



(incorporated in England under the Building Societies Act 1986 under no. 463 B)

£60,000,000

7.25 per cent. Permanent Interest Bearing Shares

Issue Price: 100 per cent.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services Act 1986 (the "UK Listing Authority") for the issue of £60,000,000 7.25 per cent. Permanent Interest Bearing Shares (the "PIBS"), comprising 60,000 PIBS of £1,000 each, of Portman Building Society (the "Society") to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such PIBS to be admitted to trading on the London Stock Exchange's market for listed securities.

Attention is drawn to the description under "Certain Provisions of the Building Societies Act 1986" on page 15 of this document of the ways in which a building society can, without the consent of holders of permanent interest bearing shares, amalgamate with or transfer its rights and obligations to another building society or convert into a company pursuant to the relevant legislation.

It is anticipated that the PIBS will be issued in registered form on 5 December 2001, conditionally upon the PIBS being admitted to the Official List and official dealings on the London Stock Exchange's market for listed securities, which are expected to commence on 5 December 2001. The listing of the PIBS will be expressed as a percentage of their principal amount.

The PIBS will be deferred shares in the Society for the purposes of section 119 of the Building Societies Act 1986, as amended, and will not be protected investments for the purposes of payments under the Building Societies Investor Protection Scheme or, it is expected, the Financial Services Compensation Scheme to be established under the Financial Services and Markets Act 2000. Attention is drawn to certain characteristics of the PIBS as described in "Risk Factors" on page 4 of this document.

The PIBS will not be withdrawable at the option of the PIBS holders and will be repayable only in certain limited circumstances as described in "Special Conditions of the Issue of the PIBS – 4 Repayment" on page 10 of this document.

The PIBS are rated Baa1 by Moody's Investors Service Inc.

Barclays Capital

This document comprises listing particulars issued in compliance with the listing rules made by the UK Listing Authority for the purpose of giving information with regard to the Society and its subsidiary undertakings (together the "Group") and the PIBS. The Directors of the Society, whose names appear on pages 22 to 24 of this document (the "Directors"), accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person is authorised to give any information or to make any representation not contained herein and any information or representation not contained herein must not be relied upon as having been authorised by the Society or Barclays Bank PLC (the "Manager"). Neither the delivery of this document nor any subscription, sale or purchase made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Society since the date hereof.

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

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

This document does not constitute an offer of, or an invitation by or on behalf of the Society or the Manager to subscribe for or purchase, any of the PIBS. The distribution of this document and the offering of the PIBS in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Society and the Manager to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offering and sales of the PIBS and on distribution of this document, see "Marketing Arrangements" on page 66 of this document.

The information contained in this document is intended for sophisticated investors capable of understanding the nature of the PIBS and the risks attaching to them. There are fundamental differences between the PIBS and ordinary share accounts and deposit products of building societies. A number of these differences significantly increase the risk element involved in investing in the PIBS. Accordingly, attention is drawn to certain characteristics of the PIBS as described in "Risk Factors" set out on page 4 of this document.

The Manager may over-allot or effect transactions which will stabilise or maintain the market price of the PIBS at a level which might not otherwise prevail and such stabilising, if commenced, may be discontinued at any time.

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

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

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RISK FACTORS

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

- (a) **Permanence** – The PIBS will be repayable only at the option of the Society on 5 December 2021 and every fifth successive 5 December thereafter, or in certain limited circumstances as described in “Special Conditions of the Issue of the PIBS – 4 Repayment” on page 10 of this document, in each case subject to the permission of the statutory authority responsible for regulating building societies, which is currently the Building Societies Commission (the “Commission”, which expression shall include any successor body performing for the time being the same or similar functions in relation to building societies, including the Financial Services Authority to whom the responsibilities of the Building Societies Commission are expected to be transferred with effect from 1 December 2001). The Society is under no obligation to the investor to seek any such permission to repay the PIBS.
- (b) **Liquidity** – In order to realise his capital investment in the PIBS, an investor must either go to an established secondary market or look to make a private sale. There is **no guarantee that the investor will be able to liquidate his investment in the PIBS** for cash either because the future liquidity of the secondary market is not guaranteed or alternatively the investor may be unable to find any potential private purchasers. Therefore, there is a risk that an investor cannot realise his investment in the PIBS when he wishes to do so.
- (c) **Capital value of investment** – As the capital value of the PIBS will vary with market interest rates, the market perception of the value of the Society and the availability of purchasers, there is a **real chance that the investor will make a capital loss** when he comes to sell his PIBS.
- (d) **Subordination** – The PIBS are subordinated to all other liabilities of the Society. In a winding up or dissolution of the Society, the claims of the PIBS holders will rank behind all other creditors of the Society and the claims of Members holding shares (other than deferred shares) as to principal and interest. Investors should be aware that this subordination is a primary factor behind the higher interest rate that is paid on the PIBS when compared to other investment products of the Society i.e. that there is a direct trade-off between higher interest and higher risk.
- (e) **Investor protection** – Unlike normal building society investment products, the PIBS are not protected investments for the purposes of the Building Societies Investor Protection Scheme and are not expected to be protected investments under the Financial Services Compensation Scheme following the introduction of that scheme, the date for which is proposed to be 1 December 2001.
- (f) **Payments of interest may be missed** – Interest in respect of the PIBS will not be payable where the Directors of the Society resolve that to make payment would result in the Society’s capital falling below prescribed minimum levels and that accordingly such interest should not be paid or where the Society has not paid interest in respect of deposits or shares (other than deferred shares).
- (g) **Interest** – If the Society does not make an interest payment in respect of the PIBS in accordance with paragraph (f) above, such interest will be cancelled. Interest is paid without withholding or deduction for tax under current law. Nevertheless, tax may be withheld or deducted if there is a change of law.
- (h) **Rights** – The rights of the PIBS holders are markedly different from those of shareholders in a company, e.g. as to voting rights and protection of minorities. For example, as indicated in paragraph 6 on page 6 of this document, each PIBS holder only has one vote at general meetings of the Society, irrespective of the number of PIBS he holds, whereas shareholders at a general meeting of a company would normally have one vote on a poll for each share held.
- (i) **Amalgamation, conversion or takeover of the Society** – If the Society amalgamates with, or transfers all or part of its engagements to, another building society, the PIBS will not become repayable as a consequence thereof, but will become deferred shares in that society. If the Society transfers the whole of its business to any other body, the transfer will incorporate arrangements to secure that the PIBS are effectively converted into perpetual subordinated debt of that body, and do not become repayable other than at the option of that body on 5 December 2021 and every fifth successive 5 December thereafter or in the limited circumstances as described in “Special Conditions of the Issue of the PIBS – 4 Repayment”, in each case subject to the permission of the Commission.

Investors’ attention is also drawn to the information in respect of the Society appearing on pages 17 to 62 of this document.

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

The rights and restrictions attaching to the PIBS will be governed by the Rules, certain provisions of the Act and the "Special Conditions of the Issue of the PIBS" set out on pages 8 to 14 of this document. Set out below is a summary of the key provisions of the Rules and certain provisions of the Act insofar as they might affect the rights of the PIBS holders, together with certain explanatory notes which are italicised.

1 General

The person whose name is entered in the PIBS Register as the holder of a PIBS or a fraction of a PIBS is a Shareholding Member of the Society (as defined in the Rules).

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

2 Register

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

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

The Society has appointed Lloyds TSB Registrars as its registrar for the PIBS issue.

3 PIBS Certificate

Each PIBS holder, within one month after becoming entered in the PIBS Register as the holder of a PIBS, shall, if he shall make a written request to the Society at the time of applying to be so entered, be supplied by the Society with a duly executed PIBS Certificate (which shall not be the property of the Society).

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

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

4 Replacement of PIBS Certificate

A PIBS holder losing his PIBS Certificate shall immediately give notice in writing of such loss to the Society at its Principal Office. If a PIBS Certificate is damaged or alleged to have been lost, stolen or destroyed, a new PIBS Certificate representing the same PIBS shall be issued to that PIBS holder upon request, subject to delivery up of the old PIBS Certificate or (if alleged to have been lost, stolen or destroyed) subject to compliance with such conditions as to evidence and indemnity as the Board may think fit and to payment of any exceptional expenses of the Society incidental to its investigation of the evidence of such alleged loss, theft or destruction. Where a holder of a certificated PIBS has sold part of his holding he will be entitled to a PIBS Certificate for the balance without charge.

5 Transfers

A PIBS holder may transfer his PIBS to any Person and no fee shall be charged in respect of a transfer of a PIBS. No transfer of PIBS shall be valid unless made in a form approved by the Board and until registered in the PIBS Register. A transferee of a fully paid PIBS shall be entitled to have his name entered in the PIBS Register following notice by him to the Society of such a transfer, such notice to be made or given in writing or in such other manner as the Society in its absolute discretion may permit.

The registration of transfers of the PIBS may be suspended at such times and for such periods as the Board may determine, but not for more than thirty days in the year, and notice of such suspension shall be given by advertisement in at least one national daily newspaper.

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

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

The Society may decline to issue any PIBS, or register any transfer of a PIBS, to more than four persons jointly. Joint PIBS holders shall be entitled to choose the order in which they are named in the records of the Society.

6 Meetings

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

A PIBS holder is entitled to vote on a resolution (whether an Ordinary Resolution or Special Resolution or a Shareholding Members' Resolution, but not a Borrowing Members' Resolution) if:

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

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

7 Winding-up and dissolution

Upon the winding-up of the Society, or upon it being dissolved by consent, any surplus remaining after payment in full of the Society's creditors and repayment to Members (including PIBS holders) of the amount of their Shares (together with interest due thereon) according to their priority under their respective terms and conditions of issue, shall be applied as follows:

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

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

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

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

8 Disputes and legal proceedings

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

9 Unclaimed interest

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

SPECIAL CONDITIONS OF THE 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 holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of the Rules (as defined below) of the Society (as defined below). The PIBS (as defined below) are also issued subject to, and with the benefit of, these special conditions of issue (the "Conditions"). In the event of inconsistency between the Rules and these Conditions, the Rules will prevail.

