

CHESHIRE

BUILDING SOCIETY

(Incorporated in England under the Building Societies Act 1986)

£10,000,000

Floating Rate Permanent Interest Bearing Shares

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

It is anticipated that the PIBS will be issued on 28th March, 1994, and official dealings on the London Stock Exchange are expected to commence on 29th March, 1994. The listing of the PIBS will be expressed as a percentage of their principal amount (excluding accrued interest).

Issue Price: 100 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 13.

The PIBS cannot be withdrawn at the option of the PIBS holders and are repayable only in certain limited circumstances as described in "Special Conditions of Issue of the PIBS—Repayment".

Hoare Govett Corporate Finance Limited

The date of this Offering Circular is 21st March, 1994.

The Directors of the Society, whose names appear on page 21, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person is authorised to give any information or to make any representation not contained herein and any information or representation not contained herein must not be relied upon as having been authorised by the Society or Hoare Govett Corporate Finance Limited (the "Arranger"). 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.

This document comprises listing 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, its subsidiary (together the "Group") and the PIBS. Copies of this document have been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of the Financial Services Act 1986.

The PIBS have not been and will not be registered under the United States Securities Act of 1933 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 to subscribe for or purchase, any of the PIBS. The distribution of this document and the offering of the PIBS in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Society and the Arranger to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offering and sales of the PIBS and on distribution of this document, see "Subscription and Sale" below.

The information contained in this document is intended for sophisticated investors capable of understanding the nature of the PIBS and the risks attaching to them. Attention is drawn to certain risk factors set out on page 13.

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

In connection with the issue of the PIBS, the Arranger may over-allot or effect transactions which stabilise or maintain the market price of the PIBS at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

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

The rights and restrictions attaching to the PIBS will be governed by the Rules of the Society (the "Rules") and the special conditions of issue of the PIBS. Set out below is a summary of the key provisions of the Rules and certain provisions of the Act insofar as they affect the rights of PIBS holders. Terms defined in the Rules will, unless the context otherwise requires, have the same meanings when used in this summary.

1. General

The person whose name is entered in the records of the Society as a holder of PIBS is a Member of the Society. Each PIBS holder and any person claiming through him or on his account is bound by the Rules and by the provisions of the Society's Memorandum.

2. Register

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

The transfer of any PIBS shall also be recorded in the PIBS Register. There will be no charge made in respect of any entry in the PIBS Register. The PIBS Register shall be kept at the Principal Office of the Society or at such other place as the board of directors of the Society (the "Board") shall think fit.

The Society has appointed Lloyds Bank Registrars as its Registrar for the PIBS issue.

3. Title

Except as otherwise provided in the Rules, the Society shall be entitled to treat the registered holder of any PIBS 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 nor be held responsible for omitting or neglecting to recognise any such claim.

4. PIBS Certificate

Each PIBS holder shall be furnished, within one month of being entered on the PIBS Register, with a certificate issued under the common seal of the Society (a "PIBS Certificate").

5. Replacement of PIBS Certificates

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

Where a holder of PIBS has transferred part of his holding, such holder will be entitled to a PIBS Certificate for the balance without charge.

6. Transfers

A fully paid PIBS may be transferred to any person without the approval of the Board and shall be free from any lien in respect of liabilities to the Society. The transfer of a PIBS shall be registered without payment of any fee.

The transfer of a PIBS shall be effected in such form as is approved by the Board. No transfer shall be valid until registered in the PIBS Register.

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 at least one national daily newspaper.

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

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

7. Meetings

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

A Member of the Society who holds PIBS at the voting date will be entitled to vote on a resolution (whether special or ordinary) other than a Borrowing Members' Resolution if he was a Member of the Society at the end of the financial year before the voting date and if he was a holder of Shares with a principal amount of not less than £100 at:

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

and he had not ceased to hold Shares at any time between the time referred to in (i) or (ii) above (as applicable) and the voting date.

In the case of joint holdings, only the holder whose name appears first in the PIBS Register is entitled to vote. Each PIBS holder will have one vote at general meetings of the Society regardless of the principal amount of PIBS held by that holder. At a general meeting of the Society either the Chairman of the meeting or 10 Members who are entitled to vote at the meeting and are present in person, by proxy, by attorney, by representative or otherwise pursuant to the Rules may demand a poll.

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

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 amalgamation of the Society or a transfer of the Society's engagements) any surplus remaining after payment in full of the Society's creditors and repayment to Members of the amounts paid up on their Shares (together with interest due thereon) according to their priority under their respective terms and conditions of issue shall be distributed as follows:

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

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

9. Disputes and Legal Proceedings

Subject to the provisions of Section 1 of the Courts and Legal Services Act 1990, Section 85 and Schedule 14 of the Act provide that no court other than the High Court of Justice in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the Rules or the Act. Pursuant to Section 1 of the Courts and Legal Services Act 1990, the High Court and County Courts Jurisdiction Order 1991 No. 724 has been made which empowers the High Court to transfer cases over which it has jurisdiction to the County Court.

10. Unclaimed Interest

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

SPECIAL CONDITIONS OF ISSUE OF THE PIBS

The following are the special conditions of the 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 Cheshire Building Society.
- (2) "PIBS" means the Floating Rate 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) Terms defined in the Rules of the Society (the "Rules") will, unless the context otherwise requires, have the same meanings when used in these Conditions.
- (4) PIBS holders are bound by, and are deemed to have notice of, the Rules.
- (5) **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 deferred shares for the purposes of the Rules.
- (6) The expressions "Creditors" and "Relevant Supervisory Consent" shall have the meanings given thereto in Conditions 4(2) and 4(4) respectively.
- (7) Upon a transfer of a PIBS the Society will procure that the new PIBS holder is issued with a PIBS Certificate within one month 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. A transfer of a PIBS may be effected in any usual form or in any other form approved by the Board. The Board may decline to register a transfer of any PIBS to more than four persons jointly.

3. Interest

(1) (a) *Interest Payment Dates*

The PIBS bear interest from and including 28th March, 1994 (the "Issue Date"), and such interest will be payable in arrear on each date ("Interest Payment Date") which (save as mentioned below) falls six months after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Issue Date. If any Interest Payment Date would otherwise fall on a day which is not a Business Day (as defined below) it shall be postponed to the next day which is a Business Day unless it would then fall into the next calendar month in which event (a) the Interest Payment Date shall be brought forward to the immediately preceding Business Day and (b) after the foregoing (a) shall have been applied, each subsequent Interest Payment Date shall be the last Business Day of the sixth month after the month in which the preceding Interest Payment Date shall have fallen. The period from and including the Issue Date to but excluding the first Interest Payment Date and each successive period from and including an Interest Payment Date to but excluding the next succeeding Interest Payment Date is called an "Interest Period".

For the purposes of this Condition, the expression "Business Day" shall mean a day on which commercial banks and foreign exchange markets settle payments in London.

(b) *Rate of Interest*

The rate of interest payable from time to time in respect of the PIBS (the "Rate of Interest") will be determined on the basis of the following provisions:

- (i) on each "Interest Determination Date", namely on the first Business Day of the Interest Period for which the rate will apply, Bankers Trust Company or its duly appointed successor (the "Agent Bank") will determine the Screen Rate (as defined below) as at or about 11.00 a.m. (London time) on the Interest Determination Date in question. If the Screen Rate is unavailable, the Agent Bank will, after consultation with

the Society, request the principal London office of at least four of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks for six month sterling deposits in the London interbank market as at or about 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the Interest Period shall be the Screen Rate plus the Margin (as defined below) or, if the Screen Rate is unavailable, the arithmetic average (rounded upwards if necessary to the nearest $\frac{1}{8}$ per cent.) of the offered quotations as established by the Agent Bank (excluding the highest and lowest (or, in either case, of more than one, then one only of them) of the offered quotations provided by all the Reference Banks) plus the Margin;

- (ii) if on any Interest Determination Date the Screen Rate is unavailable and two or three only of the Reference Banks provide offered quotations, the Rate of Interest for the relevant Interest Period shall be determined in accordance with the provisions of sub-paragraph (i) on the basis of the offered quotations of those Reference Banks providing the offered quotations (but without excluding as provided above);
- (iii) if on any Interest Determination Date the Screen Rate is unavailable and one only or none of the Reference Banks provides an offered quotation, then the Rate of Interest for the relevant Interest Period shall be the Rate of Interest in effect for that Interest Period to which sub-paragraph (i) or (ii) shall have applied which last preceded the relevant Interest Period;
- (iv) the Margin (the "Margin") in relation to the PIBS is 2.40 per cent. per annum;
- (v) in this Condition, the expression "Screen Rate" means the rate for six month sterling deposits displayed on the Dow Jones/Telerate Monitor as Telerate Page No. 3750 (or such replacement page on that service which displays the information) or, if that service ceases to display the information, such other screen service as may be determined by the Society ("Telerate Page 3750");
- (vi) for the purpose of this Condition, the "Reference Banks" shall be the banks used for the purpose of displaying offered rates for six month sterling deposits in the London interbank market on Telerate Page 3750 when it was last available; and
- (vii) interest on the PIBS is non-cumulative as described below.

(c) *Determination of Rate of Interest and Interest Amount*

The Agent Bank shall, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, but in no event later than the second Business Day thereafter, determine the sterling amount payable in respect of interest on each PIBS (the "Interest Amount") for the relevant Interest Period. The Interest Amount shall be determined by applying the Rate of Interest to £1,000, multiplying the sum by the actual number of days in the Interest Period concerned divided by 365 or (in the case of an Interest Period ending in a leap year) 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards).

(d) *Notification of Rate of Interest and Interest Amount*

The Agent Bank shall cause notice of the Rate of Interest and the Interest Amount for each Interest Period and the relative Interest Payment Date to be given to the PIBS holders by advertisement in at least one leading daily newspaper with general circulation in London as soon as possible after their determination but in no event later than the third Business Day thereafter. It is expected that such notice will normally be published in *The Financial Times*. The Interest Amount and Interest Payment Date may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period.

(e) *Notifications, etc. to be final*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition, whether by the Reference Banks (or any of them) or the Agent Bank will (in the absence of wilful default, bad faith or manifest error) be binding on the Society, the Reference Banks, the Agent Bank and the PIBS holders and (in the absence as referred to above) no liability to the Society or the PIBS holders shall attach to the Reference Banks or the Agent Bank in connection with the exercise or non-exercise by them of their powers, duties and discretions under this Condition.

(f) *Agent Bank*

The Society will procure that so long as any of the PIBS remains outstanding there shall at all times be an Agent Bank for the purposes of the PIBS. Subject as set out above, the Society may terminate the appointment of the Agent Bank. In the event of the appointed office of any bank being unable or unwilling to continue to act as the Agent Bank or the Agent Bank failing duly to determine the Rate of Interest and the Interest Amount for any Interest Period, the Society shall appoint the London office of such other leading bank engaged in the London interbank market to act in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed.

- (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 (as defined in the Act) 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):

(i) where the Society has deferred or suspended any payment upon the shares or deposits referred to in (a) or (b) respectively above it shall be taken to have cancelled the payment for so long as the payment upon the shares or deposits referred to in (a) or (b) respectively above remains outstanding; and

(ii) a payment upon the shares or deposits referred to in (a) or (b) respectively above is to be taken to fall to be paid or credited in circumstances where it would have so fallen but for any provisions relating thereto entitling the Society to cancel, defer or suspend payment.

If, and to the extent that, the payment or crediting of interest is prohibited under this paragraph (2), interest in respect of the PIBS will be cancelled and 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 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 purchase by tender, tenders shall be made available to all PIBS holders alike. Any PIBS purchased by the Society may be held or resold or cancelled.

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 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 either by sterling cheque drawn on a bank or building society in the United Kingdom 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 Holder appearing in the records 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 records of the Society on the Record Date or to an agent authorised by the PIBS holder or all joint PIBS holders to receive payments on his or their behalf in accordance with the Rules. Upon application of the PIBS holder or the Representative Joint Holder to the Society, in the form from time to time prescribed by the Society, not less than 10 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 or building society in the United Kingdom.

6. Succession and Transfers

- (1) Upon an amalgamation by the Society with another building society under section 93 of and Schedule 16 to the Act or a transfer of its engagements to any extent to another building society under section 94 of and Schedule 16 to the Act, the PIBS shall be deferred shares in the amalgamated or transferee building society, as appropriate, without any alteration in their terms.

- (2) Upon a transfer by the Society of the whole of its business to a successor in accordance with section 97 of the Act, the successor will, in accordance with section 100(2)(a) of the Act, assume as from the vesting date a liability (subject to this paragraph (2)) to every qualifying member of the Society as in respect of a deposit made with the successor corresponding in amount to the value of the qualifying shares held by the Member in the Society.

