %
Liquid assets .....	402,956	47,797	—	11.86	—
Secured advances .....	2,001,847	268,968	—	13.44	—
Retail funds and borrowings .....	1,876,601	—	220,001	—	11.72
Non-retail funds and borrowings .....	378,044	—	50,612	—	13.39

The average amount outstanding is calculated as the mean of the amount outstanding at 31st December, 1990 and 1991 before provisions for losses. The interest earned and paid is as shown in the income and expenditure account and the average yield and average interest paid shown represents the interest earned and paid as a percentage of the mean amount outstanding. The average amount outstanding for liquid assets excludes accrued interest. Interest earned on liquid assets includes profit on sale of investments less amortisation of investments.

**6. New Powers**

During the year neither the Society nor its subsidiaries exercised new powers given to Building Societies by Schedule 8 of the Building Societies Act 1986.



**SKIPTON BUILDING SOCIETY**  
**Directors' Report**

The Directors have pleasure in presenting their Annual Report and Accounts for the year ended 31st December, 1991.

**Review of 1991**

Without doubt 1991 was the worst year for the housing market since the war. Borrowers who were spurred on by the perception that house prices would continue rising faced the highest ever mortgage interest rates in 1990 and precipitous declines in house prices in 1991. Many have failed to meet their commitments leading to losses by the lenders.

The Society has not escaped unscathed from such losses and it is disappointing that the many successes of 1991 have been overshadowed by the need to provide against losses likely to arise in the future.

Among the highlights of the year there has been the successful move to the Society's new Head Office at the Bailey and the development of the principal subsidiaries. The merger of Mortgage Systems Limited, which was purchased in 1990, with Homeloan Management Limited has created a strong and profitable market leader in the field of mortgage administration. The value added during the year to these subsidiaries has been significant. Skipton Financial Services Limited has also had a very successful year with profits rising nearly four times.

The writing, testing and introduction of a new computer system has been accomplished during the year. This replaces the UFSS system which has been purchased by several major financial institutions and was written by the Society. The upgrading will, in 1992 and thereafter, bring many rewards for the cost and effort expended during the year.

Whilst the financial results may seem disappointing much progress has been made in preparing the Society's staff, accommodation and computer systems for the challenges of the years ahead.

**Business Objectives, Activities and Future Developments**

The Society's objective is to offer services demanded by the members in a highly efficient and profitable manner.

The Society has and will continue to offer the traditional building society services, being a safe but rewarding haven for savings and a source of mortgage finance, together with mortgage related insurance.

The Society will further develop its mortgage administration subsidiary, Homeloan Management Limited, utilising the expertise built up over many years by the Society, to generate fee income. Skipton Financial Services Limited, which is a wholly owned independent financial adviser, grew significantly in 1991 and this will be developed further in future years. The computer bureau service developed by Skipton Computer Services Limited won its first contract in 1991 and will widen its customer base in the future.

The Directors consider that no activities carried on during the year were outside the powers of the Society.

**Total Assets**

The Society's total assets at the end of 1991 were £2,717 million, an increase of £494 million.

**Liquid Assets**

Liquid assets, in the form of cash and securities at 31st December, 1991 were £492 million, representing 18.1 per cent. of total assets.

### **Commercial Assets**

During 1991, mortgage lending amounted to £593 million, this sum being lent to 9,805 borrowers. Advances secured on residential property and land increased in total by 20.7 per cent. from £1,802 million to £2,175 million.

At 31st December, 1991 there were 166 cases where repayments were more than twelve months in arrears. The total amount of arrears in these cases was £6,325,000.

The Society will continue to take all necessary action to minimise losses and to ensure that the lending policy takes due notice of the economic conditions.

### **Fixed Assets**

The Bailey, the Society's new Head Office was completed during the year and officially opened by the Chancellor of the Exchequer, Mr Norman Lamont, on 25th October, 1991. Other changes in fixed assets during the year are detailed in Notes 14 and 15 to the accounts.

A valuation of the Society's freehold and long leasehold properties as at 31st December, 1989, showed the Board that the market value exceeded book value by a significant amount. No adjustment was made in the accounts for this surplus. No valuation has been completed since the completion of the new Head Office at the Bailey

### **Shares, Deposits and Loans**

Investors' balances at 31st December, 1991 were £2,032 million, an increase during the year of £282 million or 16.1 per cent. Receipts from investors, excluding deposits raised from the wholesale money markets, amounted to £1,599 million and withdrawals were £1,460 million.