1 General

- (1) The "Society" means Portman Building Society.
- (2) The "PIBS" means £60,000,000 7.25 per cent. Permanent Interest Bearing Shares of the Society and, unless the context otherwise requires, includes any further deferred Shares issued pursuant to Condition 9 and forming a single series with the PIBS.
- (3) "PIBS holder" means a person whose name and address is entered in the PIBS Register as the holder of a PIBS or, in the case of a joint holding of a PIBS, the first person whose name is entered in the PIBS Register in respect of the joint holding of the PIBS.
- (4) "PIBS Register" means the records of the Society maintained for the purposes of the PIBS.
- (5) Terms defined in the Rules of the Society for the time being (the "Rules") will, unless the context otherwise requires, have the same meanings when used in these Conditions.
- (6) The PIBS:
 - (a) are deferred shares for the purposes of section 119 of the Building Societies Act 1986 as amended (the "Act");
 - (b) are not protected deposits for the purpose of the Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000;
 - (c) are not withdrawable; and
 - (d) are permanent interest bearing Shares for the purposes of the Rules.
- (7) The expressions "Creditors" and "Relevant Supervisory Consent" shall have the meanings given thereto in Conditions 4(3) and 4(7) respectively.
- (8) Upon a transfer of PIBS the Society will procure that the new PIBS holder is issued with a PIBS Certificate within 14 days after the lodgement of the instrument of transfer if he holds his PIBS in certificated form.
- (9) The PIBS may be held jointly by up to four Persons.

2 Form and denomination

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

3 Interest

- (1) The PIBS bear interest from and including 5 December 2001 to but excluding 5 December 2021 at the rate of 7.25 per cent. per annum and thereafter at a rate calculated in accordance with paragraph (2) below (each a "Rate of Interest"), in each case payable, subject as set out below, in arrear by equal half-yearly instalments on 5 June and 5 December in each year (each an "Interest Payment Date"), commencing on 5 June 2002. Each half-yearly period from and including one Interest Payment Date to but excluding the next succeeding Interest Payment Date is called an "Interest Period". Interest on the PIBS is non-cumulative as described below and will be paid without withholding or deduction for or on account of tax except as required by law.

Where it is necessary to compute an amount of interest in respect of any PIBS for a period of less than one year (other than a semi-annual Interest Period), such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, 5 December 2001) to (but excluding) the relevant payment date divided

by the product of (a) the actual number of days in the period from (and including) the most recent Interest Payment date (or, if none, 5 December 2001) to (but excluding) the next (or first) scheduled Interest Payment Date and (b) the number of Interest Periods in any year.

- (2) (i) The Rate of Interest payable in respect of the PIBS from and including 5 December 2021 in respect of each Reset Period (as defined below) shall be determined by the Agent Bank whose name is set out at the end of these Conditions or such other person as may be appointed from time to time pursuant to Condition 3(2)(iii) (the "Agent Bank") on the following basis. On the Determination Date (as defined below) relating to each Reset Period the Agent Bank shall determine the Gross Redemption Yield (as defined below). The Rate of Interest for the relevant Reset Period shall be the aggregate of 3.884 per cent. per annum and the Gross Redemption Yield, as determined by the Agent Bank.

In these Conditions:

"Benchmark Gilt" means, in respect of a Reset Period, such fixed income United Kingdom government security having a maturity date on or about the last day of such Reset Period as the Agent Bank, with the advice of the Reference Market Makers (as defined below), may determine to be appropriate;

"Determination Date" means, in relation to any Reset Period, the forty-fifth day prior to the first day of such Reset Period; provided that if such day is not a day on which banks are open for business in London, it shall be postponed to the next such day;

"Gross Redemption Yield" means, in respect of a Reset Period, the gross redemption yield (as calculated by the Agent Bank on the basis set out by the United Kingdom Debt Management Office in the paper "Formulae for Calculating Gilt Prices from Yields" page 4, Section One: Price/Yield Formulae "Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date" (published 8 June 1998) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places)) of the Benchmark Gilt in respect of that Reset Period, with the price of the Benchmark Gilt for this purpose being the arithmetic average (rounded up (if necessary) to four decimal places) of the bid and offered prices of such Benchmark Gilt quoted by the Reference Market Makers at 3.00 p.m. (London time) on the relevant Determination Date on a dealing basis for settlement on the next following dealing day in London;

"Reference Market Makers" means three gilt edged market makers selected by the Agent, failing which such other three persons operating in the gilt edged market as are selected by the Agent Bank;

"Reset Date" means 5 December 2021 and every fifth successive 5 December thereafter; and

"Reset Period" means the period beginning on a Reset Date and ending on the day immediately preceding the next succeeding Reset Date.

- (ii) As soon as practicable after 11.00 a.m. (London time) on each Determination Date, the Agent Bank shall determine the Rate of Interest for the relevant Reset Period and calculate the amount of interest payable on each £1,000 principal amount of PIBS (the "Interest Amount") on each of the ten Interest Payment Dates that fall after the commencement of the Reset Period to which such Determination Date relates. The Society shall cause such Rate of Interest and each such Interest Amount to be notified to the Registrar as soon as practicable after their determination and calculation and shall procure that the Registrar gives notice thereof to the PIBS holders in accordance with Condition 10.
- (iii) The Society may from time to time appoint another bank or investment banking firm in London as Agent Bank. In the event of the appointed office of the Agent Bank being unable or unwilling to continue to act as the Agent Bank, the Society shall forthwith appoint the London office of such other leading bank or investment banking firm in London to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

- (iv) All notifications, opinions, advice, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 3(2) by the Agent Bank shall (in the absence of wilful default, bad faith or manifest error) be binding on the Society, the Agent Bank, the Registrar and all PIBS holders and (in the absence as aforesaid) no liability shall attach to the Agent Bank or the Reference Market Makers in connection with the exercise or non-exercise of their powers, duties and discretions.
- (3) Interest in respect of the PIBS shall not be paid or credited in respect of any Interest Period if the Society has at any time before the date for payment of that interest cancelled, or failed to make, the payment of any interest or dividend upon:

(a) any other Share of any class (other than deferred shares (as defined in the Act)) of the Society;
or

(b) any Deposit with the Society,

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

For the purposes of this Condition 3(3):

(a) where the Society has deferred or suspended any payment it shall be taken to have cancelled the payment only for so long as the payment remains outstanding; and

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

If, and to the extent that, the payment or crediting of interest is prohibited under this Condition 3(3), interest in respect of the PIBS will be cancelled and the PIBS holders will have no rights in respect of the cancelled interest.

- (4) Interest in respect of the PIBS shall not be paid or credited for any Interest Period if the Board is of the opinion that:

(a) there has been a failure by the Society to satisfy any requirement relating to capital adequacy imposed on the Society by or pursuant to the Financial Services and Markets Act 2000, including any statutory modification or re-enactment thereof, and such failure is then continuing; or

(b) the payment or crediting of the interest or, as the case may be, the payment or crediting in full of the interest would cause or contribute to such a failure by the Society,

and, in the case of (a) above, the Board passes a resolution cancelling such interest or, in the case of (b) above, the Board passes a resolution cancelling or, as the case may require, reducing the interest to such extent as may be necessary to secure that, in the opinion of the Board, such payment would not cause or contribute to a failure to satisfy the second criterion of prudent management. On the passing of any such resolution, the PIBS holder shall cease to have any right to the interest for that period so cancelled or, as the case may be, any interest other than the reduced amount payable in accordance with that resolution.

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

4 Repayment

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

- (2) The Society may, having obtained Relevant Supervisory Consent (as defined in Condition 4 (7)) and having given not less than 30 nor more than 60 days' notice to the PIBS holders in accordance with Condition 10, which notice shall be irrevocable, elect to repay all, but not some only, of the PIBS on any Reset Date (as defined in Condition 3(2)) at their principal amount together, subject to Conditions 3(3) and 3(4), with any interest accrued to but excluding the date of repayment.

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

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

- (4) The claims of the PIBS holders in a winding-up or dissolution of the Society will be for the principal amount of their PIBS together, subject to Condition 3, with interest accrued to but excluding the date of repayment after all sums due from the Society to Creditors have been paid in full. The PIBS holders will not be entitled to any share in any final surplus upon a winding-up or dissolution of the Society.
- (5) The Society may, having obtained prior Relevant Supervisory Consent and, for so long as the PIBS are admitted to the official list maintained by the competent authority designated under Part VI of the Financial Services and Markets Act 2000 ("the UK Listing Authority", which expression shall include any body appointed to perform such functions under any successor legislation), and admitted to trading on the London Stock Exchange plc's market for listed securities, subject to and in accordance with the requirements from time to time of the UK Listing Authority and the London Stock Exchange plc, purchase any of the PIBS. In the case of purchases by tender, tenders shall be made available to all PIBS holders alike.
- (6) All PIBS repaid or purchased by the Society as aforesaid shall be cancelled forthwith and such PIBS may not be reissued or resold.
- (7) For the purposes of these Conditions: "Relevant Supervisory Consent" means consent by the Financial Services Authority (or any other body performing for the time being the same or similar functions in relation to building societies) to the relevant repayment or (as referred to in Condition 4(5)) purchase.

5 Payments

All payments in respect of the PIBS will be made by sterling cheque or warrant drawn on a bank or building society in the United Kingdom, posted on the business day immediately preceding the relevant due date and made payable to the PIBS holders (in the case of a joint holding of PIBS, the Representative Joint Shareholder) appearing in the PIBS Register at the close of business on the fifteenth day before the relevant due date (the "Record Date") at the addresses shown in the PIBS Register on the Record Date. Upon application of the PIBS holder (or in the case of a joint holding of PIBS, the Representative Joint Shareholder) to the Society, in the form from time to time prescribed by the Society, not less than ten days before the due date for any payment in respect of his PIBS, the payment may be made by transfer on the due date or, if the due date is not a business day, on the immediately following business day to a sterling account with a bank or building society in the United Kingdom. In this Condition 5, "business day" means any day (other than a Saturday or a Sunday) on which banks are open for business in England.

6 Succession and transfers

- (1) Upon an amalgamation by the Society with another building society under section 93 of and Schedule 16 to the Act or a transfer of its engagements to any extent to another building society under section 94 of and Schedule 16 to the Act, the PIBS shall be deferred shares in the amalgamated or transferee building society (as appropriate) without any alteration in their terms.
- (2) Upon a transfer by the Society of the whole of its business to a successor in accordance with section 97 of the Act, the successor will, in accordance with section 100(2)(a) of the Act, assume as from the vesting date a liability (subject to this Condition 6(2)) to every qualifying Member of the Society as in respect of a deposit made with the successor corresponding in amount to the value of the qualifying Shares held by the Member in the Society.