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

- (a) treated as capital designated perpetual subordinated debt (as referred to in the Bank of England Notice to institutions authorised under the Banking Act 1987 BSD/1990/2 of December 1990 as replaced, amended or supplemented from time to time) or its equivalent

as determined by the auditors of the Society for the purposes of capital adequacy regulations made from time to time by the Bank of England; and

- (b) 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 Society's Principal Office and, subject as provided above, will be determined by the Board in its absolute discretion.

- (3) The Society undertakes to procure that any amalgamation or transfer referred to in paragraph (1) or (2) above will comply with the 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 provision 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 PIBS Register 35 days prior to the date specified for the meeting by sending it by post to the registered address of the PIBS holder or the representative joint holder. The notice shall state generally the nature of the business to be transacted at the meeting and the terms of any resolution to be proposed to alter these Conditions.
- (3) Any person (who may but need not be a PIBS holder) nominated in writing by the Society shall be entitled to take the chair at every meeting but if no nomination is made or if at any meeting the person nominated shall not be present within 15 minutes after the time appointed for holding the meeting the PIBS holders present shall choose one of their number to be chairman.
- (4) At any meeting one or more persons present in person or by proxy and holding or representing in aggregate not less than one-third of the principal amount of the PIBS for the time being outstanding shall form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum 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 the lack of the required quorum) have been transacted at the meeting from which the adjournment took place.
- (9) Any director or officer of the Society and its professional advisers may attend and speak at any meeting. 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 a PIBS holder or the representative joint holder or is a proxy thereof.
- (10) Subject as provided in paragraph (9), at any meeting every person who is present shall have one vote in respect of each £1,000 in principal amount of the PIBS so held or in respect of which he is a proxy.

Any person entitled to more than one vote need not use all his votes or cast all the votes to which he is entitled in the same way.
- (11) A PIBS holder may by an instrument in writing in the form from time to time obtainable from the Society (a "form of proxy") signed by the PIBS holder, or, in the case of a corporation, executed under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation, appoint any person (a "proxy") to act on his or its behalf in connection with any meeting or adjourned meeting 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 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 justifying the passing of the resolution. Notice of any resolution duly passed by the PIBS holders shall be given in writing to each PIBS holder or the representative joint holder by the Society within 14 days of the passing of the resolution, provided that the non-publication of the notice shall not invalidate the resolution.
- (14) Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Society and any minutes purporting to be signed by the chairman of the meeting at which 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.

USE OF PROCEEDS

The net proceeds of the issue of the PIBS are estimated to amount to £9,860,000 and will be applied for the purposes of the Society.

RISK FACTORS

Investors should be aware 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 PIBS is not repayable and the PIBS are not withdrawable and accordingly the only way that the PIBS may be realised is by a sale at such price and on such terms as may from time to time be available in the market (which may mean that the investor does not recoup his investment) which may be subject to usual brokers' commissions;
- (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) the PIBS are not protected investments for the purposes of payments out of the Building Societies Investor Protection Fund;
- (d) 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); and
- (e) if the Society does not make an interest payment in respect of PIBS in accordance with paragraph (d) above such interest will be cancelled.

CERTAIN PROVISIONS OF THE ACT

Amalgamation

Section 93 of the Act permits a building society to amalgamate with one or more building societies by establishing a building society as their successor. Amalgamation requires approval by 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 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 proceeding 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 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 obligor under 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 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", for which purposes the expression "shareholders" includes PIBS holders.

CHESHIRE BUILDING SOCIETY

History and Description of the Society

The Cheshire Building Society was founded in 1870. It was incorporated under the Building Societies Act 1874 as the Cheshire Permanent Benefit Building Society. After a merger in 1969 with the Northwich Building Society, the Society changed its name to the Cheshire and Northwich Building Society reverting to the Cheshire Building Society in 1976. During the 1970s and early 1980s the Society successfully concluded many transfers of engagements of other locally based building societies and established a regional branch network. It now has 58 branches all within a radius of 75 miles of its principal office based in Macclesfield, Cheshire. From 14 of these branches the Society also operates an estate agency business through its wholly owned subsidiary "Cheshire Property Services Ltd".

At 31st December, 1992 the Group had assets of £1,236 million and was ranked the 22nd largest building society in terms of consolidated assets. The Society's ranking at that time amongst the largest 26 building societies by asset size on the basis of a number of important criteria was as follows:—

Criteria	Ranking
Return on mean reserves	2
Return on mean assets	2
Provisions against commercial assets, charge for the year expressed as percentage of profit pre-provision (lowest equals highest ranking)	6
Cost/income ratio	2
Asset growth	7
Profit after tax	16
Free capital	15

Source: KPMG Building Societies Unit, Building Societies Database, 1993. All information in the Database has been extracted from published sources, being primarily the financial statements of building societies covering their last financial year ending on or before 31st January, 1993.

At 31st December, 1993, the Group had approximately 212,000 investors and 40,000 borrowers. Total assets at that date were £1,367 million, of which loans secured by mortgage were £1,128 million.

During the years 1993, 1992 and 1991, the average number of persons employed by the Group was 516, 507 and 490, respectively, and the Group achieved asset growth rates of 10.6 per cent., 12.3 per cent. and 21.6 per cent. in these years.

Form, Status and Ownership

The Society is incorporated under the Act for an unlimited duration. It operates in accordance with the Act, regulations made thereunder and the 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 103B. 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 vote (subject to certain conditions). It is therefore 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 investing member's vote in the Society.

Business of the Society

(a) Objectives

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

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

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

(b) Mortgage Lending Business

The core lending business of the Society is the granting of advances to individuals to finance the purchase of freehold and leasehold residential property on the security of a first mortgage on the property. At 31st December, 1993 the Society had outstanding mortgage advances secured on residential property of £1,056 million and outstanding mortgage advances secured on commercial property of £72 million of which £39 million was to registered housing associations.

Processing of all mortgage applications is subject to quality assurance procedures to ensure that all applications satisfy the policy parameters laid down by the Board and that the quality of administration is of a high standard. Class 1 applications for mortgage loans (advances secured on residential property) may be submitted to any one of the Society's branches or directly to the Society's principal office. In each case the Society follows a strict procedure prior to making an offer of an advance. On receipt of an application, an inspection and valuation of the property is made by one of the Society's own qualified valuers or by one of a panel of independent qualified valuers. Subject to the valuer's report and various other factors including the income of the applicant, the Society may make an offer of an advance. Where an advance exceeds 70/75 per cent. (dependent on the type and price of the property) of the lower of the valuation and cost of a property, the Society will obtain additional protection, normally through the use of a mortgage indemnity policy.

The Society has arrangements with its principal insurer for mortgage indemnity cover for new residential mortgages under which the Society will be able to recover the lesser of 80 per cent. of any resulting loss or 80 per cent. of the amount of the indemnity.

All applications for Class 2 Business (advances secured on land other than residential property) are submitted to the Commercial Lending Department. The Society is selective as to the types of property it will accept; as with mortgages on Class 1 security, each application must satisfy the laid down lending criteria both with regard to status and adequacy of security being offered.

The Society has specialised documentation and legal forms for commercial lending and insists that both specialist solicitors and surveyors are used where a mortgage on any Class 2 security is being considered. Ongoing financial monitoring of all Class 2 loans is undertaken by the Finance Department. It is the Board's present policy not to engage the Society in unsecured lending other than by way of helping a small number of borrowers wishing to move house whose existing property has negative equity.

In common with other UK building societies, the Society is subject to statutory limitations on diversification of its lending activities. At present a maximum of 25 per cent. of the Society's total commercial assets can be invested in Class 2 assets and Class 3 assets (commercial assets other than advances secured on land). Currently Class 2 and 3 assets account for 6.4 per cent. of total commercial assets.

In the year ended 31st December, 1993 the Society's new mortgage advances totalled £206 million compared to £198 million and £234 million in 1992 and 1991, respectively. Class 2 lending included in the above figures was £33.7 million, £20 million and £17.4 million for 1993, 1992 and 1991 respectively.

Bad Debt and Loan Loss Experience on Mortgage Lending

The great majority of the Society's mortgage lending relates to residential properties in the north west of England, where falls in property prices have generally been lower than those which have occurred in many other areas of Great Britain.

For arrears cases 6 months or more in arrears, the Society is below the industry averages as published by the Council of Mortgage Lenders for both 1992 and 1993 and is substantially below the average in respect of repossessed properties for those years. As at 31st December, 1993 the Society had mortgage accounts totalling £1,109,193 which were 12 or more months in arrears. This represented 0.1 per cent. of the mortgage balances at 31st December, 1993.

At 31st December, 1993, the Society and its subsidiaries held provisions of £6.88 million against capital and interest; of this total, £4.48 million related to residential mortgage loans and £2.40 million to Class 2 lending.

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 letters to the Chief Executives of all authorised building societies, issued by the Building Societies Commission.

(c) *Other Business*

Other areas of business which link to the Society's core business include:

Estate Agency

The Society provides an estate agency service through its wholly owned subsidiary company, Cheshire Property Services Limited. The business was launched in November 1989 from a "cold start" by establishing three branches, one within its principal office building in Macclesfield and the other two within its existing Bollington and Buxton offices, thus building on the Society's customer base and reputation in its heartland.

Cheshire Property Services Limited's subsequent expansion to 14 offices has been organic through establishing the estate agency as an additional service within its existing branch office network. This ensures full utilisation of existing resources. The Board is confident that the operation will play an important part in future strategy.

Life Assurance

When appropriate, the Society offers relevant life assurance products to its customers in its capacity as an appointed representative of General Accident Life. Mortgage related products are sold by authorised employees through the Society's branches; in addition the Society employs a small team of specialist financial advisers.

Unsecured Personal Loans

The Society arranges unsecured personal loans through its branch network. These loans are provided by Mercantile Credit. The Society takes no credit risk on this activity, but receives a commission based on the volume of business arranged.

Foreign Exchange and Travellers' Cheques

The Society acts as an agent for American Express Europe Limited offering foreign exchange and travellers' cheque issuance facilities to its customers. This activity is a source of commission earnings and has no credit or balance sheet implications for the Society.

General Insurance

All general insurance commission emanates from the Society's role as a mortgage lender.

(d) *Sources of Income*

The principal source of income for the Group is interest earned on mortgage advances. In the year ended 31st December, 1993, this income totalled £86 million. In addition in that year income from the liquid assets of the Group was £14.5 million and income from fees, insurance commissions, rent and other sources was £6.6 million.

(e) *Funding Activities*

Savings from the personal sector are the primary source of funds for building societies. However, the Society has raised substantial funds from the wholesale money markets, principally in the form of time deposits, bank loans and certificates of deposit.

The breakdown of wholesale and retail funding of the Society at 31st December, 1993 was as follows:

	£000
Credit institutions	50,720
Certificates of Deposit	62,732
Other Deposits	199,491
Wholesale Share Accounts	2,831
	<hr/>
	315,774
Retail Shares and Deposits	954,892
	<hr/>
	1,270,666
	<hr/> <hr/>

Chief Office and Branches

The Society is currently halfway through a branch refurbishment programme which is ongoing. Work commenced at the end of 1993 on an extension to the Chief Office building which will provide an extra 26,000 square feet of accommodation to provide for the anticipated growth of the Society. The work is scheduled to be completed by Spring 1995 and will cost around £3 million.

Current Trading

Retail savings flows for 1994 have started well. Whilst the mortgage market is still both fragile and competitive, the Society considers it has an attractive product portfolio.

The Society seeks to remain a strong, independent, regional building society, providing a comprehensive range of mortgage, investment and general financial service related products to enable it to compete effectively.

TOTAL CAPITALISATION

The following table is a summary of the Group's shareholders' funds and indebtedness as at 31st December, 1993 (audited) as adjusted to reflect the issue of the PIBS:

	£m
Shareholders' Funds	
Shares	848
PIBS (now being issued)	10
General reserve	79
Revaluation reserve	4
Total shareholders' funds	<u>941</u>
Indebtedness	
Amounts owed to credit institutions	50
Certificates of deposit	62
Other deposits	302
Accrued Interest	8
Total Indebtedness	<u>422</u>
Total Capitalisation	<u><u>1,363</u></u>

At the date of this Offering Circular there has (subject to the PIBS being issued) been no material change in the total capitalisation of the Group since 31st December, 1993.