### **Capital**

At 31st December, 1991, free capital amounted to £90.8 million or 3.61 per cent. of total share, deposit and loan liabilities (excluding accrued interest) and gross capital amounted to £123.1 million or 4.90 per cent. of total share, deposit and loan liabilities (excluding accrued interest). Both these figures include subordinated liabilities amounting to £25 million which are treated as capital by the Building Societies Commission.

### **Staff**

The Society's policy is to give all applications for employment from disabled persons full consideration in relation to the vacancy concerned. In the event of existing staff members becoming disabled, every effort is made to enable them to maintain their present position or to employ them in suitable work within another department.

The Board meets fortnightly to direct the executives and Head Office managers are briefed at least monthly by the Directors or executives to whom they report. All staff are briefed by their managers in meetings organised on a monthly basis. The staff are represented by their staff association, the committee of which meets regularly both with and without management representatives. In addition an annual conference is held which is attended by directors and managers. Regular circulars and newsletters ensure staff are kept up to date with the Society's performance and objectives.

### **Directors**

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

H.G. Fell	(Chairman)
J.P. Rycroft	(Vice Chairman)
B. Braithwaite-Exley	
H.T. Fattorini	
J.G. Goodfellow	
J.B. Haggas	
I.R. Hepworth	
J.A. Jeanes	
R.A. Stockdale	

Messrs. Goodfellow, Hepworth and Jeanes were appointed to the Board on 22nd July, 1991.

The Chief Executive of the Society, who was also a Director, was Mr. T. Adams, until his death on 17th July, 1991. His premature death was a great loss to the Society and to the Board and his leadership and style has been and will be sadly missed. The Board would like to record their appreciation of all he achieved since joining the Society in 1983.

Messrs. Goodfellow, Hepworth and Jeanes each hold options to purchase 60 ordinary shares of £1 each in Homeloan Management Limited, a subsidiary of the Society. No other Director had any interest in the shares of the Society's subsidiaries at 31st December, 1991.

**Events since the year end**

No events have occurred since the year end which, in the opinion of the Directors, have had a significant effect on the Society or any of its subsidiaries.

**Auditors**

In accordance with section 77 of the Building Societies Act 1986 a resolution for the reappointment of KPMG Peat Marwick as auditors is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

J.A. Jeanes  
Secretary

17th February, 1992

## AUDITORS' REPORT

The report of the Auditors to the members of the Society for the year ended 31st December, 1991 is reproduced below:

We have audited the accounts set out on pages 10 to 25 in accordance with auditing standards. In our opinion the accounts give a true and fair view of the state of affairs of the Society and of the Group at 31st December, 1991, of the income and expenditure of the Society and of the Group for the year then ended and of the manner in which the business of the Group was financed and in which the Group's financial resources were used during the year.

We have examined the annual business statement on pages 6 to 9 other than the details of Directors and officers upon which we are not required to report. In our opinion the information which we have examined gives a true representation of those matters referred to therein.

We have examined the Directors' report on pages 4 and 5. In our opinion the information given therein is consistent with the accounting records and the annual accounts.

In our opinion the accounts, the annual business statement and the Directors' report have each been prepared so as to conform to the requirements of Part VIII of the Building Societies Act 1986 and regulations thereunder.

KPMG PEAT MARWICK  
Chartered Accountants  
Registered Auditor  
Bradford

17th February, 1992

*Note: The page references in the above report refer to those contained in the Report and Accounts for the Society for the year ended 31st December, 1991.*

## 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 Notes and the PIBS. The summary relates only to the position of persons who are the absolute beneficial owners of their Notes or PIBS and the interest on them and some aspects do not apply to certain classes of taxpayer (such as dealers). **Prospective Noteholders and 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.**