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

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

The terms of each Subordinated Deposit and the terms and conditions of the Bonds will be such as to secure in the opinion of the Board that they will be treated as capital designated perpetual subordinated debt (as referred to in Chapter CA of the Financial Services Authority "Guide to Banking Supervisory Policy" dated 30 September 1998 as replaced, amended or supplemented from time to time) or its equivalent (if any) as determined by the auditors of the Society for the purposes of capital adequacy regulations made from time to time by the Financial Services Authority or any other body performing for the time being such function.

The terms of the Subordinated Deposits and the terms and conditions of the Bonds will, not later than the time at which notice is given to Members of resolutions to be proposed to approve such transfer, be available for inspection by the PIBS holders at the Principal Office of the Society at that time and, subject as provided above, will be determined by the Board in its absolute discretion.

- (3) The Society undertakes to procure that any amalgamation or transfer referred to in Condition 6 (1) or (2) above will comply with the provisions of Condition 6(1) or, as the case may be, (2) above.

7 Variations of these Conditions

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

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

8 Meetings of the PIBS holders

- (1) The Society alone may at any time convene a separate meeting of the PIBS holders. Every meeting shall be held at such place as the Society may approve.
- (2) At least 21 clear days' notice, calculated from the final date for the receipt of proxies under Condition 8(11) specifying the hour, date and place of the meeting shall be given to the PIBS holders entered in the PIBS Register 35 days prior to the date specified for the meeting by sending it by post to the addresses shown in the PIBS Register. The notice shall specify generally the nature of the business to be transacted at the meeting and the terms of any resolution to be proposed to alter these Conditions.
- (3) Any person (who may, but need not, be a PIBS holder) nominated in writing by the Society shall be entitled to take the chair at every meeting but if no nomination is made or if at any meeting the person nominated shall not be present within 15 minutes after the time appointed for holding the meeting, the PIBS holders present shall choose one of their number who is present to be chairman.

- (4) At any meeting one or more persons present in person or by proxy and holding or representing in aggregate not less than one-third of the principal amount of the PIBS for the time being outstanding shall form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum shall be present at the commencement of business. Every question submitted to the meeting (other than the choosing of a chairman which will be decided by a simple majority) shall be decided by a poll of one or more persons present and holding PIBS or being proxies and representing in aggregate not less than three-quarters of the principal amount of the PIBS represented at such meeting voting in favour of such question.
- (5) If within half an hour after the time appointed for any meeting a quorum is not present, the meeting shall stand adjourned for such period, being not less than 14 days nor more than 42 days and at such place as may be appointed by the chairman and if at the adjourned meeting a quorum shall not be present within half an hour from the time appointed for the adjourned meeting, the PIBS holders present in person or by proxy at the adjourned meeting shall be a quorum.
- (6) Notice of any adjourned meeting shall be given in the same manner as notice of an initial meeting but as if 10 were substituted for 21 in Condition 8(2).
- (7) A poll shall be taken in such manner as the chairman directs and the result of the poll shall be deemed to be the resolution of the meeting.
- (8) The chairman may with the consent of (and shall if directed by a resolution of) the meeting adjourn any meeting from time to time and from place to place but no business shall be transacted at any adjourned meeting other than business left unfinished or not reached at the meeting from which the adjournment took place.
- (9) Any director or officer of the Society and its professional advisers may attend and speak at any meeting of the PIBS holders. Save as provided above, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any such meeting unless he is a PIBS holder or is a proxy thereof.
- (10) Subject as provided in Condition 8(9), at any meeting every person who is present shall have one vote in respect of each £1,000 in principal amount of the PIBS so held or in respect of which he is a proxy. Any person entitled to more than one vote need not use all his votes or cast all the votes to which he is entitled in the same way.
- (11) A PIBS holder entitled to attend a separate meeting of the Society:
 - (a) may appoint one Person (whether a PIBS holder or not) as his proxy to attend and, on a resolution, to vote at such meeting instead of him; and
 - (b) may direct the proxy how to vote at the meeting.

A proxy shall be appointed by an instrument in writing which shall be in such form and include such declarations as the Board may from time to time determine. The instrument shall enable the PIBS holder appointing the proxy to direct him how to vote and, if the instrument is not in the form specified by the Society or is not signed by the appointor, the appointment of the proxy shall be invalid. The appropriate forms of declaration shall, with such additional or amended wording as the Board may consider appropriate, be used in the case of a body corporate. If the appropriate declaration is not included in the instrument, the appointment of the proxy shall be invalid. The instrument appointing a proxy or a representative shall be deposited at the Principal Office not less than 2 clear days before the day appointed for holding the meeting, or adjourned meeting, and in default the instrument shall not be treated as valid. The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll but, save as by this Condition 8(11) provided, a proxy shall have no right to speak at the meeting. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or mental disorder of the appointor or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of a PIBS in respect of which the proxy is given, provided that no intimation in writing of such death, mental disorder, revocation or transfer shall have been received by the Society at its Principal Office before the commencement of the meeting or adjourned meeting at which the proxy is used.

- (12) Any resolution passed at a meeting duly convened and held in accordance with these provisions shall be binding upon all the PIBS holders whether or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution. Notice of any resolution duly passed by the PIBS holders shall be given in writing to each PIBS holder by the Society within 14 days of the passing of the resolution, provided that the non-publication of the notice shall not invalidate the resolution.
- (13) Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Society and any minutes purporting to be signed by the chairman of the meeting at which resolutions were passed or proceedings had shall be conclusive evidence of the matters contained in the minutes and until the contrary is proved every meeting in respect of the proceedings of which minutes have been so made and signed shall be deemed to have been duly held and convened and all resolutions passed or proceedings had to have been duly passed or had.
- (14) The accidental omission to send notice of a separate meeting or to send any document required to be sent with the notice or otherwise before the meeting to, or the non-receipt of notice of a separate meeting or any such document as aforesaid by, any person entitled to receive notices or documents shall not invalidate the proceedings at that meeting.

9 Further issues

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

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

10 Notices

All notices regarding the PIBS shall be valid if sent by post to the PIBS holders at their respective addresses in the PIBS register. Any such notice shall be deemed to have been given on the second day following the mailing of such notice.

CERTAIN PROVISIONS OF THE BUILDING SOCIETIES ACT 1986

Amalgamation

Section 93 of the Act permits a building society to amalgamate with one or more building societies by establishing a building society as their successor. Amalgamation requires approval by a shareholding members' resolution and by borrowing members' resolutions (each as defined in Schedule 2 to the Act) of each amalgamating society and confirmation of amalgamation by the Commission. The Act provides that on the date specified by the Central Office of the Registry of Friendly Societies (the "Central Office") all the property, rights and liabilities (which would include permanent interest bearing shares) of each of the societies shall by virtue of the Act be transferred to and vested in the successor, whether or not otherwise capable of being transferred or assigned.

Transfer of engagements

Section 94 of the Act permits a building society to "transfer its engagements to any extent" to another building society which undertakes to fulfil such engagements. A transfer requires approval by special resolutions of each of the transferor society and the transferee society, and by borrowing members' resolutions of the borrowing members of each of the transferor society and the transferee society. However, the resolutions of the transferee society are not required if the Commission consents to the transfer being approved by a resolution of its board of directors only. The transfer must be confirmed by the Commission. The Act provides that on the date specified by the Central Office and to the extent provided in the instrument of transfer, the property, rights and liabilities of the transferor society shall by virtue of the Act be transferred to and vested in the transferee society, whether or not otherwise capable of being transferred or assigned. In the event of a transfer of all or part of the property and/or all or some of the liabilities (including the PIBS) of the Society, the PIBS would, pursuant to their terms, become deferred shares in the transferee without any alteration of their terms.

Conversion

Sections 97 to 102D of the Act permit a building society to transfer the whole of its business to a company which has been formed by the society wholly or partly for the purpose of assuming and conducting the society's business in its place or is an existing company which is to assume and conduct the society's business in its place. The transfer must be approved by a shareholding members' resolution and by a borrowing members' resolution and the society must obtain the confirmation of the Commission to the transfer and its terms. If the Commission confirms the transfer, then the Act provides that on the vesting date (as defined in the Act) all the property, rights and liabilities of the society making the transfer, whether or not capable of being transferred or assigned, shall by virtue of the Act and in accordance with transfer regulations (then in force) be transferred to and vested in the successor. Pursuant to section 100(2)(a) of the Act, permanent interest bearing shares would be converted into deposits with the successor. The terms of the PIBS provide that the deposits will be subordinated and will be applied in the subscription of perpetual subordinated bonds of the successor subject as provided therein.

Where, in connection with any transfer, rights are to be conferred on members of the society to acquire shares in priority to other subscribers, the right is restricted to 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 converted into deposits with the successor. 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 the reserves of the society. If the transfer is to an existing company, any distribution of funds (apart from the statutory cash bonus referred to above) may only be made to certain investing members of the society who have held their shares for at least two years expiring on a qualifying day specified by the society in the transfer agreement.

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

General

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

The Financial Services and Markets Act 2000 makes provision for the regulatory powers of the Building Societies Commission to be transferred to the Financial Services Authority with effect from 1 December 2001.

PORTMAN BUILDING SOCIETY

Introduction and Constitution

The Society is a building society incorporated under the Act on 1 October 1990 for an unlimited duration. As such, it is a mutual organisation owned by its members, is supervised and regulated by the Commission and is registered with the Central Office of the Registry of Friendly Societies in London. It operates under the Act, regulations made under the Act, and the Rules and Memorandum of the Society.

The Society was formed as a result of a merger between the Regency & West of England and Portman Wessex building societies in 1990 followed by further mergers with the St Pancras Building Society in 1993 and the Greenwich Building Society in 1997. Its origins date back over 150 years.

As at 31 December 2000, the Society and its subsidiaries had total assets of £6,854 million. The Society is the fourth largest building society in the United Kingdom, measured by total assets, as shown in the Society's audited accounts for the year ended 31 December 2000 and compared to the then most recent audited accounts of the other societies concerned.

The Society's principal purpose, as set out in Clause 3 of the Memorandum, is to make loans which are secured on residential property and are funded substantially by its members. The Society provides products and services to its members through its 113 branches together with centralised postal and telephone operations based in Bournemouth, the internet and relationships with financial intermediaries. It has a regional concentration of investors and borrowers surrounding its branch base in the south of England.