BOARD OF DIRECTORS

The business of the Society is under the control of a Board of Directors who are elected and who serve in accordance with the Memorandum and the Rules. The Directors of the Society, their responsibilities within the Society and their principal outside directorships are as follows:

<i>Board of Directors</i>	<i>Responsibilities within the Society</i>	<i>Principal outside Directorships</i>
Derek Bradford Jennings Donald Barrett Mackay MA FCA David Stuart Hewitt FCA	Chairman (Non-executive) Vice-Chairman (Non-executive) Director (Non-executive)	Wrekin College, Wellington, Company Limited
John David Paul Hughes FCA	Director and Chief Executive	Macclesfield Museums Trust Limited
Thomas Warwick Marshall MA FRICS	Director (Non-executive)	Lambert Smith Hampton Group Limited Beech Hall School Trust Limited
Harry Ian Moore FCIB	Director – Sales/Development (Executive)	
Geoffrey William Richards ACIS FCIB	Director (Non-executive)	
John Alfred Stubbs MA	Director (Non-executive)	New Cheshire Salt Works Limited
David Miles Whatmuff FCIB	Director and Deputy Chief Executive/Secretary	East Cheshire Training Trust Limited

The business address for each of the above directors is the principal office of the Society.

FINANCIAL STATEMENTS

The Financial Statements set out on pages 22 to 39 and 44 to 55 and the Directors' Report set out on pages 40 to 42 have been extracted from the audited accounts of the Group for each of the three years ended 31st December, 1991, 1992 and 1993.

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31st December

	GROUP 1993	GROUP 1992	GROUP 1991	SOCIETY 1993	SOCIETY 1992	SOCIETY 1991
<i>Notes</i>	£000	£000	£000	£000	£000	£000
2 Interest receivable	100,455	122,720	124,795	100,455	122,720	124,795
3 Interest payable	72,176	95,056	102,353	72,176	95,056	102,353
Net interest receivable	28,279	27,664	22,442	28,279	27,664	22,442
4 Other income and charges	6,605	5,868	5,157	6,307	5,675	5,015
	34,884	33,532	27,599	34,586	33,339	27,457
5 Administrative expenses	12,887	11,887	11,051	12,413	11,460	10,630
Operating profit before provisions	21,997	21,645	16,548	22,173	21,879	16,827
10 Provisions for loans, advances and guarantees	3,914	4,283	1,954	3,914	4,283	1,954
Profit on ordinary activities before tax	18,083	17,362	14,594	18,259	17,596	14,873
8 Tax on profit on ordinary activities	6,000	5,744	4,594	6,051	5,817	4,702
18 Profit for the financial year	<u>12,083</u>	<u>11,618</u>	<u>10,000</u>	<u>12,208</u>	<u>11,779</u>	<u>10,171</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31st December

	GROUP 1993	GROUP 1992	SOCIETY 1993	SOCIETY 1992
	£000	£000	£000	£000
Profit for the financial year	12,083	11,618	12,208	11,779
Unrealised deficit on revaluation of properties	-	(2,007)	-	(2,007)
Write back on disposals during the year	-	(79)	-	(79)
Total recognised gains and losses relating to the year	<u>12,083</u>	<u>9,532</u>	<u>12,208</u>	<u>9,693</u>

BALANCE SHEET

As at 31st December

<i>Notes</i>	GROUP 1993	GROUP 1992	GROUP 1991	SOCIETY 1993	SOCIETY 1992	SOCIETY 1991
	£000	£000	£000	£000	£000	£000
ASSETS						
9 Liquid assets	224,306	199,410	180,326	224,306	199,410	180,326
10 Commercial assets						
Advances secured on residential property	1,055,880	976,829	874,106	1,055,880	976,829	874,106
Other advances secured on land	72,346	46,028	31,337	72,346	46,028	31,337
Other commercial assets	8	—	—	1,051	866	705
	1,128,234	1,022,857	905,443	1,129,277	1,023,723	906,148
11 Tangible fixed assets	12,596	11,820	13,989	12,358	11,541	13,722
Other assets	994	1,419	1,349	833	1,363	1,288
12 Prepayments and accrued income	1,042	985	—	1,042	983	—
Total assets	1,367,172	1,236,491	1,101,107	1,367,816	1,237,020	1,101,484
LIABILITIES						
Shares and deposits						
13 Retail	954,892	890,898	808,627	954,892	890,898	808,627
14 Non-retail	315,774	258,166	214,328	315,774	258,166	214,328
	1,270,666	1,149,064	1,022,955	1,270,666	1,149,064	1,022,955
15 Other liabilities	12,730	15,762	16,607	12,703	15,750	16,599
Accruals and deferred income	500	433	—	500	428	—
16 Provision for liabilities and charges	439	478	323	439	478	323
	1,284,335	1,165,737	1,039,885	1,284,308	1,165,720	1,039,877
17 Revaluation reserve	3,928	3,928	6,014	3,928	3,928	6,014
18 General reserve	78,909	66,826	55,208	79,580	67,372	55,593
Total liabilities	1,367,172	1,236,491	1,101,107	1,367,816	1,237,020	1,101,484

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended 31st December

	GROUP 1993	GROUP 1992	GROUP 1991
	£000	£000	£000
Source of Funds			
Increase in free capital	11,307	11,701	10,322
Advances and loans repaid by borrowers (including increases in specific provisions)	100,716	80,397	79,888
Net receipts from retail funds and deposits	63,994	82,271	119,784
Net receipts from non-retail funds and deposits	57,608	43,838	66,839
Decrease in other assets	368	—	—
Total source of funds	233,993	218,207	276,833
Application of Funds			
Advances and loans made to borrowers	206,093	197,811	234,173
Increase in liquid assets	24,896	19,084	41,262
Increase in other assets	—	1,055	459
Decrease in other liabilities	3,004	257	939
Total application of funds	233,993	218,207	276,833
Increase in Free Capital			
Source of funds			
Profit on ordinary activities after tax	12,083	11,618	10,000
Adjustment for items not involving the movement of funds:			
Depreciation	991	910	862
(Profit)/Loss on disposal of fixed assets	(1)	(20)	85
Funds generated from operations	13,073	12,508	10,947
Funds from other sources			
Disposal of fixed assets	145	223	381
Application of funds			
Purchase of fixed assets	(1,911)	(1,030)	(1,006)
Increase in free capital	11,307	11,701	10,322

NOTES TO THE ACCOUNTS

For the year ended 31st December, 1993

1 Accounting Policies

Accounting Convention

The accounts are drawn up under the historical cost convention as modified by the revaluation of certain freehold and long leasehold land and buildings, and in accordance with the applicable accounting standards.

Basis of Consolidation

The consolidated income and expenditure account and balance sheet incorporate the accounts of the Society and its trading subsidiary company Cheshire Property Services Limited. Uniform accounting policies are used throughout the Group.

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 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, in the opinion of the Directors, it is likely that such taxation will become payable in the foreseeable future.

Fixed Assets and Depreciation

Freehold and long leasehold land and buildings are included at valuation and are to be revalued on a three year cycle. Depreciation is not provided on these assets as, in the opinion of the Directors, this would be negligible.

Short leasehold premises having an unexpired life of fifty years or less are written off over the period of the lease.

Fixtures and fittings and vehicles are written off from the date of commission, in equal instalments, over their estimated useful lives as follows:

Office furniture and fittings	10-20 years
Office and computer equipment	5 years
Vehicles	4 years

Operating and Finance Leases

Rentals under operating leases are charged against profits in the year in which the expenditure is incurred.

Where the Society enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a fixed asset and is depreciated over the shorter of its estimated useful life and the lease term. Future instalments under such leases, net of finance charges, are included in other liabilities. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element, which reduces the outstanding obligation for future instalments.

Liquid Assets

Debt securities are classified as financial fixed assets and for balance sheet purposes are stated at cost plus accrued interest. Premiums and discounts arising on the purchase of financial fixed assets are amortised over the period to the maturity date of the security. Any amounts so amortised are charged/credited to the income and expenditure account for the relevant financial year.

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

Provision for Losses on Commercial Assets

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

Throughout the year and at the year end, individual assessments are made of all advances and loans on properties which are in possession or in arrears in excess of 1.2 per cent. of the mortgage balance. Specific provision is made against those advances and loans which are considered to be impaired. In considering the specific provision for impaired loans, account is taken of any discount which may be needed against the value of the property at the balance sheet date to agree a sale within three months of that date, the amount recoverable under mortgage indemnity policies and anticipated realisation costs. The Directors recognise that not all accounts in arrears will result in possession and apply a factor based on recent experience to reflect this probability when calculating the provision for accounts in arrears.

Interest in respect of all loans is credited to the income and expenditure account as it becomes receivable. Irrecoverable interest on repossessed properties is written off against interest receivable.

Commercial assets in the balance sheet are shown net of all provisions. The charge to income and expenditure account comprises the increase in provisions together with the capital losses written off in the year.

Pensions

The pension costs relating to the defined benefit scheme were assessed in accordance with the advice of a qualified actuary using the projected unit method. Actuarial surpluses and deficiencies are recognised over the expected average remaining service lives of the employees.

The pension costs relating to the defined contribution scheme represent the contributions payable by the Society.

2 Interest Receivable

	<u>GROUP 1993</u>	<u>GROUP 1992</u>	<u>SOCIETY 1993</u>	<u>SOCIETY 1992</u>
	£000	£000	£000	£000
On secured advances	85,960	103,526	85,960	103,526
On debt securities:				
Interest and other				
income	12,166	17,195	12,166	17,195
Profits net of losses	784	208	784	208
On other liquid assets	1,545	1,791	1,545	1,791
	<u>100,455</u>	<u>122,720</u>	<u>100,455</u>	<u>122,720</u>

Interest on secured advances is stated after deducting £987,000 in respect of interest suspended on impaired loans. Movements in the suspended interest account during the year were:

	<u>GROUP & SOCIETY 1993</u>
	£000
At 1st January, 1993	307
Interest written off during the year	(1,029)
Interest suspended during the year	987
At 31st December, 1993	<u>265</u>

3 Interest Payable

	<u>GROUP 1993</u>	<u>GROUP 1992</u>	<u>SOCIETY 1993</u>	<u>SOCIETY 1992</u>
	£000	£000	£000	£000
On retail funds and deposits	52,858	70,988	52,858	70,988
On non-retail funds and				
deposits	19,318	24,068	19,318	24,068
	<u>72,176</u>	<u>95,056</u>	<u>72,176</u>	<u>95,056</u>

4 Other Income and Charges

	<u>GROUP 1993</u>	<u>GROUP 1992</u>	<u>SOCIETY 1993</u>	<u>SOCIETY 1992</u>
	£000	£000	£000	£000
Fees and commissions receivable	4,591	4,124	4,299	3,935
Other operating income	<u>2,014</u>	<u>1,744</u>	<u>2,008</u>	<u>1,740</u>
	<u>6,605</u>	<u>5,868</u>	<u>6,307</u>	<u>5,675</u>

5 Administrative Expenses

	<u>GROUP 1993</u>	<u>GROUP 1992</u>	<u>SOCIETY 1993</u>	<u>SOCIETY 1992</u>
	£000	£000	£000	£000
Staff costs (note 6)	7,415	6,930	6,869	6,437
Depreciation	991	910	915	842
Remuneration of auditors	55	53	53	51
Finance charge on leases	24	34	24	34
Other expenses	<u>4,402</u>	<u>3,960</u>	<u>4,552</u>	<u>4,096</u>
	<u>12,887</u>	<u>11,887</u>	<u>12,413</u>	<u>11,460</u>

6 Staff Numbers and Costs

The average number of persons (including executive directors) employed during the year were as follows:

	<u>GROUP 1993</u>		<u>GROUP 1992</u>		<u>SOCIETY 1993</u>		<u>SOCIETY 1992</u>	
	Full Time	Part Time	Full Time	Part Time	Full Time	Part Time	Full Time	Part Time
Chief Office	179	37	171	32	179	37	171	32
Branches	<u>161</u>	<u>139</u>	<u>166</u>	<u>138</u>	<u>136</u>	<u>121</u>	<u>141</u>	<u>121</u>
	<u>340</u>	<u>176</u>	<u>337</u>	<u>170</u>	<u>315</u>	<u>158</u>	<u>312</u>	<u>153</u>

The aggregate costs of these persons were as follows:

	<u>GROUP 1993</u>	<u>GROUP 1992</u>	<u>SOCIETY 1993</u>	<u>SOCIETY 1992</u>
	£000	£000	£000	£000
Wages and salaries	6,084	5,655	5,612	5,229
Social security costs	426	423	391	394
Pension contributions (note 20)	639	634	601	602
Other staff expenses	<u>266</u>	<u>218</u>	<u>265</u>	<u>212</u>
	<u>7,415</u>	<u>6,930</u>	<u>6,869</u>	<u>6,437</u>

7 Directors' Emoluments and Transactions

	<u>GROUP 1993</u>	<u>GROUP 1992</u>
	£	£
a) Directors' Emoluments		
Services as directors	119,271	110,444
Services in connection with the management of the group	<u>261,140</u>	<u>230,128</u>
	380,411	340,572
Pension to former directors or their widows	<u>3,818</u>	<u>3,706</u>
	<u>384,229</u>	<u>344,278</u>

Excluding pension contributions, the emoluments of the directors were as follows:

Chairman	24,772	21,924
Highest paid full time director	<u>102,236</u>	<u>88,677</u>

	1993	1992
The numbers of the directors whose emoluments (excluding pension contributions) fell within the following ranges were:		
£5,001- £10,000	2	—
£10,001- £15,000	—	4
£15,001- £20,000	4	1
£20,001- £25,000	1	1
£60,001- £65,000	—	1
£65,001- £70,000	—	1
£70,001- £75,000	1	—
£75,001- £80,000	1	—
£85,001- £90,000	—	1
£100,001-£105,000	1	—

There were no directors' emoluments in respect of Cheshire Property Services Limited.

b) Directors' Loans and Transactions

At 31st December, 1993 there were outstanding mortgage loans granted in the ordinary course of business to eleven directors and connected persons (1992 twelve), amounting in aggregate to £514,915 (1992—£544,009).