### A. TAXATION OF THE NOTES

1. On payment of interest on the Notes 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 taxable income is below their personal allowance) may be able to reclaim all or part of any tax deducted. Holders of Notes 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 Notes 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. The Notes are within the accrued income scheme. Accordingly, a disposal of Notes by a Noteholder 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 Notes are attributable, may give rise to a charge to tax on income in respect of an amount representing interest on the Notes 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 Notes ends and the preceding year of assessment.
3. The conversion of the securities will constitute a transfer of securities for the purposes of the accrued income scheme. The application of the accrued income scheme to the conversion of securities is unclear but the Inland Revenue have confirmed that in the circumstances of this issue no charge to tax will arise. However holders of PIBS will be chargeable to tax on the whole amount of the interest received on the next interest payment date following conversion.
4. The Notes will constitute "qualifying corporate bonds" within the meaning of section 64 of the Finance Act 1984. Accordingly, a disposal by a Noteholder will not give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of capital gains.
5. No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Notes or on their redemption. However, United Kingdom stamp duty will be payable on a transfer of the Notes (currently at the rate of  $\frac{1}{2}$  per cent. of the consideration paid). Stamp duty reserve tax may be payable on an agreement to transfer the Notes which is not effected by a duly stamped transfer.
6. The rules allowing certain United Kingdom resident individual investors to receive building society interest gross on certification that such investors are unlikely to be liable to pay any amount by way of income tax for the year in which the interest is paid do not apply to interest paid on the Notes.

### B. TAXATION OF THE PIBS

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 taxable 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 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 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 64 of the Finance Act 1984. 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.

## **USE OF PROCEEDS**

The proceeds of the issue of the Notes (estimated to amount to approximately £24,654,000) will be used by the Society for its general funding purposes.

## MARKETING ARRANGEMENTS

The Arranger and Salomon Brothers have agreed pursuant to a placing agreement dated 27th February, 1992 (the "Placing Agreement") as agents of the Society to use all reasonable endeavours to procure subscribers for the Notes. The issue of the Notes has not been underwritten by the Arranger, Salomon Brothers or any other person nor is it guaranteed by any person. The Arranger and Salomon Brothers as agents of the Society have sent placing letters (the "Placing Letters") to various institutions who have agreed, subject to certain conditions, to subscribe for £25,000,000 principal amount of the Notes at an issue price of 100.476 per cent. of the principal amount of the Notes. In connection with the placing the Society has agreed with the Arranger and Salomon Brothers to pay a placing fee of 1<sup>3</sup>/<sub>8</sub> per cent. of the principal amount of the Notes subscribed pursuant to the Placing Letters respectively sent out by them and reimburse certain expenses of the Arranger.

The Notes and 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 the U.S. persons otherwise than in accordance with applicable U.S. securities laws and regulations. Each subscriber has agreed that it will not offer or sell a Note or 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 Notes 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 Notes and the PIBS in, from or otherwise involving the United Kingdom must be complied with. Any document received in connection with the issue of the Notes or 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 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.

Save for having obtained approval of 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, Salomon Brothers or the Arranger that would, or is intended to, permit a public offer of the Notes or the PIBS in any country or jurisdiction where action for that purpose is required. The Notes and the PIBS may not be, directly or indirectly, offered or sold in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes and the PIBS may not, directly or indirectly, be offered or sold and neither this Offering Circular nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from, or published in, any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

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



## GENERAL INFORMATION

### Material Change

There has been no significant change in the financial or trading position of the Group or any material adverse change in the prospects of the Group since 31st December, 1991, being the date to which the latest published audited 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 twelve months, a significant effect on the financial position of the Society and its subsidiaries taken as a whole.

### Auditors

The consolidated accounts of the Society for the three years ended 31st December, 1991 have been audited in accordance with United Kingdom auditing standards by KPMG Peat Marwick, Chartered Accountants of Peat House, 1 Commercial Street, Bradford, West Yorkshire BD1 4AS. The auditors have given and have not withdrawn their consent to the issue of this Offering Circular with their report to members included in the form and context in which it appears.

### Document for inspection

Copies of the following documents may be inspected at the offices of Slaughter and May, 35 Basinghall Street, London EC2V 5DB, during usual business hours on any week day (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 Group for each of the years ended 31st December, 1990 and 1991;
- (iii) the material contract referred to below;
- (iv) a draft (subject to modification) of the certificate in respect of the Notes (including the conditions of the Notes);
- (v) drafts (subject to modification) of the New Rules, the Trust Deed and the Registrar's Agreement;
- (vi) the Placing Agreement; and
- (vii) the consent of KPMG Peat Marwick referred to above.

### Resolution

The issue of the Notes was authorised by a resolution of the Board of Directors passed on 25th February, 1992.

### Expenses

The overall cost of the issue of the Notes by the Society, including all commissions and expenses, is estimated to amount to £465,000.