As at 31 December 2000, the Group had approximately 1,560,000 investment accounts and 85,000 borrowers' accounts.

During the year to 31 December 2000, the Group employed an average of 928 full time and 351 part time employees. For the financial years ended 31 December 1999 and 1998 the corresponding figures were 947 full time and 340 part time employees, and 905 full time and 313 part time employees respectively.

Mutual Status

It is the Board's view that members' interests continue to be best served by the Society remaining mutual. Accordingly, the Society introduced a Charitable Assignment Scheme in January 2000 to reduce disruption to its business caused by speculators opening investment accounts in the hope of receiving a windfall conversion benefit. The PIBS are excluded from the Charitable Assignment Scheme.

As a mutual organisation, both retail investors and borrowers with the Society have membership rights, and their eligibility to vote at general meetings of the Society is governed by the Act and by the Society's Rules. Members are eligible to vote as an investor or borrower or both but are only entitled to one vote except where there are separate shareholding members' and borrowing members' resolutions.

Business and Strategy of the Society

The Society's core business objectives are to deliver demonstrable benefits of mutuality and an excellent service to its members that is both cost effective and profitable.

The Society's principal activities are the raising of funds through investment by members; making mortgage advances on residential property; and offering a wide range of related services through its branches. The Society emphasises the importance of high standards of quality and customer service in all aspects of its operations.

As at 31 December 2000, 91.85 per cent. of business assets (as defined on page 51 of this document) were in the form of loans fully secured on residential property. At the same date, funding from members represented 92.11 per cent. of all shares and borrowings with the Society.

The Society undertook a strategic review during 2000 in order to ensure that the Society's core business objectives were best achieved by the Society remaining mutual. The review found this to be the case and concluded that the Group should focus on:

- the Society's core businesses of savings and secured residential lending;
- the branch network to provide the personal, face-to-face environment preferred by the majority of the Society's customers;

- developing other delivery channels as required by customers;
- keeping costs under control; and
- further improving the Society's knowledge of its customers in order to deliver a high quality service tailored to their individual needs.

A further review is currently being undertaken in 2001. The Board does not expect that this review will propose any significant change to the above conclusions.

Mortgage Lending

The Group's mortgage lending activity consists of the granting of advances to individuals for the purchase or re-mortgage of residential property, secured by a first legal charge over the property. At 31 December 2000, the Group's loans fully secured on residential property amounted to £4.9 billion, comprising 92.5 per cent. of all mortgage assets. At that date the Group also had loans of £0.4 billion secured on commercial property. During 2000, the Board made a decision to withdraw from commercial lending business although the Society is continuing to manage its existing commercial lending portfolio.

Of the Group's total residential mortgage loan portfolio as at 31 December 2000, 49.3 per cent. was at fixed or capped interest rates and 21.4 per cent. at discounted variable interest rates, with the remainder on administered variable interest rates. Although the Society operates on a national basis, its business has a strong focus in southern England where approximately 80 per cent. of its lending business (based on the total number of customers of the Society) is concentrated. (This percentage is based on the Society's Customer Overview Document as at 31 July 2001).

The Society follows a detailed Board Lending Policy Statement in accordance with the Commission's Prudential Note 1998/6. Within the agreed policy parameters, care, prudence and control are exercised by managers and staff to ensure that the quality of the Society's lending is maintained. Residential mortgage loans are processed through the Society's branches and its Principal Office in Bournemouth. In each case, a detailed procedure is followed prior to making any offer of advance. On receipt of an application, a valuation of the property is made by one of the Society's panel of approved independent qualified valuers. Subject to the valuer's report, credit checks and various other factors, the Society may make an offer of an advance. Where an advance exceeds 75 per cent. of the lower of the valuation or cost of a property, the Society obtains additional protection, normally through the use of its Group Mortgage Indemnity Guarantee policy.

In the six months ended 30 June 2001, the Group's new mortgage advances totalled £0.9 billion, compared with £1.3 billion in the year ended 31 December 2000 and £1.5 billion in the year ended 31 December 1999. (The source of this information is the June 2001, December 2000 and December 1999 audited financial statements of the Society).

Mortgage Arrears and Provisioning

The Society reports on mortgage arrears for regulatory purposes where arrears on the account represent 2.5 per cent. or more of the mortgage balance outstanding. At 30 June 2001, the aggregate value of all Group mortgage loans with an arrears balance representing 2.5 per cent. or more of the mortgage balance outstanding amounted to 0.76 per cent. of the value of all Group mortgage loans outstanding.

The Group's charges for bad and doubtful debts in the years ended 31 December 2000 and 1999 were £0.7 million and £3.5 million respectively. These charges represent 0.01 per cent. and 0.07 per cent. respectively of total loans and advances outstanding at the end of the relevant year. At 31 December 2000, the Group carried forward provisions for bad and doubtful debts of £19.0 million, of which £17.5 million represented a general provision.

Portman's mortgage balances in arrears were less than half the industry average at 31 December 1999 and 2000. The table below shows the relevant provision statistics at those dates:

	<i>Portman</i>	
	2000	1999
	%	%
Loan loss provisions (LLP)/average loans	0.01	0.08
Adjusted LLP*/average loans	0.01	0.07
Loan loss reserves/loans	0.36	0.44

* Loan loss provisions plus interest suspended

The numbers of mortgage accounts 12 months or more in arrears for the years ended 31 December 2000 and 1999 were 26 and 38 respectively. The numbers of properties in possession at the end of these years were 26 and 32 respectively.

Sources of Income

The principal source of income for the Group is net interest earned from the Group's mortgage lending, deposit taking and liquidity management activities, which amounted to £84.0 million, £86.0 million and £87.4 million in the years ended 31 December 2000, 1999 and 1998 respectively.

In the year ended 31 December 2000, income from fees, commissions, rent and other sources was £26.7 million.

Commissions are primarily derived from the sale of investment products through Portman Financial Services Limited (a wholly owned subsidiary of CGNU plc), and from general insurance commissions, emanating from the Group's role as a mortgage lender.

With the exception of the head office of the Society, there are no establishments of the Society which account for more than ten per cent. of its net turnover or operations. The Society's head office is located at Portman House, Richmond Hill, Bournemouth, Dorset. It has an internal area of approximately 104,000 square feet and is a freehold property.

Liquidity

The Society, in common with other building societies, is required by the Commission, in accordance with the Commission's Prudential Note 1998/5, to maintain adequate assets in the form of cash or other liquid form. The classes of instrument which may be treated by the Society as liquid assets for these purposes are prescribed by the Commission, and include cash balances, advances to credit institutions and certain debt securities.

The following table sets out the levels of the Group's liquid assets for these purposes as at 31 December 1999 and 2000 expressed both in amounts and as a percentage of total shares and borrowings. Terms used for these purposes are defined on page 51 of this document.

	<i>Liquid Assets</i>	<i>Percentage of</i>
	<i>£m</i>	<i>shares and</i>
		<i>borrowings</i>
		<i>%</i>
As at 31 December 2000	1,507.2	23.60
As at 31 December 1999	1,311.6	22.26

Funding Activities

Savings from the personal retail sector are the primary source of funds for the Society. However, the Society also raises funds from wholesale markets, principally from short term money markets together with longer term bonds issued under a Euro Medium Term Note Programme.

A breakdown of the Society's funding position at 31 December 2000 is as follows:

	<i>£m</i>
Share accounts	5,884.3
Amounts owed to credit institutions	42.0
Amounts owed to other customers	214.7
Debt securities in issue	245.0
	<hr/>
	6,386.0
	<hr/> <hr/>

The Group's subordinated liabilities at both 31 December 2000 and 30 June 2001 can be summarised as follows:

	<i>£m</i>
Floating Rate Subordinated Liabilities 2009	25.0
Fixed Rate 6.73 per cent. Subordinated Liabilities 2014	15.0
Fixed Rate 6.74 per cent. Subordinated Liabilities 2019	15.0
	<hr/>
	55.0
	<hr/> <hr/>

In addition, £75 million Subordinated Notes at a fixed rate of 7.125 per cent. maturing in 2016 were issued on 9 October 2001, further details of which are on page 26 of this document.

Capital Base

During 2000, the Group's pre-tax profits increased for the fifth successive year rising by 1.3 per cent. over the previous year to £54.3 million and the Group's capital ratios showed an improvement over 1999, as shown in the tables below.

At 31 December 2000 and 1999 the consolidated gross and free capital ratios of the Society, as calculated for the purposes of the Building Societies (Accounts and Related Provisions) Regulations 1998, were as follows:

	As at 31 December	
	2000	1999
	%	%
Gross capital ratio as a percentage of shares and borrowings	6.48	6.39
Free capital ratio	5.90	5.88

Source: audited financial statements

Other capital ratios are set out below:

Total capital ⁽ⁱ⁾ as a percentage of risk weighted assets ⁽ⁱⁱ⁾	12.84	12.53
Tier 1 capital ⁽ⁱⁱⁱ⁾ as a percentage of risk weighted assets	10.69	10.29

(i) "Total capital" represents the aggregate of general reserves, subordinated liabilities and general provisions for bad and doubtful debts.

(ii) "Risk weighted assets" represent Group assets weighted according to risk category as stated in the Commission's Prudential Note 1998/1; and

(iii) "Tier 1 capital" represents general reserves.

Source: Society's Regulatory Financial Statements as at 31 December 2000

Interim Results

As at 30 June 2001, the Group's total assets amounted to £7,284 million (31 December 2000: £6,854 million) representing a growth of 6.3 per cent. for the first six months of its current financial year. The Group's profit before tax for the six months to 30 June 2001 and 30 June 2000 totalled £31.5 million and £28.8 million respectively. Group liquid assets as at 30 June 2001 and 30 June 2000 were £1,653 million and £1,310 million respectively, representing 22.69 per cent. and 19.87 per cent. respectively of total assets.

Further details of the results of the Group for the six months ended 30 June 2001 are set out on page 61 of this document.

Recent Developments

On 14 September 2001, the Society agreed to acquire Sun Bank Plc ("Sun Bank") for a cash consideration expected to be approximately £95 million. As at 31 December 2000, Sun Bank had total assets of approximately £1.1 billion, shareholders' funds of approximately £54 million and a loan portfolio of around £1.0 billion. Sun Bank was founded in 1989 and has been a wholly owned subsidiary of Sun Life of Canada since 1994. Sun Bank's headquarters are in Stevenage, England. The acquisition is expected to be completed on 30 November 2001, subject to regulatory approval.