A register is maintained at the chief office of the Society, under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with directors and their connected persons. A statement of the appropriate details contained in the register, for the financial year ended 31st December, 1993, will be available for inspection at the Society's Annual General Meeting or at the chief office of the Society for a period of 15 days prior to the Annual General Meeting.

8 Taxation

	GROUP 1993	GROUP 1992	SOCIETY 1993	SOCIETY 1992
	£000	£000	£000	£000
UK corporation tax at 33% (1992: 33%)				
Current	6,039	5,583	6,090	5,662
Deferred tax	(39)	155	(39)	155
Under provision in previous year	—	6	—	—
	<u>6,000</u>	<u>5,744</u>	<u>6,051</u>	<u>5,817</u>

9 Liquid Assets

	GROUP 1993	GROUP 1992	SOCIETY 1993	SOCIETY 1992
	£000	£000	£000	£000
(a)Liquid assets comprise:				
Cash in hand and balances with the Bank of England . . .	6,027	(949)	6,027	(949)
Loans and advances to credit institutions	40,260	68,906	40,260	68,906
Debt securities				
Issued by public bodies . . .	15,899	8,695	15,899	8,695
Issued by other borrowers . .	137,059	103,550	137,059	103,550
Local authorities	25,061	19,208	25,061	19,208
	<u>224,306</u>	<u>199,410</u>	<u>224,306</u>	<u>199,410</u>

(b) Repayable from the date of the balance sheet in the ordinary course of business as follows:	GROUP 1993	GROUP 1992	SOCIETY 1993	SOCIETY 1992
Loans and advances to credit institutions	£000	£000	£000	£000
Accrued interest	260	406	260	406
In not more than three months	32,000	52,500	32,000	52,500
In more than three months but not more than one year	6,000	6,000	6,000	6,000
In more than one year but not more than five years	2,000	10,000	2,000	10,000
	<u>40,260</u>	<u>68,906</u>	<u>40,260</u>	<u>68,906</u>
Debt securities				
Accrued interest	3,684	3,423	3,684	3,423
In not more than three months	58,549	49,794	58,549	49,794
In more than three months but not more than one year	75,131	50,614	75,131	50,614
In more than one year but not more than five years	7,682	8,414	7,682	8,414
In more than five years	7,912	—	7,912	—
	<u>152,958</u>	<u>112,245</u>	<u>152,958</u>	<u>112,245</u>
Analysis of debt securities				
Transferable securities				
Listed on a recognised investment exchange	15,899	8,695	15,899	8,695
Unlisted	137,059	103,550	137,059	103,550
	<u>152,958</u>	<u>112,245</u>	<u>152,958</u>	<u>112,245</u>
Market value of listed debt securities	<u>15,930</u>	<u>9,064</u>	<u>15,930</u>	<u>9,064</u>

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

Movements during the year of transferable securities, excluding accrued interest, held as financial fixed assets are analysed as follows:

	GROUP & SOCIETY 1993
	£000
At 1st January 1993	108,822
Additions	348,108
Disposals	<u>(307,656)</u>
Net book value at 31st December 1993	<u>149,274</u>

10 Commercial Assets

Maturity analysis

Advances secured on residential property, other advances secured on land and unsecured loans and secured loans are repayable from the balance sheet date as follows:

	<u>GROUP 1993</u>	<u>GROUP 1992</u>	<u>SOCIETY 1993</u>	<u>SOCIETY 1992</u>
	£000	£000	£000	£000
Repayable on demand	604	1,167	1,647	2,033
In not more than three months	14,536	26,347	14,536	26,347
In more than three months but not more than one year . . .	7,608	11,153	7,608	11,153
In more than one year but no more than five years	47,463	68,483	47,463	68,483
In more than five years	<u>1,064,898</u>	<u>921,219</u>	<u>1,064,898</u>	<u>921,219</u>
	1,135,109	1,028,369	1,136,152	1,029,235
Less: provisions	<u>(6,875)</u>	<u>(5,512)</u>	<u>(6,875)</u>	<u>(5,512)</u>
	<u><u>1,128,234</u></u>	<u><u>1,022,857</u></u>	<u><u>1,129,277</u></u>	<u><u>1,023,723</u></u>

The provisions are for specific losses and comprise:

	GROUP AND SOCIETY		
	<i>Residential Property</i>	<i>Other advances</i>	<i>Total</i>
	£000	£000	£000
At 1st January, 1993			
specific provision	3,132	2,380	5,512
Amount written off during year			
specific provision	<u>(1,648)</u>	<u>(903)</u>	<u>(2,551)</u>
	1,484	1,477	2,961
Provision for bad and doubtful debts			
specific provision	3,162	1,194	4,356
Adjustments to provisions for bad and doubtful debts resulting from recoveries during the year			
specific provision	<u>(167)</u>	<u>(275)</u>	<u>(442)</u>
Income and expenditure account	<u>2,995</u>	<u>919</u>	<u>3,914</u>
At 31st December, 1993 specific provision	<u><u>4,479</u></u>	<u><u>2,396</u></u>	<u><u>6,875</u></u>

	<u>GROUP 1993</u>	<u>GROUP 1992</u>	<u>SOCIETY 1993</u>	<u>SOCIETY 1992</u>
	£000	£000	£000	£000
Other commercial assets				
Loans to subsidiary (see note 21)	—	—	1,043	866
Unsecured loans	<u>8</u>	<u>—</u>	<u>8</u>	<u>—</u>
	<u><u>8</u></u>	<u><u>—</u></u>	<u><u>1,051</u></u>	<u><u>866</u></u>

11 Tangible Fixed Assets

	<i>Land and Buildings</i>					<i>Total</i>
	<i>Freehold</i>	<i>Long leasehold</i>	<i>Short leasehold</i>	<i>Motor vehicles</i>	<i>Fixtures & fittings</i>	
	£000	£000	£000	£000	£000	
GROUP						
Cost or valuation						
At 1st January, 1993	8,624	542	430	804	5,207	15,607
Additions	619	—	67	411	814	1,911
Disposals	(1)	—	—	(340)	(2)	(343)
At 31st December, 1993	<u>9,242</u>	<u>542</u>	<u>497</u>	<u>875</u>	<u>6,019</u>	<u>17,175</u>
Depreciation						
At 1st January, 1993	—	—	164	291	3,332	3,787
Charged for the year	—	—	20	183	788	991
Released on disposal	—	—	—	(197)	(2)	(199)
At 31st December, 1993	<u>—</u>	<u>—</u>	<u>184</u>	<u>277</u>	<u>4,118</u>	<u>4,579</u>
Net Book Value						
At 31st December, 1993	<u>9,242</u>	<u>542</u>	<u>313</u>	<u>598</u>	<u>1,901</u>	<u>12,596</u>
At 31st December, 1992	<u>8,624</u>	<u>542</u>	<u>266</u>	<u>513</u>	<u>1,875</u>	<u>11,820</u>
SOCIETY						
Cost or valuation						
At 1st January, 1993	8,538	542	430	742	4,922	15,174
Additions	619	—	67	395	793	1,874
Disposals	(1)	—	—	(334)	(2)	(337)
At 31st December, 1993	<u>9,156</u>	<u>542</u>	<u>497</u>	<u>803</u>	<u>5,713</u>	<u>16,711</u>
Depreciation						
At 1st January, 1993	—	—	164	275	3,194	3,633
Charged for the year	—	—	20	166	729	915
Released on disposal	—	—	—	(193)	(2)	(195)
At 31st December, 1993	<u>—</u>	<u>—</u>	<u>184</u>	<u>248</u>	<u>3,921</u>	<u>4,353</u>
Net Book Value						
At 31st December, 1993	<u>9,156</u>	<u>542</u>	<u>313</u>	<u>555</u>	<u>1,792</u>	<u>12,358</u>
At 31st December, 1992	<u>8,538</u>	<u>542</u>	<u>266</u>	<u>467</u>	<u>1,728</u>	<u>11,541</u>

Office premises included in the schedule above as freehold and long leasehold land and buildings are analysed as follows:

	GROUP		SOCIETY		GROUP		SOCIETY	
	<i>Freehold</i>		<i>Long Leasehold</i>		<i>Land and Buildings</i>			
	£000	£000	£000	£000	£000	£000	£000	£000
Valuation in 1992	8,538	8,538	542	542	9,080	9,080	9,080	9,080
Cost	704	618	—	—	704	618	618	618
	<u>9,242</u>	<u>9,156</u>	<u>542</u>	<u>542</u>	<u>9,784</u>	<u>9,698</u>	<u>9,698</u>	<u>9,698</u>

The freehold and long leasehold office premises were valued as at 31st December, 1992 by Roberts and Roberts, Chartered Surveyors, on the basis of the open market value for existing use, with vacant possession of property currently occupied by the Society and its subsidiary but subject to other existing tenancies. In the opinion of the Directors there is no material difference between current market value and the valued amount.

The net book value of fixed assets of the Group and Society include an amount of £89,085 (1992 £363,728) in respect of assets held under finance leases. Depreciation for the year allocated to finance leases was £274,643 (1992—£272,206) for the Group and the Society.

The land and buildings which were the subject of revaluation would have been included at cost as follows:

	<u>GROUP 1993</u>	<u>GROUP 1992</u>	<u>SOCIETY 1993</u>	<u>SOCIETY 1992</u>
	£000	£000	£000	£000
Historic cost	5,533	5,142	5,533	5,142

Land and buildings occupied by the Group/Society for its own activities:

	<u>GROUP 1993</u>	<u>GROUP 1992</u>	<u>SOCIETY 1993</u>	<u>SOCIETY 1992</u>
	£000	£000	£000	£000
At 31st December	<u>7,274</u>	<u>6,795</u>	<u>6,770</u>	<u>6,321</u>

12 Prepayments and Accrued Income

Prepayments and accrued income contains an amount of £930,000 (1992—£885,000) relating to pension contributions.