### Material Contracts

The Group has not entered into any material contract (other than in the ordinary course of business) within the two years immediately preceding the date of this document other than an agreement relating to the sale and purchase of the entire issued share capital of Mortgage Systems Limited between Lightunique Limited, Abaco Investments PLC and the Society dated 24th August, 1990 pursuant to which the Society purchased all the shares of Mortgage Systems Limited for a cash consideration of £4,957,000.

### **Directors' Interests**

Three Directors of the Society, Messrs Goodfellow, Hepworth and Jeanes, are participants in the share option scheme arrangements referred to on page 29. No other Director has any interest in the securities of the Society's subsidiaries and no Director has an interest in any securities of the Society which have been notified under section 324 or section 328 of the Companies Act 1985 or are required to be registered under section 325 of that Act. Apart from the arrangements in relation to the share option scheme the Directors of the Society have no interest in any transactions which are or were unusual in their nature or conditions or significant to the business of the Society and its subsidiaries and which were affected by the Society during the current or immediately preceding year or were affected by the Society during an earlier financial year and remain in any respect outstanding or unperformed.

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

### **Guarantees and Loans**

The only outstanding loans granted by the Group to Directors of the Society are an aggregate of £173,138 mortgage loans as at 31st December, 1991 made by the Society. No guarantees have been provided by the Group for the benefit of any Director of the Society.

### **Employee Schemes**

Save as disclosed on page 29, there are no existing schemes 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.

### **Amounts Payable to the Directors**

It is estimated that an aggregate of £493,000 will be payable to Directors of the Society in respect of the financial year ending 31st December, 1992. Directors' emoluments in 1991 include the emoluments of the late Chief Executive to the date of his death and the emoluments of three Directors from their appointment on 22nd July, 1991. The estimate for 1992 includes the estimated emoluments of the corresponding Directors for a full year.

### **Directors' Service Contracts**

No Director of the Society has a service contract.

### **Registrar**

The Society intends to appoint Northern Registrars Limited (the "Registrar") at its specified office at Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0LA to maintain the register of Noteholders and, when issued, PIBS holders at such specified office. It is intended that the Registrar will act as agent of the Society for the purposes of maintaining the register of Noteholders and, when issued, PIBS holders, accepting instructions for, and effecting, transfers of Notes and PIBS, issuing certificates in respect of Notes and PIBS certificates to new Noteholders and, following conversion, PIBS holders, receiving requests for the replacement of, and replacing, defaced, damaged, stolen, worn-out, lost or destroyed certificates in respect of Notes and PIBS certificates and making payments in respect of the Notes and, if issued, the PIBS as they fall due.

### **PIBS Certificates**

In the event that the New Rules are duly adopted, the Registrar will send a PIBS certificate to each registered holder of a PIBS (or to the first named or joint holders) by mail within one month of the conversion of the Notes into the PIBS and, thereafter, following a transfer, within 14 days of the lodgement of transfers, in each case at the risk of the person entitled thereto. No temporary documents of title will be issued.

### **Form of Transfer**

In the event that the New Rules are duly adopted, it is intended that 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 the New Rules.

### **Payment of Funds**

Payment for the Notes subscribed will be made by telegraphic transfer by the subscribers to the Arranger or Salomon Brothers who will arrange for funds to be transferred to the Society in accordance with the Placing Agreement.

**PRINCIPAL OFFICE OF THE SOCIETY**

**The Bailey,  
Skipton,  
North Yorkshire BD23 1DN**

**REGISTRAR**

**Northern Registrars Limited,  
Northern House,  
Woodsome Park,  
Fenay Bridge,  
Huddersfield HD8 0LA**

**TRUSTEE**

**Royal Exchange Trust Company Limited,  
One Aldgate,  
London EC3N 1RE**

**LEGAL ADVISERS**

*To the Society*  
**Slaughter and May,  
35 Basinghall Street,  
London EC2V 5DB**

*To the Arranger and to the Trustee*  
**Allen & Overy,  
9 Cheapside,  
London EC2V 6AD**

**AUDITORS**

**KPMG Peat Marwick,  
Peat House,  
1 Commercial Steet,  
Bradford,  
West Yorkshire BD1 4AS**

**SPONSOR FOR LISTING**

**Hoare Govett Corporate Finance Limited,  
4 Broadgate,  
London EC2M 7LE**