Funding for the acquisition will be sourced from a combination of existing reserves and the issue on 9 October 2001 of £75 million of Subordinated Notes under the Society's Euro Medium Term Note Programme. The acquisition of Sun Bank is not conditional on the issue of the PIBS, which is intended to strengthen the Group's total capital and Tier 1 ratios, although these ratios are in any event expected to be comfortably in excess of regulatory minima after completion of the acquisition.

The following summarises the consolidated profit and loss account of Sun Bank over the last three years:

	<i>Year ended 31 December</i>		
	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Net interest income	19.4	16.3	14.1
Net fees and commissions	1.2	1.6	1.5
Total operating income	20.6	17.9	15.6
Total operating expenses	(13.9)	(9.8)	(11.5)
Operating profit before provisions	6.7	8.1	4.1
Provisions for bad and doubtful debts	(0.4)	(1.1)	(0.9)
Operating profit on ordinary activities before taxation	6.3	7.0	3.2
Tax charge on profit on ordinary activities	(1.2)	(1.5)	0.1
Profit for the financial year	5.1	5.5	3.3

Like the Society, Sun Bank's activities are centred in southern England. Its main activities include prime and Complex Prime® (the bespoke underwriting of complex mortgage requirements) residential mortgage lending and buy-to-let mortgages, together with retail savings. Other activities include commercial mortgage lending and asset finance (primarily hire purchase, leasing and block discounting). As at 31 December 2000, the breakdown of these activities was:

	<i>£m</i>	<i>% of total</i>
	<i>outstanding</i>	<i>outstanding</i>
	<i>advances</i>	<i>advances</i>
Residential Lending	729	72
Residential Mortgages – buy-to-let	106	11
Commercial Mortgage Lending	113	11
Asset Finance	62	6
Total outstanding advances	1,010	100

The commercial mortgage and asset finance activities of Sun Bank do not fit with the long-term strategy of the Society, as outlined above. The Society therefore intends to dispose of these activities following completion of the acquisition.

Between 1994 and 2000, Sun Bank more than doubled in terms of value its residential mortgage portfolio. As at 31 December 2000, residential and buy-to-let mortgage arrears were 1.16 per cent. of Sun Bank's total advances for this class of business.

The relevant provision statistics for Sun Bank are shown below:

	<i>As at 31 December</i>	
	<i>2000</i>	<i>1999</i>
	<i>%</i>	<i>%</i>
Loan loss provisions/average loans	0.04	0.15
Loan loss reserves/loans	0.45	0.62

The Society intends to develop Sun Bank as a distinct organisation, retaining its own brand, premises and people. The Directors believe that the acquisition is a significant opportunity for the Society to compete in new market segments, through a subsidiary with a proven track record.

Directors of the Society

The names of the Directors of the Society, their responsibilities within the Society, their business occupation and the names of all companies and partnerships where the Society's Directors hold or have held a position as director or partner over the past five years are detailed below. The business address of each of the Directors is that of the Society given at the back of this document.

<i>Name</i>	<i>Responsibilities Within the Society</i>	<i>Business Occupation</i>	<i>Other Directorships and Partnerships in the last five years</i>
Rosemary Susan Barnes	Non-Executive Director	Chief executive of a charity	Council for the Registration of Forensic Practitioners Association of Medical Research Charities* Greenwich Healthcare*
Susan Caroline Ellen (Appointed 19 November 2001)	Non-Executive Director	Company director	Asda Group Plc* Barnard & Hill Ltd Birmingham Midshires Building Society* Kempton Investments Ltd Kempton Park Holding Company Ltd S T Ellen Consultancy Ltd Sandown Park Ltd Super 12 Racing Ltd The Epsom Grandstand Association Ltd The Kempton Park Racecourse Company Ltd United Racecourses (Holdings) Ltd United Racecourses Ltd
Francis Alastair Lavie Robinson	Non-Executive Director	Company director	Marshall of Cambridge (Holdings) Ltd New England Company (charity) RMC Group Plc St Nicholas' Hospice (Suffolk) (charity)
David John Seymour Roques	Chairman	Chartered accountant and company director	BBA Group Plc British Nuclear Fuels Plc* CSL Group Holdings Ltd* Premier Farnell Plc D&T ATR Consulting Nominees Ltd* D&T Consulting Holdings Ltd* Deloitte & Touche Services* Deloitte Consulting Ltd* Deloitte & Touche (East European) Services S A*
Robert Sharpe	Chief Executive		Burfield Management Company Ltd* Portman Channel Islands Ltd* Portman Estate Agents Ltd* Portman Financial & Insurance Services Ltd* Portman Financial Services Ltd Portman Mortgage Services Ltd* Residential Property Reversions V Ltd Ridgeway Mortgage Services Ltd Ridgeway Rentals 1 Ltd* Ridgeway Rentals 2 Ltd* Ridgeway Rentals 3 Ltd* Ridgeway Rentals IV Ltd Ridgeway Rentals V Ltd Ridgeway Rentals VI Ltd
Glyn Michael Smith	Group Finance Director		Portman Channel Islands Ltd Portman Mortgage Services Ltd* Residential Property Reversions V Ltd Ridgeway Mortgage Services Ltd Ridgeway Rentals IV Ltd Ridgeway Rentals V Ltd Ridgeway Rentals VI Ltd
Lord Stewartby	Vice Chairman	Company director	Amlin Investments Ltd Amlin Plc Angerstein Agency Ltd* Angerstein Agency (No 1) Ltd* AUT Holdings Ltd* AUT (No 1) Ltd* AUT (No 2) Ltd* AUT (No 3) Ltd* AUT (No 4) Ltd* AUT (No 5) Ltd* AUT (No 6) Ltd* AUT (No 7) Ltd*

<i>Name</i>	<i>Responsibilities Within the Society</i>	<i>Business Occupation</i>	<i>Other Directorships and Partnerships in the last five years</i>
Lord Stewartby <i>(continued)</i>	Vice Chairman	Company director	AUT (No 8) Ltd* AUT (No 9) Ltd* AUT (No 10) Ltd* Brazilian Investment Trust Plc* Delian Alpha Ltd* Delian Beta Ltd* Delian Delta Ltd* Delian Epsilon Ltd* Delian Gamma Ltd* Delian Kappa Ltd* Delian Lambda Ltd* Delian Underwriting Ltd* Diploma Plc Diploma Holdings Plc Framlington Dual Trust Plc* Framlington Group Ltd Framlington Income and Capital Trust Plc Govett Emerging Markets Investment Trust Plc SBA Underwriting Ltd Seccombe, Marshall & Campion Holdings Ltd* Stace Barr Angerstein Plc Stace Barr Insurance Capital Ltd* Standard Chartered Plc The Financial Services Authority* The Second Throgmorton Trust Ltd* The Third Throgmorton Trust Ltd The Throgmorton Trust Plc Throgmorton Capital Resources Ltd* T.T Finance Plc
William Tudor John <i>(Appointed 1 September 2001)</i>	Non-Executive Director	Company director, solicitor	A&O (Legal Advisers)* Allen & Overy* Allen & Overy Legal Services* Allen & Overy Service Company* Alnery Incorporations No. 1 Ltd* Alnery Incorporations No. 2 Ltd* A.O. Services* Far East Legal Consultants* First Combined Trust* (charity) Fleetside Legal Representative Services Ltd* Lehman Brothers Europe Ltd Lehman Brothers International (Europe) Ltd NFTS Foundation (charity) Woolwich PLC*
Patricia Mary Vaz	Non-Executive Director	Senior executive	Partnership Sourcing Ltd* Roffey Park Institute Ltd Tomorrow's People Ltd (charity) UK Sports Institute (charity)
Anthony Harry Westropp	Non-Executive Director	Company director	Abacus Group Plc Alarm Express Holdings Ltd* Agrivert Ltd Autoliv Holding Ltd* Baxall Ltd Bepton Farms Ltd Bepton Investments Ltd Bepton Organic Farms Ltd CCD Ltd* CCTV Centre Ltd* CCTV Rental Services Ltd* CCTV Warehouse Ltd Cherry Valley Farms Ltd Closed Circuit Distributors Ltd* Debt Recovery Management Ltd* Marling Industries Plc* MCD (UK) Ltd* Midhurst Whites Ltd Norbain Computer Supplies Ltd* Norbain Data Ltd* Norbain Data Systems Ltd* Norbain Displays Ltd* Norbain Europe Ltd*

Name	Responsibilities		Other Directorships and Partnerships in the last five years
	Within the Society	Business Occupation	
Anthony Harry Westropp (continued)	Non-Executive Director	Company director	Norbain Ltd Norbain Micro Ltd* Norbain SD Ltd Poolbrook Ltd Portman Mortgage Services Ltd* RBD Ltd* RBT (2) Ltd* Ridgeway Mortgage Services Ltd* SEE Ltd* The Nickerson Group Rothwell Ltd Time and Data Systems International Ltd Ultimate CCTV Products Ltd* Upperpoint Distribution Ltd Upperpoint Group Ltd Upperpoint Manufacturing Ltd
Matthew Peter Vincent Wyles	Group Operations Director		Portman Channel Islands Ltd Portman Financial Services Ltd Ridgeway Mortgage Services Ltd

The directorships and partnerships marked * are not currently held.

No Director has any unspent convictions in relation to indictable offences.

No Director has had a bankruptcy order made against him/her or been a party to an individual voluntary arrangement.

No Director has been a director with an executive function of a company which has been placed in receivership, compulsory liquidation, creditors voluntary liquidation, administration or has been a party to a composition or arrangement with its creditors generally or any class of its creditors either while a director of that company or within the 12 months preceding any such event.

No Director has been a partner in a partnership which has been placed in compulsory liquidation or administration or has been party to a partnership voluntary arrangement either while a partner in that partnership or within the 12 months preceding any such event.

No Director has been a partner in a partnership and had a receiver appointed over any of his/her or partnership assets either while a partner in that partnership or within the 12 months preceding any such appointment.

No Director has been subject to any public criticism by statutory or regulatory authorities (including recognised professional bodies) and no Director has ever been disqualified by a court from acting as a director of a company or from acting in management or conduct of the affairs of any company.

Certain provisions of the Rules relating to the Directors

The Rules contain, *inter alia*, the following provisions in relation to the Directors.