13 Retail Funds and Deposits

	<u>GROUP 1993</u>	<u>GROUP 1992</u>	<u>SOCIETY 1993</u>	<u>SOCIETY 1992</u>
	£000	£000	£000	£000
(a) Retail funds and deposits comprise:				
Shares	845,266	823,329	845,266	823,329
Deposits	109,626	67,569	109,626	67,569
	<u>954,892</u>	<u>890,898</u>	<u>954,892</u>	<u>890,898</u>

(b) Repayable from the date of the balance sheet in the ordinary course of business as follows

Shares

Accrued interest.	76	85	76	85
On demand	254,377	269,248	254,377	269,248
In not more than three months	364,782	433,912	364,782	433,912
In more than three months but not more than one year.	150,522	82,341	150,522	82,341
In more than one year but not more than five years	75,509	37,743	75,509	37,743
	<u>845,266</u>	<u>823,329</u>	<u>845,266</u>	<u>823,329</u>

Deposits

Accrued interest.	2,821	2,064	2,821	2,064
On demand	8,235	9,257	8,235	9,257
In not more than three months	18,738	12,915	18,738	12,915
In more than three months but not more than one year.	74,447	43,333	74,447	43,333
In more than one year but not more than five years	5,385	—	5,385	—
	<u>109,626</u>	<u>67,569</u>	<u>109,626</u>	<u>67,569</u>

14 Non-Retail Funds and Deposits

	<u>GROUP 1993</u>	<u>GROUP 1992</u>	<u>SOCIETY 1993</u>	<u>SOCIETY 1992</u>
	£000	£000	£000	£000
Non retail funds and deposits comprise;				
Amounts owed to credit institutions	50,720	15,778	50,720	15,778
Debt securities in issue				
Certificates of deposit.	62,732	42,881	62,732	42,881
Commercial paper	—	5,942	—	5,942
Other deposits.	199,491	189,568	199,491	189,568
Shares.	2,831	3,997	2,831	3,997
	<u>315,774</u>	<u>258,166</u>	<u>315,774</u>	<u>258,166</u>

Repayable from the date of the balance sheet in the ordinary course of business as follows:

1993 GROUP AND SOCIETY	<i>Debt</i>				
	<i>Credit Institutions</i>	<i>Securities in issue</i>	<i>Other Deposits</i>	<i>Shares</i>	<i>Total</i>
	£000	£000	£000	£000	£000
Accrued interest	720	732	4,057	—	5,509
On demand.	—	—	—	2,831	2,831
In not more than three months	20,000	46,000	129,894	—	195,894
In more than three months but not more than one year	—	11,000	58,500	—	69,500
In more than one year but not more than five years.	30,000	5,000	7,040	—	42,040
	<u>50,720</u>	<u>62,732</u>	<u>199,491</u>	<u>2,831</u>	<u>315,774</u>

1992 GROUP AND SOCIETY	<i>Debt</i>				
	<i>Credit Institutions</i>	<i>Securities in issue</i>	<i>Other Deposits</i>	<i>Shares</i>	<i>Total</i>
	£000	£000	£000	£000	£000
Accrued interest	378	936	5,191	—	6,505
On demand.	—	—	—	3,997	3,997
In not more than three months	5,000	35,887	114,320	—	155,207
In more than three months but not more than one year	10,400	12,000	68,049	—	90,449
In more than one year but not more than five years.	—	—	2,008	—	2,008
	<u>15,778</u>	<u>48,823</u>	<u>189,568</u>	<u>3,997</u>	<u>258,166</u>

15 Other Liabilities

	<u>GROUP 1993</u>	<u>GROUP 1992</u>	<u>SOCIETY 1993</u>	<u>SOCIETY 1992</u>
	£000	£000	£000	£000
Amounts due within one year:				
Corporation tax	6,264	5,504	6,264	5,504
Income tax	5,045	8,886	5,045	8,886
Other taxes and social security . . .	148	135	148	135
Obligations under finance leases .	20	328	20	328
Other creditors	1,253	891	1,226	879
Amounts falling due after more than one year:				
Obligations under finance leases				
From two to five years	—	18	—	18
	<u>12,730</u>	<u>15,762</u>	<u>12,703</u>	<u>15,750</u>

16 Provisions for Liabilities and Charges

	<u>GROUP 1993</u>	<u>GROUP 1992</u>	<u>SOCIETY 1993</u>	<u>SOCIETY 1992</u>
	£000	£000	£000	£000
Deferred taxation				
At 1st January	478	323	478	323
Amount provided/(released) during year	(39)	155	(39)	155
At 31st December	<u>439</u>	<u>478</u>	<u>439</u>	<u>478</u>
The amounts are provided in full on all timing differences at 33% as set out below				
Accrued interest and amortisation of investments	174	163	174	163
Fixed assets	44	16	44	16
Other timing differences	221	299	221	299
	<u>439</u>	<u>478</u>	<u>439</u>	<u>478</u>

17 Revaluation Reserve

	<u>GROUP 1993</u>	<u>GROUP 1992</u>	<u>SOCIETY 1993</u>	<u>SOCIETY 1992</u>
	£000	£000	£000	£000
At 1st January	3,928	6,014	3,928	6,014
Revaluation during the year	—	(2,007)	—	(2,007)
Written back on disposals during the year	—	(79)	—	(79)
At 31st December	<u>3,928</u>	<u>3,928</u>	<u>3,928</u>	<u>3,928</u>

18 General Reserve

	<u>GROUP 1993</u>	<u>GROUP 1992</u>	<u>SOCIETY 1993</u>	<u>SOCIETY 1992</u>
	£000	£000	£000	£000
At 1st January	66,826	55,208	67,372	55,593
Profit for the financial year	12,083	11,618	12,208	11,779
At 31st December	<u>78,909</u>	<u>66,826</u>	<u>79,580</u>	<u>67,372</u>

19 Financial Commitments

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.

Capital Commitments

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

	<u>GROUP 1993</u>	<u>GROUP 1992</u>	<u>SOCIETY 1993</u>	<u>SOCIETY 1992</u>
	£000	£000	£000	£000
Contracted but not provided for	<u>3,131</u>	<u>126</u>	<u>3,131</u>	<u>126</u>
Authorised but not contracted for	<u>596</u>	<u>3,255</u>	<u>596</u>	<u>3,255</u>

Commitment For Operating Leases

The Group and Society has commitments under non-cancellable operating leases as follows:

	<i>1993</i>		<i>1992</i>	
	<i>Land and Buildings</i>	<i>Other</i>	<i>Land and Buildings</i>	<i>Other</i>
	£000	£000	£000	£000
Expiring:				
Within one year	—	295	12	—
From two to five years	—	1,174	—	—
More than five years	<u>253</u>	<u>—</u>	<u>223</u>	<u>—</u>
	<u>253</u>	<u>1,469</u>	<u>235</u>	<u>—</u>

20 Pensions

The Society operates two schemes, a defined benefit scheme and a defined contribution scheme, and includes employees at Cheshire Property Services Limited.

Defined Benefit Scheme

This is the main scheme operated by the Society for the Group.

The scheme is fully funded and its assets are held in a separate trustee administered fund. The contribution rate is determined by a qualified actuary on the basis of triennial valuations using the projected unit method and pension costs are charged to the profit and loss account so as to spread the cost of pensions over employees working lives. The level of contribution for the employer is 19.2 per cent. of pensionable earnings less members' contributions. Members contributions are 5 per cent. for those who joined after 31st December, 1980 and 4 per cent. for those who joined before.

The most recent valuation was at 1st January, 1992. The principal assumptions applied in the valuation calculation are that investments will yield a return of 9.5 per cent. per annum, general salary increases will be 7.5 per cent. per annum, and pensions both present and future will rise by 5 per cent. per annum. At the date of the latest actuarial valuation the market value of the scheme's assets was £4.8m. After having made an additional one off payment in 1992 the actuarial value of the assets represented 101 per cent. of the benefits that had accrued to members, after allowing for future increases in earnings.

The pension charge for the Group for the period was £605,000 (1992—£628,000)

Defined Contribution Scheme

The pension costs relating to the scheme represent the contribution payable by the Society and amounted to £24,000 (1992—£19,000)

21 Investments in Subsidiary

The Society directly holds 100 £1 ordinary shares in Cheshire Property Services Limited, a wholly owned subsidiary registered in England. Cheshire Property Services Limited, is principally engaged in the provision of estate agency services in the United Kingdom. The company commenced trading in 1989.

Under section 22 of the Building Societies Act 1986, the Society is under an obligation to discharge the liabilities of Cheshire Property Services Limited if that company is unable to discharge them itself.

ANNUAL BUSINESS STATEMENT

For the year ended 31st December, 1993

1. Statutory Ratios and Percentages

	%	<i>Statutory Limit</i>
As a percentage of shares and deposits:		
Non retail funds and deposits	24.58	40
Deposits	33.04	50
As a percentage of total commercial assets:		
Advances secured on residential property (class 1 assets)	93.50	n/a
Advances secured on land other than residential property (class 2 assets)	6.41	n/a
Commercial assets, other than advances secured on land (class 3 assets)	0.09	15
Commercial assets, other than advances secured on residential property (class 2 and 3 assets)	6.50	25

Explanation

The ratios for non-retail funds and for deposits have been calculated from the appropriate items in the Group Balance Sheet, excluding in all cases accrued interest.

Commercial assets as used in the commercial asset ratios have been taken from the appropriate items in the Group Balance Sheet subject to adjustment in accordance with SI 1993 No. 2833: the Building Societies (Aggregation) Rules 1993.

The Statutory Limits are prescribed by Building Societies Act 1986, as adjusted by subsequent Statutory Instruments.

2. Other Percentages

	<i>31st December</i>	
	<i>1993</i>	<i>1992</i>
	%	%
Gross capital as a percentage of share and deposit liabilities	6.52	6.16
Free capital as a percentage of share and deposit liabilities	5.53	5.13
Liquid assets as a percentage of total assets	16.41	16.13
Profit after taxation as a percentage of:		
(i) mean reserves	16.58	19.04
(ii) mean total assets	0.93	0.99

Explanation

The above percentages have been calculated from the Group Balance Sheet.

Gross capital represents the general reserve plus revaluation reserve. Free capital is the gross capital less tangible fixed assets.

Shares and deposits represent the total of retail and non-retail funds and deposits excluding accrued interest.

Liquid assets and total assets are as detailed in the balance sheet.

Mean reserves is the average of the 1993 and 1992 general reserve.

Mean total assets is the average of the 1993 and 1992 total assets.

3. Information Relating to the Directors and Executives

Directors

<i>Name</i>	<i>Occupation</i>	<i>Date of appointment as a director</i>	<i>Other directorships</i>
Derek B. Jennings (22.5.29)	Retired Company Director	20.6.63	Cheshire Property Services Ltd., Cheshire Estate Agents Ltd., Cheshire Insurance Services Ltd., Cheshire Housing Developments Ltd., Cheshire Building Society Financial Services Ltd., Cheshire Management Services Ltd.
Donald B. Mackay, MA, FCA (5.3.35)	Retired Company Director	1.12.91	Cheshire Property Services Ltd.
David S. Hewitt, FCA (30.10.32)	Retired Chartered Accountant	1.7.87	Wrekin College, Wellington, Company Ltd.
J. D. Paul Hughes, FCA (09.7.40)	Building Society Chief Executive	1.7.85	Cheshire Property Services Ltd., Cheshire Estate Agents Ltd., Cheshire Insurance Services Ltd., Cheshire Housing Developments Ltd., Cheshire Building Society Financial Services Ltd., Cheshire Management Services Ltd., Macclesfield Museum Trust Ltd.
Thomas W. Marshall, MA, FRICS (27.10.45)	Chartered Surveyor	1.8.93	Lambert Smith Hampton Group Ltd., Cheshire Management Services Ltd., Beech Hall School Trust Ltd.
Ian Moore, FCIB (28.2.41)	Building Society Executive	1.12.91	Cheshire Property Services Ltd.
Geoffrey W. Richards, ACIS, FCIB (28.6.28)	Retired Building Society Chief Executive	11.10.77	
John A. Stubbs, MA (28.8.31)	Company Director	10.10.76	New Cheshire Salt Works Ltd., Wincham Estate Ltd.
David M. Whatmuff, FCIB (01.6.46)	Building Society Deputy Chief Executive/Secretary	22.11.88	East Cheshire Training Trust Ltd., Cheshire Management Services Ltd.

Directors' dates of birth are shown in brackets.

Mr. J. D. P. Hughes is engaged on a rolling five year service contract.

Mr. D. M. Whatmuff and Mr. I. Moore are engaged on five year service contracts which are effective from 1st December, 1993.

Correspondence and other documents may be addressed to any of the above Directors care of Mr. A. A. E. Benzie, KPMG Peat Marwick, St James' Square, Manchester M2 6DS.

Executives

<i>Name</i>	<i>Occupation</i>	<i>Other directorships</i>
Michael J. Garrity, FCIB	General Manager – Administration	
Paul Knight, FCIB MCIM	General Manager – Marketing	Director of Hollins Estate Co. Ltd.
Brian Dickinson, FCA	Assistant General Manager – Finance	

4. Average Rates

	<i>Average balance outstanding</i>	<i>Interest earned /paid</i>	<i>Average yield/rate</i>
	£000	£000	%
Assets			
Liquid assets	207,451	14,495	6.99
Secured advances	1,083,892	85,961	7.93
Liabilities			
Retail funds and deposits	921,538	52,858	5.74
Non-retail funds and deposits	292,335	19,318	6.61

The average balance outstanding represents the average of the month end balances during the year.

Interest on liquid assets includes profits net of losses.

5. New Activities

No new powers have been exercised for the first time by the Society during the year.

DIRECTORS' REPORT

The Directors present their report for the year ended 31st December, 1993

The Directors have pleasure in presenting their Annual Report together with the Annual Accounts and Business Statement of the Society and its subsidiary undertaking, the Group, for the year ended 31st December 1993.

Overall Policy Statement

The Cheshire intends to continue to be a successful independent regional building society seeking profitable growth through the provision of a complete range of mortgage investment and general financial service related projects.

Main Business Objectives

The main business objectives are:

To continue to be mutual and independent and to ensure that at all times the Society's financial position will provide the confidence and protection of those who invest in it.

To concentrate on providing innovative as well as traditional mortgages, savings and investment services, appropriately priced, looking particularly at specific niches and being responsive to market situations and competition.

To provide a range of specialist financial and property related services with the emphasis on quality in order to both satisfy and expand its customer base and enhance profitability.