Except in certain circumstances relating to a resolution of the Board to determine the annual remuneration of the Directors, no director may vote as a Director in regard to any contract, or proposal of a contract, in which he is interested. If he shall so vote, his vote shall not be counted nor shall he be counted in any quorum when any such contract, or proposal for a contract, is under consideration.

All powers of the Society to borrow money are exercisable by the Directors.

The Board may determine from time to time the annual remuneration of the Directors as members of the Board (exclusive of any remuneration paid in respect of executive duties) which shall be paid at a rate not exceeding the 50p per £100 of total assets of the Society as at the first day of the financial year in which payment is made, together with such reasonable travelling, accommodation and other expenses as might be incurred while attending business of the Society with the approval of the Board. The Board may also resolve that a Director may be paid for professional or other work done by him on behalf of the Society in addition to his usual services as a Director. The Board may provide, establish, maintain and administer pension, life assurance, sickness, annuity and other funds schemes (whether

contributory or not) for the benefit of past, present or future Executive Directors of the Society and any society with which the Society may merge in the future and their spouses, children and dependants. In addition, the Board may grant pensions, allowances, gratuities, donations and bonuses to such persons.

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

Directors' Interests

The Directors of the Society have no interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Society and its subsidiary undertakings and which was effected by the Society during the current or immediately preceding financial year or was effected by the Society during an earlier financial year and remains in any respect outstanding or unperformed.

No Director of the Society nor any child, stepchild (in each case under the age of 18), spouse or other connected person of any Director of the Society (as ascertained by each Director with reasonable diligence) has any interest in any PIBS or any other share capital of the Society or options in respect of any PIBS or other such share capital.

Guarantees and Loans

There are no outstanding loans granted by the Society to the Directors nor any guarantees that have been provided by the Society for their benefit.

Employee Schemes

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

Directors' Service Agreements

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

- (i) a Service Agreement with Robert Sharpe dated 1 October 1999, pursuant to which he is employed as the Society's Chief Executive at a current basic annual salary of £260,000. The Agreement is terminable by the Society on 12 months' notice and by Mr Sharpe on 6 months' notice;
- (ii) a Service Agreement with Glyn Smith dated 1 October 1999, pursuant to which he is employed as the Society's Group Finance Director at a current basic annual salary of £185,000. The Agreement is terminable by the Society on 12 months' notice and by Mr Smith on 6 months' notice; and
- (iii) a Service Agreement with Matthew Wyles dated 1 October 1999, pursuant to which he is employed as the Society's Group Operations Director at a current basic annual salary of £170,000. The Agreement is terminable by the Society on 12 months' notice and by Mr Wyles on 6 months' notice.

The salaries of the Executive Directors are reviewed once each year by the Chairman's Remuneration and Nomination Committee, whose recommendations are considered by the Board. The next review is to be with effect from 1 January 2002. Executive Directors participate in a discretionary performance related bonus scheme which is calculated by reference to a number of financial and business indicators. The bonuses awarded in respect of the financial year ended 31 December 2000 amounted to £76,000 for Mr Sharpe, £54,000 for Mr Smith and £49,000 for Mr Wyles. They are also entitled to participate in the Society's contributory final salary pension scheme, to private health insurance, permanent health insurance and life assurance cover and an appropriate fully expensed motor car. Executive Directors are also entitled to pension benefits provided through unfunded and funded retirement benefit schemes.

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

Amounts Payable to the Directors

Total aggregate remuneration and benefits in kind of £1,147,000 were paid to Directors of the Society by the Group in respect of the financial year ended 31 December 2000. It is estimated that an aggregate sum of approximately £1.2 million will be payable to the Directors of the Society by the Group in respect of remuneration and benefits in kind during the financial year ending 31 December 2001.

CAPITALISATION AND INDEBTEDNESS

The following table is a summary of the Group's audited shareholders funds and indebtedness as at 30 June 2001 as adjusted to reflect the issue of the PIBS.

	<i>£ million</i>
Shareholders' Funds	
Shares	6,331
PIBS (now being issued)	60
General Reserve	381
	<hr/>
Total Shareholders' Funds	6,772
	<hr/> <hr/>
Indebtedness	
Amounts owed to Credit Institutions	30
Amounts owed to Other Customers	207
Other liabilities and provisions	36
Debt Securities in issue	244
Subordinated Liabilities	55
	<hr/>
Total Indebtedness	572
	<hr/>
Total Shareholders' Funds and Indebtedness	7,344
	<hr/> <hr/>

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

Save for the issue of the PIBS, at the date of this document there has been no material change in the capitalisation and indebtedness of the Society and its subsidiary undertakings since 30 June 2001 other than the issuance of £75 million subordinated notes on 9 October 2001. These notes mature in 2016 but the Society may, with the prior consent of the Commission, exercise its option to redeem the notes at par in 2011. The notes pay a coupon of 7.125 per cent. per annum. As at 30 June 2001 (the most recent practicable date) the aggregate amount of the Society's shares was £6,331 million.

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

No capital of the Society or of its subsidiary undertakings is under any option or has been agreed to be put under any option to any person.

The following pages 27 to 62 contain information which has been reproduced from the Society's 1999 and 2000 Report & Accounts (amended to reflect references to pages in this document).

GROUP FINANCIAL SUMMARY

The following information has been extracted from or, in the case of certain financial ratios, derived directly from figures appearing in the consolidated annual reports and accounts of the Society for the three years ended 31 December 2000.

	1998	1999	2000
	<i>£ million</i>	<i>as restated £ million</i>	<i>£ million</i>
Balance Sheet			
Total Assets	5,560.7	6,316.8	6,853.5
Mortgage Balances	4,324.9	4,931.7	5,251.8
Shares	4,305.0	4,935.9	5,884.3
Deposits	916.3	956.8	501.7
Reserves	290.7	321.7	359.1
Balance Sheet Ratios			
<i>Percentage of Total Assets</i>	%	%	%
Liquidity	20.30	20.76	21.99
Reserves	5.23	5.09	5.24
Gross Capital	5.23	5.96	6.04
Free Capital	4.39	5.49	5.50
Profitability			
Net Interest Margin	1.70%	1.45%	1.28%
Pre Tax Profit	£49.6m	£53.6m	£54.3m
Financial Performance			
	%	%	%
Post Tax Return on Mean Total Assets	0.61	0.61	0.57
Post Tax Return on Mean Total Reserves	11.38	11.79	10.99
Costs to Mean Total Assets	0.96	0.94	0.85
Cost Income Ratio	46.09	49.41	50.36
Mortgage Provisions to Mean Mortgage Assets	0.20	0.08	0.01
Growth Ratios			
	%	%	%
Total Assets	17.66	13.60	8.50
Mortgage Balances	19.92	14.03	6.49
Reserves	11.26	10.65	11.63
Shares	11.59	14.65	19.21
Pre Tax Profit	20.65	8.01	1.21

Investors should not just rely on the Group Financial Summary provided above but rather read this information in conjunction with the remainder of this document.

GROUP FINANCIAL STATEMENTS

The following information has been extracted without material adjustment from the Society's consolidated audited annual reports and accounts for the three years ended 31 December 2000 and from the interim audited accounts for the six months ended 30 June 2001.

Group Income and Expenditure Accounts

	Notes	Six months ended 30 June 2001	Year ended 31 December		
		£m	2000 £m	1999 as restated £m	
				1998 £m	
Interest receivable and similar income	1	207.6	411.7	354.3	372.7
Interest payable and similar charges	2	(163.6)	(327.7)	(268.3)	(285.3)
Net interest receivable		44.0	84.0	86.0	87.4
Income from investments	3	-	-	0.4	-
Other income					
Fees and commissions receivable		15.8	27.7	27.6	20.3
Fees and commissions payable		(1.7)	(1.9)	(2.4)	(2.0)
Other operating income		0.6	0.9	1.3	1.0
Total other income		14.7	26.7	26.5	19.3
Total income		58.7	110.7	112.9	106.7
Administrative expenses					
Ongoing		(25.0)	(46.9)	(48.5)	(39.8)
Exceptional item		-	-	-	(4.1)
Administrative expenses	4	(25.0)	(46.9)	(48.5)	(43.9)
Depreciation and amortisation		(2.5)	(8.8)	(7.3)	(5.3)
Operating profit before provisions		31.2	55.0	57.1	57.5
Provisions for bad and doubtful debts	11	0.3	(0.7)	(3.5)	(7.9)
Profit on Ordinary Activities Before Tax		31.5	54.3	53.6	49.6
Tax on profit on ordinary activities	8	(9.2)	(16.9)	(17.5)	(18.2)
Profit for the Financial Period	24	22.3	37.4	36.1	31.4
Statement of Total Recognised Gains and Losses					
Profit for the financial period		22.3	37.4	36.1	31.4
Unrealised deficit on revaluation of properties	24	-	-	-	(2.0)
Prior year adjustment	13	-	(4.8)	-	-
Total Recognised Gains and Losses since Last Report & Accounts		22.3	32.6	36.1	29.4

Profit for the financial period arises from continuing operations.

The Statement of Accounting Policies and Notes to the Accounts on pages 32 to 50 of this document form part of this financial information

Group Balance Sheets

		As at 30 June 2001	As at 31 December		
	Notes	£m	2000 £m	1999 as restated £m	1998 £m
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England		11.0	9.8	35.0	10.8
Loans and advances to credit institutions	9	874.1	772.9	762.8	745.7
Debt securities	10	767.4	724.0	513.3	372.1
Other liquid assets		–	0.5	0.5	0.5
Total liquid assets		1,652.5	1,507.2	1,311.6	1,129.1
Loans and advances to customers					
Loans fully secured on residential property		5,175.7	4,859.9	4,466.0	3,822.9
Other loans		366.9	391.9	465.7	502.0
Total loans and advances to customers	11/12	5,542.6	5,251.8	4,931.7	4,324.9
Tangible fixed assets	13	58.2	54.6	45.3	58.0
Other assets		1.3	1.4	0.8	0.7
Prepayments and accrued income	15	29.2	38.5	27.4	48.0
Total Assets		7,283.8	6,853.5	6,316.8	5,560.7
Liabilities					
Shares	16	6,330.6	5,884.3	4,935.9	4,305.0
Other borrowings					
Amounts owed to credit institutions	17	30.0	42.0	84.7	101.7
Amounts owed to other customers	18	206.7	214.7	562.3	491.3
Debt securities in issue	19	244.2	245.0	309.8	323.3
Total other borrowings		480.9	501.7	956.8	916.3
Total shares and other borrowings		6,811.5	6,386.0	5,892.7	5,221.3
Other liabilities	20	17.8	34.2	30.2	35.6
Accruals and deferred income	21	17.1	18.1	16.0	13.1
Provisions for liabilities and charges	22	1.0	1.1	1.2	–
Subordinated liabilities	23	55.0	55.0	55.0	–
Revaluation reserve	24	–	–	–	5.1
Reserves – general reserves	24	381.4	359.1	321.7	285.6
Total Liabilities		7,283.8	6,853.5	6,316.8	5,560.7
Memorandum Items					
Commitments	25	3.9	7.5	20.1	28.9

The Statement of Accounting Policies and Notes to the Accounts on pages 32 to 50 of this document form part of this financial information

Group Cash Flow Statements

	<i>Six months ended</i>			
	<i>30 June 2001</i>	<i>Year ended 31 December</i>		
		<i>2000</i>	<i>1999</i>	<i>1998</i>
		<i>as restated</i>		
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Net cash inflow from operating activities	59.0	205.2	138.6	117.6
Returns on investments and servicing of finance	(1.8)	(3.8)	(2.4)	-
Taxation	(5.5)	(19.0)	(22.0)	(13.0)
Capital expenditure and financial investment				
Purchase of investment securities	(654.0)	(1,085.3)	(1,055.2)	(543.7)
Sale and maturity of investment securities	610.9	877.7	913.9	452.0
Purchase of tangible fixed assets	(6.7)	(20.9)	(12.9)	(12.5)
Sale of tangible fixed assets	0.8	4.0	14.9	6.3
	(49.0)	(224.5)	(139.3)	(97.9)
Disposals	-	-	6.9	-
Financing	-	-	55.0	-
Increase/(decrease) in cash	2.7	(42.1)	36.8	6.7
Reconciliation of profit before tax to net cash inflow from operating activities				
Profit on ordinary activities before tax	31.5	54.3	53.6	49.6
Decrease/(increase) in prepayments and accrued income	5.2	(19.8)	27.5	(20.9)
(Decrease)/increase in accruals and deferred income	(75.4)	56.9	(8.0)	42.3
Provisions for bad and doubtful debts	0.5	1.4	4.8	9.2
Loans and advances written off net of recoveries	(0.3)	(4.0)	(2.7)	(8.8)
Depreciation and amortisation	2.5	8.8	7.3	5.3
Interest on subordinated liabilities	1.8	3.8	2.4	-
Profit on sale of tangible fixed assets	(0.2)	(1.2)	(0.7)	(0.4)
Provisions for liabilities and charges	(0.1)	(0.1)	1.2	-
Other non-cash movements	-	-	0.8	2.3
Net cash inflow from trading activities	(34.5)	100.1	86.2	78.6
Net increase in loans and advances to customers	(291.3)	(317.6)	(618.0)	(731.6)
Net increase in shares	517.6	888.1	643.2	409.6
Net (decrease)/increase in amounts owed to credit institutions and other customers	(16.7)	(386.3)	50.2	216.7
Net (decrease)/increase in debt securities in issue	(1.0)	(63.3)	(11.1)	128.5
Net (increase)/decrease in loans and advances to credit institutions	(96.2)	(20.3)	(10.8)	6.8
Net decrease/(increase) in other assets	0.6	(0.8)	0.5	5.6
Net (decrease)/increase in other liabilities	(19.5)	5.3	(1.6)	3.4
Net cash inflow from operating activities	59.0	205.2	138.6	117.6

Analysis of cash balances included in the balance sheet

	<i>Cash Balances £m</i>	<i>Net Increase/ (decrease) £m</i>
Cash in hand and balances with the Bank of England	11.0	
Loans and advances to credit institutions repayable on demand	8.6	
	<hr/>	
30 June 2001	19.6	
	<hr/>	
Increase 31 December 2000 to 30 June 2001		2.7
31 December 2000	16.9	
	<hr/>	
Decrease 1999 to 2000		(42.1)
31 December 1999	59.0	
	<hr/>	
Increase 1998 to 1999		36.8
31 December 1998	22.2	
	<hr/>	

Statement of Accounting Policies

Accounting convention

The Accounts have been prepared under the historical cost convention.

Basis of preparation and consolidation

The Accounts have been prepared in accordance with the Building Societies Act (Accounts and Related Provisions) Regulations 1998 and applicable accounting standards. Comparative figures for 1999 have been amended as a result of restating certain land and buildings to historical cost, in line with the transitional arrangements permitted on implementation of FRS 15 'Tangible Fixed Assets'. Details of this prior year adjustment, as a result of adoption of FRS 15, are given in note 13.

The Group income and expenditure account and balance sheet incorporate the Accounts of the Society and its subsidiary undertakings, which are made up for the six months to 30 June, or year to 31 December, and apply uniform accounting policies.

Liquid assets

Debt securities intended for use on a continuing basis in the Society's activities are classified as financial fixed assets and are stated at cost. At the date of purchase, the cost is adjusted, where relevant, to exclude accrued interest and a similar adjustment is made on realisation. Where the adjusted purchase price differs from the nominal value, the premium or discount is amortised over the period to maturity. Any amounts so amortised are charged or credited to interest receivable in the income and expenditure account in the relevant financial periods. Other liquid assets are stated at the lower of cost or net realisable value.

Provisions for bad and doubtful debts

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

Throughout the period, and at the period end, individual assessments are made of all loans and advances on properties which are in possession, or where the value of arrears represents 1 per cent. or more of the balance outstanding. Specific provision is made against those loans and advances which are considered to be significantly impaired.

A general provision is also made to cover losses which, although not specifically identified, are known to be present at the period end in any portfolio of advances.

Interest from all loans is credited to the income and expenditure account as it becomes receivable, except in respect of advances where the property has been taken into possession or where there is significant risk and, as a result, the recoverability of the interest is subject to doubt. Such interest is credited to an interest suspense account and is written off unless recovered after the sale of the property.

The charge to the income and expenditure account comprises the increase in the provisions together with losses written off during the period not previously provided for.

Fixed assets and depreciation

The cost of additions and major alterations to office premises and equipment is capitalised. The cost of fixed assets is written off on a straight line basis over their estimated useful lives as follows:

Short leasehold property	Period of lease up to 50 years
Equipment, fixtures, fittings and motor vehicles	3 to 10 years

Land is not depreciated.

Depreciation is not provided on freehold and long leasehold land and buildings where the estimated useful life exceeds 50 years, since the Directors consider it would be immaterial, at this time, in view of the long economic lives and high standards of maintenance of these properties. In accordance with FRS 15 'Tangible Fixed Assets' non-depreciated properties are reviewed annually for impairment. Any impairment in value of such properties is dealt with through the income and expenditure account.

Hedging

All interest rate related contracts are classified at the balance sheet date as hedging contracts. For an instrument to be classified as a hedge, the transaction should be expected significantly to reduce the risks inherent in the financial assets, liabilities or cash flows being hedged, arising from potential fluctuations in interest rates and market indices. The intention to hedge against such risks must be established at the outset of the transaction.

Income or expenditure on hedging contracts is recognised on an equivalent basis to the assets, liabilities or positions that are being hedged. If the hedge contract is terminated early, the realised gain or loss is accounted for in the year of termination. Amounts accrued on hedging instruments are included within prepayments and accrued income or accruals and deferred income.

Debt securities

Premia and discounts together with commissions and other costs incurred in the raising of debt securities are amortised over the period to maturity. Any amounts so amortised are charged or credited to interest payable in the income and expenditure account in the relevant financial periods.

Mortgage indemnities

The Society charges certain borrowers a premium for its exposure to uninsured mortgage losses. This income is deferred and credited to other income and charges in the income and expenditure account as fees and commissions receivable on a basis consistent with the incidence of these mortgage losses.

Mortgage promotional costs

The cost of cash incentives and discounts given on certain mortgage products is charged against interest receivable in the income and expenditure account in the period in which they arise.

Operating leases

Rentals under operating leases are charged to administrative expenses in the income and expenditure account on a straight line basis over the life of the lease.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax under the liability method only to the extent that it is probable that an actual liability will crystallise.

Pension costs

The Society's contributions to its pension scheme are charged to the income and expenditure account, under administrative expenses, so as to spread the cost of pensions as assessed by independent actuaries over the service lives of the members of the scheme. Any difference between the charge to the income and expenditure account and the Society's contributions paid to the scheme would be shown in the balance sheet.

Notes to the Accounts

1 Interest Receivable and Similar Income

	<i>Six months ended 30 June</i>	<i>Year ended 31 December</i>		
	<i>2001 £m</i>	<i>2000 £m</i>	<i>1999 £m</i>	<i>1998 £m</i>
On loans fully secured on residential property	149.3	303.1	263.4	265.1
On other loans	12.9	31.9	35.6	34.9
On debt securities				
Interest and other income	22.1	33.1	25.8	20.9
On other liquid assets				
Interest and other income	22.7	43.4	34.5	49.8
Net income/(expense) on financial instruments	0.6	0.2	(5.0)	2.0
	<u>207.6</u>	<u>411.7</u>	<u>354.3</u>	<u>372.7</u>

Interest on loans fully secured on residential property and on other loans has been reduced by interest suspended on loans, less interest now considered recoverable, in accordance with the Group's accounting policy.

Movements in the suspended interest account were as follows

At start of period	0.3	0.3	0.9	1.0
Interest written off during the period	(0.1)	(0.1)	(0.5)	(0.5)
Interest now considered recoverable	-	-	(0.2)	-
Interest suspended during the period	-	0.1	0.1	0.4
	<u>0.2</u>	<u>0.3</u>	<u>0.3</u>	<u>0.9</u>

The amount of interest suspended at the end of the period has been deducted from the appropriate assets in the Group and Society balance sheets.