To concentrate its branch networking activities in Cheshire and the surrounding counties, whilst maintaining links with a small number of other institutions outside the geographic region whose approach to customer service is similar to that of the Society.

To ensure customer service is maintained to a high specialised standard in terms of care and quality, recognising that satisfied customers are vital for the future.

To ensure personnel policies show care and respect for employees and enable the Society to maintain and expand the existing quality pool of manpower and provide reward for those who achieve results.

Business Review and Future Development

The Group's business activities and future plans are reviewed by the Chief Executive on pages 2 to 5 of the Report and Accounts (*not included herein*).

Group Results for the Year

Profit – The pre-tax profit was £18.1m (1992 £17.4m), an increase of 4.2% on the previous year. The profit after tax, transferred to general reserve, was £12.1m (1992 £11.6m). At the 31st December 1993 gross capital totalled £82.8m (1992 £70.8m), made up of general reserve of £78.9m (1992 £66.8m) and revaluation reserve of £3.9m (1992 £3.9m).

The gross capital ratio was 6.52% of share and deposit liabilities (1992 6.16%) and the free capital ratio 5.53% (1992 5.13%).

Assets – At 31st December 1993 assets totalled £1,367m (1992 £1,236m), an increase of 10.6% on the previous year. Liquid assets, in the form of cash and authorised securities were £224m (1992 £199m) representing 16.41% of assets (1992 16.13%).

Lending

Gross residential and commercial lending for the year was £206.1m (1992 £195.9m). There were 295 mortgages (1992 135 mortgages), where accounts were 12 months or more in arrears. These arrears amounted to £1,109,193 (1992 £682,827).

Funding

Net receipts from retail investors during the year amounted to £24.0m (1992 £28.6m) and retail balances at the 31st December 1993 totalled £955m (1992 £891m), an increase of 7.2% on the previous year. On the 31st December 1993 non-retail balances represented 24.58% (1992 22.07%) of total share and deposit liabilities excluding interest.

Charitable and Political Donations

During the year the Group made charitable donations of £3,033 (1992 £5,976). There were no political donations.

Directors

The following persons were directors of the Society during the year.

D.B. Jennings	Chairman
D.B. Mackay	Vice Chairman (from 22nd April 1993)
G.A. Hayes	(Retired 22nd April 1993)
D.S. Hewitt	
J.D.P. Hughes	
T.W. Marshall	(Appointed 1st August 1993)
H.I. Moore	
G.W. Richards	
J.A. Stubbs	
D.M. Whatmuff	

George Hayes retired from the Board at the conclusion of the Annual General Meeting in April 1993. He was Vice-Chairman for 7 years having joined the Board of the Cheshire on the 5th August 1965 when assets were just over £8m. Not only has his advice and comments, particularly on property matters, been invaluable to the Board, but his tremendous enthusiasm for and commitment to the Society have made him a great ambassador for our traditional values. We wish him well in retirement.

Tom Marshall joined the Board on the 1st August 1993. He is a Chartered Surveyor, with a wealth of commercial property experience and the Board look forward to his contribution in the future. In accordance with rule 31 he seeks re-election at the Annual General Meeting.

Paul Hughes, Donald Mackay and Geoffrey Richards retire in accordance with rule 32 and being eligible seek re-election at the Annual General Meeting.

Staff

The Cheshire has always placed considerable emphasis on training and development of staff, recognised by the achievements of the "Investor in People" award.

The Cheshire Building Society Staff Association continues to be involved in regular negotiation and consultative processes covering a wide range of human resource issues. In addition an excellent communications structure exists to ensure all staff are kept fully up-to-date with the Society's objectives and business performance. The Society is an equal opportunities employer and employs a number of disabled staff.

Thanks are extended once again to all for another year's outstanding work.

Corporate Governance

During the year the Building Societies Commission issued a consultative draft Prudential Note on Boards and Management which followed the Code of Best Practice recommended by the Cadbury Report. The Society awaits the issue of the definitive document but is already following most of the major recommendations being proposed.

The Society's Memorandum

Amendments to the memorandum will be put to members at the Annual General Meeting in April 1994 to take into account legislative changes made during the year. It is anticipated that these changes will result in fewer alterations to the memorandum in the future and create flexibility of operation.

The directors recommend members to vote in favour of the adoption of the new memorandum.

Events since the Year-end

The directors consider that no events have occurred since the year-end which are likely to have a material effect on the position of the Group as disclosed in the accounts.

Auditors

KPMG Peat Marwick have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted to the Annual General Meeting.

D.B. Jennings
Chairman

15th February 1994

Statement of Directors' Responsibilities

The Building Societies Act 1986 requires the directors to prepare annual accounts for each financial year which give a true and fair view of the state of affairs of the Society and the Group as at the balance sheet date, of the income and expenditure of the Society and the Group for the year and of the manner in which the business of the Group was financed and in which its financial resources have been used during the year. In preparing these accounts the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Group will continue in business;

In addition to the accounts, the Building Societies Act 1986 requires the directors to prepare an annual business statement and a directors' report.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and the Group and to enable them to ensure that the accounts comply with the Building Societies Act 1986 and regulations made thereunder and for maintaining proper systems of internal control. They are also responsible for safeguarding the assets of the Society and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors believe they have satisfied these responsibilities.

AUDITORS' REPORT

There appears below the text of the Auditors' report to the members of Cheshire Building Society, as printed in the Society's Report and Accounts for the year ended 31st December, 1993, which is included in this document in order to comply with section 80 of the Building Societies Act 1986.

It should be noted that references to page numbers in this Auditors' Report are to pages in the Society's Report and Accounts for the year ended 31st December, 1993.

It should also be noted that the Auditors' Report does not cover any information on pages 22 to 24 of this document in respect of the year ended, or as at, 31st December, 1991.

"Auditors' Report to the members of Cheshire Building Society

We have audited the accounts on pages 11 to 23 and have examined the annual business statement and the directors' report set out on pages 24 to 26 and pages 6 to 8 respectively.

Respective responsibilities of directors and auditors.

As described on page 9 the Society's directors are responsible for the preparation of accounts and other information which we have examined. It is our responsibility to form an independent opinion on the accounts and other information and to report our opinions to you.

Basis of opinion on the accounts

We conducted our audit of the accounts set out in pages 11 to 23 in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

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

Opinion on the accounts

In our opinion the accounts give a true and fair view of the state of affairs of the Society and of the Group at 31 December 1993, 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.

Other information

We have examined the annual business statement on pages 24 to 26, 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 director's report on pages 6 to 8. In our opinion the information given therein is consistent with the accounting records and the accounts.

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

KPMG Peat Marwick
Chartered Accountants
Registered Auditors

Manchester
15th February 1994"

NOTES TO THE ACCOUNTS

For the year ended 31st December, 1992

1 Accounting Policies

Accounting Convention

The accounts are drawn up under the historical cost convention as modified by the revaluation of certain freehold and long leasehold land and buildings, and in accordance with the applicable accounting standards.

Basis of Consolidation

The consolidated income and expenditure account and balance sheet incorporate the accounts of the Society and its trading subsidiary company Cheshire Property Services Limited. Uniform accounting policies are used throughout the Group.

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 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, in the opinion of the Directors, it is likely that such taxation will become payable in the foreseeable future.

Fixed Assets and Depreciation

Freehold and long leasehold land and buildings are included at valuation and are to be revalued on a three year cycle. Depreciation is not provided on these assets as, in the opinion of the Directors, this would be negligible.

Short leasehold premises having an unexpired life of fifty years or less are written off over the period of the lease.

Fixtures and fittings and vehicles are written off from the date of commission, in equal instalments, over their estimated useful lives as follows:

Office furniture and fittings	10-20 years
Office and computer equipment	5 years
Vehicles	4 years

Operating and Finance Leases

Rentals under operating leases are charged against profits in the year in which the expenditure is incurred.

Where the Society enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a fixed asset and is depreciated over the shorter of its estimated useful life and the lease term. Future instalments under such leases, net of finance charges, are included in other liabilities. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element, which reduces the outstanding obligation for future instalments.

Liquid Assets

Liquid assets are stated at their cost to the Society, together with accrued interest to the balance sheet date.

For listed securities the cost is adjusted at both purchase and sale dates to exclude accrued interest. Where the adjusted purchase price exceeds par value any premium is amortised in equal instalments over the period to maturity.

Interest on liquid assets includes interest accrued up to the dates of the balance sheet.

Provision for Losses on Commercial Assets

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

Throughout the year and at the year end, individual assessments are made of all advances and loans on properties which are in possession or in arrears. Specific provision is made against those advances and loans which are considered to be impaired. In considering the specific provision for impaired loans, account is taken of any discount which may be needed against the value of the property at the balance sheet date to agree a sale within three months of that date, the amount recoverable under mortgage indemnity policies and anticipated realisation costs. The Directors recognise that not all accounts in arrears will result in possession and apply a factor based on recent experience to reflect this probability when calculating the provision for accounts in arrears.

Interest in respect of all loans is credited to the income and expenditure account as it becomes receivable. Irrecoverable interest on repossessed properties is written off against interest receivable.

Commercial assets in the balance sheet are shown net of all provisions. The charge to the income and expenditure account comprises the increase in provisions together with the capital losses written off in the year.

Pensions

The pension costs relating to the defined benefit scheme were assessed in accordance with the advice of a qualified actuary using the projected unit method. Actuarial surpluses and deficiencies are recognised over the expected average remaining service lives of the employees.

The pension costs relating to the defined contribution scheme represent the contributions payable by the Society.

2 Interest Receivable

	<u>GROUP 1992</u>	<u>GROUP 1991</u>	<u>SOCIETY 1992</u>	<u>SOCIETY 1991</u>
	£000	£000	£000	£000
On secured advances	103,526	105,895	103,526	105,895
On fixed-interest liquid assets:				
Interest and other income	17,195	16,906	17,195	16,906
Profits net of losses	208	164	208	164
On other liquid assets	<u>1,791</u>	<u>1,830</u>	<u>1,791</u>	<u>1,830</u>
	<u>122,720</u>	<u>124,795</u>	<u>122,720</u>	<u>124,795</u>

3 Interest Payable

	<u>GROUP 1992</u>	<u>GROUP 1991</u>	<u>SOCIETY 1992</u>	<u>SOCIETY 1991</u>
	£000	£000	£000	£000
On retail funds and deposits	70,988	80,686	70,988	80,686
On non-retail funds and deposits	<u>24,068</u>	<u>21,667</u>	<u>24,068</u>	<u>21,667</u>
	<u>95,056</u>	<u>102,353</u>	<u>95,056</u>	<u>102,353</u>

4 Other Income and Charges

	<u>GROUP 1992</u>	<u>GROUP 1991</u>	<u>SOCIETY 1992</u>	<u>SOCIETY 1991</u>
	£000	£000	£000	£000
Commissions receivable	4,124	3,414	3,935	3,414
Rents receivable	225	267	225	267
Other operating income	<u>1,519</u>	<u>1,476</u>	<u>1,515</u>	<u>1,334</u>
	<u>5,868</u>	<u>5,157</u>	<u>5,675</u>	<u>5,015</u>

5 Management Expenses

	<u>GROUP 1992</u>	<u>GROUP 1991</u>	<u>SOCIETY 1992</u>	<u>SOCIETY 1991</u>
	£000	£000	£000	£000
Staff costs (note 6)	6,930	6,346	6,437	5,985
Depreciation	910	862	842	808
Remuneration of auditors . .	53	50	51	48
Finance charge on leases . . .	34	42	34	42
Other expenses	3,960	3,751	4,096	3,747
	<u>11,887</u>	<u>11,051</u>	<u>11,460</u>	<u>10,630</u>

6 Staff Numbers and Costs

The average number of persons (including executive directors) employed during the year were as follows:

	<u>GROUP 1992</u>		<u>GROUP 1991</u>		<u>SOCIETY 1992</u>		<u>SOCIETY 1991</u>	
	Full Time	Part Time	Full Time	Part Time	Full Time	Part Time	Full Time	Part Time
Chief Office	171	32	168	24	171	32	168	24
Branches	166	138	161	137	141	121	140	125
	<u>337</u>	<u>170</u>	<u>329</u>	<u>161</u>	<u>312</u>	<u>153</u>	<u>308</u>	<u>149</u>

The aggregate costs of these persons were as follows:

	<u>GROUP 1992</u>	<u>GROUP 1991</u>	<u>SOCIETY 1992</u>	<u>SOCIETY 1991</u>
	£000	£000	£000	£000
Wages and salaries	5,655	5,153	5,229	4,840
Social security costs	423	381	394	359
Pension contributions (note 16)	634	466	602	444
Other staff expenses	218	346	212	342
	<u>6,930</u>	<u>6,346</u>	<u>6,437</u>	<u>5,985</u>

7 Directors' Emoluments

	<u>GROUP 1992</u>	<u>GROUP 1991</u>
	£	£
Services as directors		
Emoluments	110,444	80,918
Pension to former directors or their widows	3,706	3,554
Other emoluments	230,128	153,973
	<u>344,278</u>	<u>238,445</u>

Excluding pension contributions, the emoluments of the directors were as follows:

Chairman	21,924	19,232
Highest paid full time director	88,677	80,286

The emoluments of all directors, excluding pension contributions, which fell within the following ranges were:	1992	1991
£1- £5,000	—	1
£5,001- £10,000	—	1
£10,001- £15,000	4	3
£15,001- £20,000	1	2
£20,001- £25,000	1	—
£60,001- £65,000	1	1
£65,001- £70,000	1	—
£80,001- £85,000	—	1
£85,001- £90,000	1	—

There were no directors' emoluments in respect of Ruth Property Services Limited.

8 Taxation

The tax charge for the year (at 33%) comprises:

	GROUP 1992	GROUP 1991	SOCIETY 1992	SOCIETY 1991
	£000	£000	£000	£000
Corporation tax	5,583	4,937	5,662	5,045
Deferred tax	155	(206)	155	(206)
Under/(over) provision in previous year				
Corporation tax	6	(137)	—	(137)
	<u>5,744</u>	<u>4,594</u>	<u>5,817</u>	<u>4,702</u>

9 Liquid Assets

	GROUP 1992	GROUP 1991	SOCIETY 1992	SOCIETY 1991
	£000	£000	£000	£000
Cash in hand	579	338	579	338
Cash with banks	49,168	19,635	49,168	19,635
Cash with building societies	18,210	4,059	18,210	4,059
Sterling certificates of deposit	103,550	115,123	103,550	115,123
UK Government securities	8,695	21,895	8,695	21,895
Other securities				
Issued by public bodies	19,208	19,276	19,208	19,276
	<u>119,410</u>	<u>180,326</u>	<u>199,410</u>	<u>180,326</u>

Repayable from the date of the balance sheet on the basis of their remaining maturity as follows:

	GROUP 1992	GROUP 1991	SOCIETY 1992	SOCIETY 1991
	£000	£000	£000	£000
Cash with banks				
Repayable on demand	29,068	19,635	29,068	19,635
In not more than 3 months.	20,100	—	20,100	—
	<u>49,168</u>	<u>19,635</u>	<u>49,168</u>	<u>19,635</u>
Cash with building societies				
In not more than three months.	2,021	2,009	2,021	2,009
In more than three months but not more than one year	6,095	—	6,095	—
In more than one year but not more than five years.	10,094	2,050	10,094	2,050
	<u>18,210</u>	<u>4,059</u>	<u>18,210</u>	<u>4,059</u>
Sterling certificates of deposit				
In not more than three months.	61,247	38,633	61,247	38,633
In more than three months but not more than one year	42,303	74,271	42,303	74,271
In more than one year but not more than five years.	—	2,219	—	2,219
	<u>103,550</u>	<u>115,123</u>	<u>103,550</u>	<u>115,123</u>
UK Government securities				
In more than one year but not more than five years.	8,695	21,895	8,695	21,895
Other securities				
In not more than one year	2,531	4,634	2,531	4,634
In more than one year	16,677	14,642	16,677	14,642
	<u>19,208</u>	<u>19,276</u>	<u>19,208</u>	<u>19,276</u>
Analysis of UK Government securities and other securities:				
UK Government securities				
Listed	8,695	21,895	8,695	21,895
Market value of UK Government securities.	9,064	21,824	9,064	21,824
Other securities				
Unlisted.	<u>19,208</u>	<u>19,276</u>	<u>19,208</u>	<u>19,276</u>

10 Commercial Assets

	<u>GROUP 1992</u>	<u>GROUP 1991</u>	<u>SOCIETY 1992</u>	<u>SOCIETY 1991</u>
	£000	£000	£000	£000
Total mortgage balances	1,028,369	907,680	1,028,369	907,680
Provision for losses (see below)	<u>(5,512)</u>	<u>(2,237)</u>	<u>(5,512)</u>	<u>(2,237)</u>
	1,022,857	905,443	1,022,857	905,443
Loan to subsidiary (see note 20)	<u>—</u>	<u>—</u>	<u>866</u>	<u>705</u>
	<u><u>1,022,857</u></u>	<u><u>905,443</u></u>	<u><u>1,023,723</u></u>	<u><u>906,148</u></u>
The provision is for specific losses and comprises:				
At 1st January:				
Residential property	980	41	980	41
Other advances	<u>1,257</u>	<u>358</u>	<u>1,257</u>	<u>358</u>
Charge for the year:				
Residential property	2,932	1,055	2,932	1,055
Other advances	<u>1,351</u>	<u>899</u>	<u>1,351</u>	<u>899</u>
	4,283	1,954	4,283	1,954
Amounts written off during the year:				
Residential property	(780)	(116)	(780)	(116)
Other advances	<u>(228)</u>	<u>—</u>	<u>(228)</u>	<u>—</u>
At 31st December, 1992.	<u><u>5,512</u></u>	<u><u>2,237</u></u>	<u><u>5,512</u></u>	<u><u>2,237</u></u>

11 Fixed Assets

	<i>Land and Buildings</i>					<i>Total</i>
	<i>Freehold</i>	<i>Long leasehold</i>	<i>Short leasehold</i>	<i>Motor vehicles</i>	<i>Fixtures & fittings</i>	
	£000	£000	£000	£000	£000	
GROUP						
Cost or valuation						
At 1st January, 1992	10,483	695	343	733	4,764	17,018
Additions	128	—	87	363	452	1,030
Revaluation	(1,933)	(153)	—	—	—	(2,086)
Disposals	(54)	—	—	(292)	(9)	(355)
At 31st December, 1992	<u>8,624</u>	<u>542</u>	<u>430</u>	<u>804</u>	<u>5,207</u>	<u>15,607</u>
Depreciation						
At 1st January, 1992	—	—	145	272	2,612	3,029
Charged for the year	—	—	19	163	728	910
Released on disposal	—	—	—	(144)	(8)	(152)
At 31st December, 1992	<u>—</u>	<u>—</u>	<u>164</u>	<u>291</u>	<u>3,332</u>	<u>3,787</u>
Net Book Value						
At 31st December, 1992	<u>8,624</u>	<u>542</u>	<u>266</u>	<u>513</u>	<u>1,875</u>	<u>11,820</u>
At 31st December, 1991	<u>10,483</u>	<u>695</u>	<u>198</u>	<u>461</u>	<u>2,152</u>	<u>13,989</u>
SOCIETY						
Cost or valuation						
At 1st January, 1992	10,397	695	343	699	4,520	16,654
Additions	128	—	87	314	411	940
Revaluation	(1,933)	(153)	—	—	—	(2,086)
Disposals	(54)	—	—	(271)	(9)	(334)
At 31st December, 1992	<u>8,538</u>	<u>542</u>	<u>430</u>	<u>742</u>	<u>4,922</u>	<u>15,174</u>
Depreciation						
At 1st January, 1992	—	—	145	257	2,530	2,932
Charged for the year	—	—	19	151	672	842
Released on disposal	—	—	—	(133)	(8)	(141)
At 31st December, 1992	<u>—</u>	<u>—</u>	<u>164</u>	<u>275</u>	<u>3,194</u>	<u>3,633</u>
Net Book Value						
At 31st December, 1992	<u>8,538</u>	<u>542</u>	<u>266</u>	<u>467</u>	<u>1,728</u>	<u>11,541</u>
At 31st December, 1991	<u>10,897</u>	<u>695</u>	<u>198</u>	<u>442</u>	<u>1,990</u>	<u>13,722</u>

Office premises included in the schedules above as freehold and long leasehold land and buildings are analysed as follows:

	GROUP	SOCIETY	GROUP	SOCIETY	GROUP	SOCIETY
	<i>Freehold</i>		<i>Long Leasehold</i>		<i>Total</i>	
	£000	£000	£000	£000	£000	£000
Valuation in 1992 ..	3,692	3,692	236	236	3,928	3,928
Cost	4,932	4,846	306	306	5,238	5,152
	<u>8,624</u>	<u>8,538</u>	<u>542</u>	<u>542</u>	<u>9,166</u>	<u>9,080</u>

The freehold and long leasehold office premises were revalued during the year by Roberts and Roberts, Chartered Surveyors. The basis of valuation is the open market value for existing use, with vacant possession of property currently occupied by the Society and its subsidiary but subject to other existing tenancies.

The net book value of fixed assets of the Group and Society includes an amount of £363,728 (1991 £627,436) in respect of assets held under finance leases. Depreciation for the year allocated to finance leases was £272,206 (1991—£273,150) for the Group and the Society.

12 Retail Funds and Deposits

	<u>GROUP 1992</u>	<u>GROUP 1991</u>	<u>SOCIETY 1992</u>	<u>SOCIETY 1991</u>
	£000	£000	£000	£000
Shares	823,329	749,389	823,329	749,389
Deposits	<u>67,569</u>	<u>59,238</u>	<u>67,569</u>	<u>59,238</u>
	<u>890,898</u>	<u>808,627</u>	<u>890,898</u>	<u>808,627</u>
Repayable from the date of the balance sheet in the ordinary course of business as follows				
Shares				
On demand	269,333	350,358	269,333	350,358
In not more than three months	433,912	321,082	433,912	321,082
In more than three months but not more than one year	82,341	57,106	82,341	57,106
In more than one year but not more than five years	<u>37,743</u>	<u>20,843</u>	<u>37,743</u>	<u>20,843</u>
	<u>823,329</u>	<u>749,389</u>	<u>823,329</u>	<u>749,389</u>
Deposits				
On demand	9,257	10,383	9,257	10,383
In not more than three months	13,389	8,785	13,389	8,785
In more than three months but not more than one year	<u>44,923</u>	<u>40,070</u>	<u>44,923</u>	<u>40,070</u>
	<u>67,569</u>	<u>59,238</u>	<u>67,569</u>	<u>59,238</u>

13 Non-retail Funds and Deposits

Repayable from the date of the balance sheet in the ordinary course of business as follows:

1992 GROUP AND SOCIETY	<i>Banks</i>	<i>Certificates of deposit</i>	<i>Commercial Paper</i>	<i>Other Deposits</i>	<i>Shares</i>	<i>Total</i>
	£000	£000	£000	£000	£000	£000
On demand	—	—	—	—	3,997	3,997
In not more than three months	5,207	30,507	5,942	117,651	—	159,307
In more than three months but not more than one year	10,656	12,374	—	69,824	—	92,854
In more than one year but not more than five years	—	—	—	2,008	—	2,008
	<u>15,863</u>	<u>42,881</u>	<u>5,942</u>	<u>189,483</u>	<u>3,997</u>	<u>258,166</u>

1991 GROUP AND SOCIETY	<i>Banks</i>	<i>Certificates of deposit</i>	<i>Commercial Paper</i>	<i>Other Deposits</i>	<i>Shares</i>	<i>Total</i>
	£000	£000	£000	£000	£000	£000
On demand	—	—	—	1,473	613	2,086
In not more than three months	16,565	—	13,919	104,626	—	135,110
In more than three months but not more than one year	12,725	—	—	64,407	—	77,132
In more than one year but not more than five years	—	—	—	—	—	—
	<u>29,290</u>	<u>—</u>	<u>13,919</u>	<u>170,506</u>	<u>613</u>	<u>214,328</u>

14 Other Liabilities and Provisions for Liabilities and Charges

	<u>GROUP 1992</u>	<u>GROUP 1991</u>	<u>SOCIETY 1992</u>	<u>SOCIETY 1991</u>
	£000	£000	£000	£000
Other liabilities				
Amounts due within one year:				
Corporation tax.....	5,504	5,026	5,504	5,026
Income tax.....	8,886	9,602	8,886	9,602
Other taxes and social security. . .	135	13	135	13
Obligations under finance leases .	328	312	328	312
Other creditors.....	1,324	1,321	1,307	1,313
Amounts falling due after more than one year:				
Obligations under finance leases				
From two to five years.....	18	333	18	333
	<u>16,195</u>	<u>16,607</u>	<u>16,178</u>	<u>16,599</u>
Provisions for liabilities and charges:				
Deferred taxation				
At 1st January.....	323	529	323	529
Amount provided/(released) during year.....	155	(206)	155	(206)
At 31st December.....	<u>478</u>	<u>323</u>	<u>478</u>	<u>323</u>
The amounts are provided in full on all timing differences at 33% as set out below				
Accrued interest and amortisation of investments.....	163	158	163	158
Fixed assets.....	16	13	16	13
Short term timing differences. . .	299	152	299	152
	<u>478</u>	<u>323</u>	<u>478</u>	<u>323</u>

15 Financial Commitments

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.

Capital Commitments

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

	<u>GROUP 1992</u>	<u>GROUP 1991</u>	<u>SOCIETY 1992</u>	<u>SOCIETY 1991</u>
	£000	£000	£000	£000
Contracted but not provided for.....	126	—	126	—
Authorised but not contracted for.....	<u>3,255</u>	<u>360</u>	<u>3,255</u>	<u>360</u>

Commitment For Operating Leases

The Society is committed to make payments during 1992 under operating leases for land and buildings as follows:

	<u>GROUP 1992</u>	<u>GROUP 1991</u>	<u>SOCIETY 1992</u>	<u>SOCIETY 1991</u>
	£000	£000	£000	£000
Expiring:				
Within one year	12	6	12	6
From two to five years	—	12	—	12
More than five years	223	168	223	168
	<u>235</u>	<u>186</u>	<u>235</u>	<u>186</u>

16 Pensions

The Society operates two schemes, a defined benefit scheme and a defined contribution scheme, and includes employees at Cheshire Property Services Limited.

Defined Benefit Scheme

This is the main scheme operated by the Society for the Group.

The scheme is fully funded and its assets are held in a separate trustee administered fund. The contribution rate is determined by a qualified actuary using the projected unit method and pension costs are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives. The level of contributions for the employer is 19.2 per cent. of pensionable earnings less members' contributions. Members contributions are 5 per cent. for those who joined after 31st December, 1980 and 4 per cent. for those who joined before.

The most recent valuation was at 1st January, 1992. The principal assumptions applied in the valuation calculation are that investments will yield a return of 9.5 per cent. per annum, general salary increases will be 7.5 per cent. per annum, and pensions both present and future will rise by 5 per cent. per annum. At the date of the latest actuarial valuation the market value of the scheme's assets was £4.8m. After having made an additional one-off payment in 1992, the actuarial value of the assets represented 101 per cent. of the benefits that had accrued to members, after allowing for future increases in earnings.

The pension charge for the Group for the period was £628,000 (1991—£452,000)

Defined Contribution Scheme

The pension costs relating to the scheme represent the contribution payable by the Society and amounted to £19,000 (1991—£14,000)

17 Revaluation Reserve

	<u>GROUP 1992</u>	<u>GROUP 1991</u>	<u>SOCIETY 1992</u>	<u>SOCIETY 1991</u>
	£000	£000	£000	£000
At 1st January	6,014	6,175	6,014	6,175
Revaluation during the year	(2,007)	—	(2,007)	—
Written back on disposals during year	(79)	(161)	(79)	(161)
At 31st December	<u>3,928</u>	<u>6,014</u>	<u>3,928</u>	<u>6,014</u>

18 General Reserve

	<u>GROUP 1992</u>	<u>GROUP 1991</u>	<u>SOCIETY 1992</u>	<u>SOCIETY 1991</u>
	£000	£000	£000	£000
At 1st January	55,208	45,208	55,593	45,422
Profit for the financial year	11,618	10,000	11,779	10,171
At 31st December	<u>66,826</u>	<u>55,208</u>	<u>67,372</u>	<u>55,593</u>

19 Directors' Loans

At 31st December, 1992 there were outstanding mortgage loans granted in the ordinary course of business to twelve directors and connected persons (1991 eleven), amounting in aggregate to £544,009 (1991 £480,887).

In accordance with section 68 of the Building Societies Act 1986, the Society maintains a register of loans made to directors and connected persons. A statement containing requisite particulars of such transactions may be inspected by members at the Society's Annual General Meeting or at the principal office of the Society during the period fifteen days prior to the Annual General Meeting.

20 Investments in Subsidiary

The Society directly holds 100 £1 ordinary shares in Cheshire Property Services Limited, a wholly owned subsidiary registered in England. Cheshire Property Services Limited is principally engaged in the provision of estate agency services in the United Kingdom. The company commenced trading in 1989.

Under Section 22 of the Building Societies Act 1986, the Society is under an obligation to discharge the liabilities of Cheshire Property Services Limited if that company is unable to discharge them itself.

UNITED KINGDOM TAXATION

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

1. On payment of interest on the PIBS an amount must be withheld by the Society on account of United Kingdom income tax at the basic rate (currently 25 per cent.). Certain classes of taxpayer (such as tax exempt investors and individuals whose total 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 including those who are (a) individuals (either UK resident or non-UK resident) or (b) companies (either resident in the United Kingdom or carrying on a trade in the United Kingdom through a branch or agency) may, depending on the circumstances, be liable to pay further United Kingdom tax on the interest received.
2. PIBS are within the accrued income scheme. Accordingly, a disposal of PIBS by a PIBS holder who is resident or ordinarily resident in the United Kingdom, or who carries on a trade in the United Kingdom through a branch or agency for the purposes of which the PIBS are used or held at or before the time of transfer may give rise to a charge to tax on income in respect of an amount representing interest on the PIBS which has accrued since the preceding interest payment date. However, the accrued income scheme does not apply, *inter alia*, to individuals who do not hold securities with a nominal value of more than £5,000 at any time in both the year of assessment in which the relevant interest period on the PIBS ends and the preceding year of assessment.
3. The PIBS will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a PIBS holder will not give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of capital gains.
4. No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue or transfer of the PIBS.
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.

SUBSCRIPTION AND SALE

The Arranger has pursuant to a subscription agreement dated 21st March, 1994 (the "Subscription Agreement") agreed with the Society to subscribe and pay for, or procure subscribers to pay for, the PIBS being offered, *inter alia*, upon the following terms and conditions:

- (a) the admission of the PIBS to the Official List of the London Stock Exchange being granted, subject only to the issue of the PIBS, by not later than 29th March, 1994 or such later date as the Society and the Arranger may agree;
- (b) the Society has agreed to pay to the Arranger, if the conditions to which the Subscription Agreement is subject are fulfilled or waived, a combined management and underwriting commission of % per cent. of the nominal amount of the PIBS together with any amount of value added tax payable in respect of such commissions; and
- (c) the Subscription Agreement entitles the Arranger to terminate it in certain circumstances prior to closing and includes certain representations, warranties and an indemnity given by the Society to the Arranger.

The PIBS have not been and will not be registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold within the United States or to U.S. persons otherwise than in accordance with applicable U.S. securities laws and regulations. The Arranger has agreed that it will not offer or sell 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 PIBS within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

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

Save for having obtained approval of this document by the London Stock Exchange pursuant to listing rules made under Part IV of the Financial Services Act 1986 and having delivered copies thereof to the Registrar of Companies in England and Wales, no action has been or will be taken by the Society or the Arranger that would, or is intended to, permit a public offer of the PIBS in any country or jurisdiction where action for that purpose is required. The PIBS may not be, directly or indirectly, offered or sold in any country or jurisdiction where action for that purpose is required. Accordingly, the PIBS may not, directly or indirectly, be offered or sold and neither this Offering Circular (whether in preliminary or final form) nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from, or published in, any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Neither the Society nor the 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

1. The listing of the PIBS on the London Stock Exchange will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that such listing will become effective and dealings will commence on 29th March, 1994 and that, prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules.
2. Save as described in this document, there has been no significant change in the financial or trading position or prospects of the Group since 31st December, 1993, the date of the most recent audited accounts of the Society.
3. The Society and its subsidiary are not involved in and they are not aware of any legal or arbitration proceedings pending or threatened which may have, or have had during the previous 12 months, a significant effect on the financial position of the Group.
4. The accounts of the Society and of the Group for each of the three financial years ended 31st December, 1993 were audited by KPMG Peat Marwick, Chartered Accountants and Registered Auditors and have been reported upon without qualification. KPMG Peat Marwick has given and not withdrawn its written consent to the issue of this document with the inclusion herein of its Auditors' Report and the references to its name in the form and context in which they are included.
5. The issue of PIBS was authorised by a resolution of a duly authorised committee of the Board of Directors of the Society on 21st March, 1994.
6. The Society will appoint Lloyds Bank Registrars as its registrar (the "Registrar") in respect of the PIBS and will appoint Bankers Trust Company as agent bank (the "Agent Bank") in respect of the PIBS.
7. The Registrar will send a PIBS certificate to each registered holder of PIBS within a month of registration at the risk of the person entitled thereto. No temporary documents of title will be issued.
8. Payment for the PIBS subscribed will be made by telegraphic transfer (or other approved means) by the subscribers to the Arranger which will arrange for the funds to be transferred to the Society in accordance with the Subscription Agreement.
9. The overall cost of the issue of the PIBS by the Society, including all commissions and expenses, is estimated to amount to £140,000.
10. On 8th November, 1993 the Society entered into a contract with Pochin (Contractors) Limited for alterations and extensions to the Society's principal office at Macclesfield in a contract sum of £2,387,364 payable in cash. Other than this said contract and the Subscription Agreement the Society and its subsidiary have 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.
11. The only outstanding loans granted by any member of the Group to Directors are an aggregate of £244,255 mortgage loans as at 31st December, 1993 made by the Society. No guarantees have been provided by the Society or its subsidiary in respect of any Director of the Society.
12. An aggregate of £380,411 was paid in respect of the gross emoluments (including benefits in kind) of Directors of the Society during the financial year ended 31st December, 1993. It is estimated that an aggregate of £423,000 will be payable to Directors of the Society during the financial year ending 31st December, 1994.
13. (a) The Directors of the Society have no interests 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 effected by the Society during the current or immediately preceding year or were effected by the Society during an earlier financial year and remain in any respect outstanding or unperformed.
(b) Neither any Director of the Society nor any child, stepchild (in each case under the age of 18) spouse or connected person of any Director of the Society has any interest in any PIBS.
14. The service contracts of the Society's Executive Directors confirm the following:

Mr. J. D. P. Hughes is employed by the Society as its Chief Executive under a contract dated 13th December, 1986. The agreement continues until Mr. Hughes reaches normal retirement age for the purpose of the Society's pension scheme unless terminated early by the Society by five years' notice or by Mr. Hughes by one years' notice. Mr. Hughes' salary is at the rate of £100,000 per annum.

Mr. H. I. Moore is employed by the Society as Director, Sales and Development, under a service agreement dated 1st December, 1991 (as amended) for a fixed period ending on 30th November, 1998. Mr. Moore is entitled to a salary at the rate of £65,000 a year.

Mr. D. W. Whatmuff is employed by the Society as Deputy Chief Executive and Secretary under a service agreement dated 1st December, 1991 (as amended) for a fixed period ending on 30th November, 1998. Mr. Whatmuff is entitled to a salary at the rate of £70,000 a year.

There are no other provisions which deal with compensation payable on early termination nor any other matter necessary to enable investors to estimate the possible liability of the Society upon any such early termination.

It should be noted that the types of benefit available to the Executive Directors are in line with similar type benefits available to other of the Society's senior management.

Save as disclosed above, there are no Directors of the Society who have service contracts with any member of the Group.

15. The PIBS shall be transferable in any usual or common form in accordance with the Rules and the terms of issue of the PIBS.

16. There are no schemes for involving the Directors or any employees of the Society or any of its subsidiaries in any capital of the Society or any of its subsidiaries.

17. No capital of the Society or any of its subsidiaries is under option or is the subject of any agreement to be put under option to any person.

18. So far as is known to the Society no persons, directly or indirectly, or jointly or severally, exercise or could exercise control over the Society nor, so far as the Society is aware, is any person directly or indirectly interested in 3 per cent. or more of the Society's capital.

19. Copies of the following documents will be available for inspection during normal business hours on any week day (Saturdays and public holidays excepted) at the office of Allen & Overy, 9 Cheapside, London EC2V 6AD for 14 days from the date of this document:

- (a) the Memorandum and Rules of the Society and the Building Societies Act 1986;
- (b) the audited accounts of the Society and the Group for each of the financial years ended 31st December, 1991, 1992 and 1993;
- (c) the Subscription Agreement, the contract with Pochin (Contractors) Limited referred to above and the Directors' service contracts referred to above;
- (d) drafts (subject to modification) of a PIBS certificate (including the special terms of issue of the PIBS), the agreement for the appointment of the Registrar and the agreement for the appointment of the Agent Bank; and
- (e) the consent letter dated 21st March, 1994 of KPMG Peat Marwick.

PRINCIPAL OFFICE OF THE SOCIETY

Castle Street
Macclesfield
Cheshire SK11 6AH

REGISTRAR

Lloyds Bank Plc

Registrar's Department
The Causeway
Worthing
West Sussex BN99 6DA

AGENT BANK

Bankers Trust Company

1 Appold Street
Broadgate
London EC2A 2HE

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To the Arranger

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KPMG Peat Marwick

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Manchester M2 6DS

LISTING SPONSOR

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