2 Interest Payable and Similar Charges

On shares held by individuals	154.3	294.8	235.3	244.8
On other shares	-	0.1	0.2	0.3
On deposits and other borrowings				
Subordinated liabilities	1.8	3.8	2.8	-
Other	12.3	39.4	43.6	41.3
Net income on financial instruments	(4.8)	(10.4)	(13.6)	(1.1)
	<u>163.6</u>	<u>327.7</u>	<u>268.3</u>	<u>285.3</u>

3 Income from Investments

Income from sale of shares in subsidiary undertakings	-	-	0.4	-
	<u>-</u>	<u>-</u>	<u>0.4</u>	<u>-</u>

4 Administrative Expenses

	<i>Six months ended 30 June 2001</i>	<i>Year ended 31 December</i>		
	<i>£m</i>	<i>2000 £m</i>	<i>1999 as restated £m</i>	<i>1998 £m</i>
Staff costs				
Wages and salaries	12.7	24.1	24.8	21.7
Social security costs	1.0	2.0	1.8	1.7
Other pension costs	1.7	3.3	2.3	1.8
	<u>15.4</u>	<u>29.4</u>	<u>28.9</u>	<u>25.2</u>
Other administrative expenses	9.6	17.5	19.6	14.6
Exceptional item – relocation costs	–	–	–	4.1
	<u>25.0</u>	<u>46.9</u>	<u>48.5</u>	<u>43.9</u>
Other administrative expenses include				
Remuneration of auditors and their associates				
Audit fees	0.1	0.1	0.1	0.1
Non-audit fees	0.1	0.1	0.3	0.1

5 Directors

Directors' emoluments

Emoluments of the Society's Directors are detailed below

	<i>Fee/ Salary £000</i>	<i>Benefits £000</i>	<i>Annual bonus £000</i>	<i>Increase in accrued pension £000</i>	<i>2001 Total £000</i>
Non-Executive Directors					
D John S Roques (Chairman)	30	–	–	–	30
Lord Stewartby (Vice-Chairman)	20	–	–	–	20
Rosemary S Barnes	13	–	–	–	13
F Alastair L Robinson	13	–	–	–	13
Patricia M Vaz	13	–	–	–	13
A Harry Westropp	13	–	–	–	13
Period ended 30 June 2001	<u>102</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>102</u>
Year ended 31 December 2000	<u>208</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>208</u>
Year ended 31 December 1999	<u>207</u>	<u>4</u>	<u>–</u>	<u>–</u>	<u>211</u>
Year ended 31 December 1998	<u>191</u>	<u>13</u>	<u>–</u>	<u>–</u>	<u>204</u>
Executive Directors					
Robert Sharpe (Chief Executive)	130	11	–	14	155
Glyn M Smith (Group Finance Director)	92	8	–	2	102
Matthew P V Wyles (Group Operations Director)	85	8	–	2	95
Period ended 30 June 2001	<u>307</u>	<u>27</u>	<u>–</u>	<u>18</u>	<u>352</u>
Year ended 31 December 2000	<u>583</u>	<u>116</u>	<u>212</u>	<u>28</u>	<u>939</u>
Year ended 31 December 1999	<u>680</u>	<u>71</u>	<u>285</u>	<u>54</u>	<u>1,090</u>
Year ended 31 December 1998	<u>717</u>	<u>52</u>	<u>287</u>	<u>32</u>	<u>1,088</u>

	<i>Fee/ Salary £000</i>	<i>Benefits £000</i>	<i>Annual bonus £000</i>	<i>Increase in accrued pension £000</i>	<i>2001 Total £000</i>
Total emoluments					
Period ended 30 June 2001	<u>409</u>	<u>27</u>	<u>-</u>	<u>18</u>	<u>454</u>
Year ended 31 December 2000	<u>791</u>	<u>116</u>	<u>212</u>	<u>28</u>	<u>1,147</u>
Year ended 31 December 1999	<u>887</u>	<u>75</u>	<u>285</u>	<u>54</u>	<u>1,301</u>
Year ended 31 December 1998	<u>908</u>	<u>65</u>	<u>287</u>	<u>32</u>	<u>1,292</u>

Pension payments of £11,000 (2000: £22,000, 1999: £21,000, 1998: £19,000) were made to a past Director in respect of services as a Director.

Further details of the basis of remuneration of Directors are set out in the Directors' Report. Executive Directors receive benefits from the Society's approved UK pension arrangements and, to the extent that they are subject to the earnings cap, also receive benefits from either funded or unfunded arrangements, which do not qualify for certain tax exemptions under the Income and Corporation Taxes Act 1988.

Directors' loans and related party transactions

At 30 June 2001, there were no outstanding mortgage loans granted to any Director or connected person.

A register is maintained at the Head Office of the Society 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 will be available for inspection during normal working hours at the Head Office, Portman House, Richmond Hill, Bournemouth, for a period of 15 days up to and including the Annual General Meeting.

6 Staff Numbers

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

	<i>Six months ended</i>									
	<i>30 June 2001</i>		<i>Year ended 31 December</i>							
	<i>Full Time</i>	<i>Part Time</i>	<i>2000</i>		<i>1999</i>		<i>1998</i>			
		<i>Full Time</i>	<i>Part Time</i>	<i>Full Time</i>	<i>Part Time</i>	<i>Full Time</i>	<i>Part Time</i>	<i>Full Time</i>	<i>Part Time</i>	
Central administration	<u>553</u>	<u>72</u>	<u>554</u>	<u>69</u>	<u>573</u>	<u>56</u>	<u>528</u>	<u>58</u>		
Branches	<u>378</u>	<u>285</u>	<u>374</u>	<u>282</u>	<u>374</u>	<u>284</u>	<u>377</u>	<u>255</u>		
	<u>931</u>	<u>357</u>	<u>928</u>	<u>351</u>	<u>947</u>	<u>340</u>	<u>905</u>	<u>313</u>		

7 Pension Arrangements

The Society operates a defined benefit type scheme based on final pensionable salaries, which is contributory. The funds of the scheme are administered by trustees and are independent of the funds of the Society. Contributions to the scheme are paid in accordance with the recommendations of independent actuaries using the projected unit method.

The last actuarial valuation of the scheme was at 6 April 1997 and a review as at 6 April 2000 was undertaken. The assumptions which have the most significant effect on the results of the latest review are those relating to the rate of return on investments and the rate of increase in salaries and pensions. It was assumed that the rate of return on investments would exceed the rate of increase in salaries by 2 per cent. per annum compound and that pensions in payment would increase at the rate of 5 per cent. per annum in respect of credited service to 1 August 2000 and at the lower of 5 per cent. or retail price inflation in respect of credited service thereafter.

At the date of this review, the market value of the scheme was £72.1 million. The actuarial value of those assets represented 92.3 per cent. of the benefits which had accrued to members after allowing for expected future increases in earnings. In view of this, the Society has increased its ongoing contributions from 15 per cent. to 17.6 per cent. with that of the staff members remaining at 5 per cent. of pensionable salary.

The pension charge amounted to £1.7 million for the six months ended 30 June 2001 and £3.3 million for the year ended 31 December 2000 (1999: £2.3 million, 1998: £1.8 million).

There were no outstanding or prepaid contributions at either the beginning or end of the financial period.

8 Tax on Profit on Ordinary Activities

	<i>Six months ended</i>			
	<i>30 June</i>	<i>Year ended 31 December</i>		
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
UK corporation tax				
Current period	9.1	17.7	18.1	18.4
Adjustment for prior year	(0.5)	-	(0.1)	(1.0)
	<u>8.6</u>	<u>17.7</u>	<u>18.0</u>	<u>17.4</u>
Deferred tax				
Current period	0.3	(0.5)	(0.4)	0.2
Adjustment for prior year	0.3	(0.3)	(0.1)	0.6
	<u>9.2</u>	<u>16.9</u>	<u>17.5</u>	<u>18.2</u>

9 Loans and Advances to Credit Institutions

	<i>As at 30 June 2001 £m</i>	<i>As at 31 December</i>		
		<i>2000 £m</i>	<i>1999 £m</i>	<i>1998 £m</i>
Loans and advances to credit institutions have remaining maturities as follows				
Accrued interest	15.4	11.9	5.2	11.5
Repayable on demand	8.6	7.1	24.0	11.4
Other loans and advances by remaining maturity repayable				
In not more than three months	666.2	469.3	676.1	464.3
In more than three months but not more than one year	176.9	268.6	53.0	249.0
In more than one year but not more than five years	7.0	16.0	4.5	9.5
	<u>874.1</u>	<u>772.9</u>	<u>762.8</u>	<u>745.7</u>

10 Debt Securities

	<i>As at 30 June 2001 £m</i>	<i>As at 31 December</i>		
		<i>2000 £m</i>	<i>1999 £m</i>	<i>1998 £m</i>
Debt securities have remaining maturities as follows				
Accrued interest	7.7	7.4	4.5	4.5
In not more than one year	316.0	215.0	288.9	204.0
In more than one year	443.7	501.6	219.9	163.6
	<u>767.4</u>	<u>724.0</u>	<u>513.3</u>	<u>372.1</u>
Analysis of transferable debt securities, excluding accrued interest				
Listed on a recognised investment exchange	499.7	456.6	233.8	195.6
Unlisted	260.0	260.0	275.0	172.0
	<u>759.7</u>	<u>716.6</u>	<u>508.8</u>	<u>367.6</u>
Market value of listed transferable debt securities:	<u>500.0</u>	<u>457.1</u>	<u>233.7</u>	<u>195.5</u>
Included in debt securities are				
Unamortised discounts	(0.3)	(0.3)	(0.2)	(0.1)

The Directors of the Society consider that the primary purpose of holding securities is prudential. All transferable securities held as liquid assets are held with the intention of use on a continuing basis in the Society's activities and are classified as 'financial fixed assets'. No debt securities have been issued by public bodies.

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

Adjusted cost and net book value				
At 1 January	716.6	508.8	367.6	275.9
Additions	654.0	1,085.3	1,055.2	543.7
Disposals	(610.9)	(877.7)	(913.9)	(452.0)
Amortisation gain/(charged) during the period	-	0.2	(0.1)	-
At period end	<u>759.7</u>	<u>716.6</u>	<u>508.8</u>	<u>367.6</u>

11 Provisions for Bad and Doubtful Debts

	<i>Total £m</i>	<i>Loans Fully secured on residential property £m</i>	<i>Loans fully secured on land £m</i>
At 1 January 2001			
– general provision	17.5	16.8	0.7
– specific provision	1.5	1.0	0.5
	<u>19.0</u>	<u>17.8</u>	<u>1.2</u>
Amounts written off specific provision	0.5	0.5	–
Income and expenditure account			
– general provision	0.2	0.2	–
– specific provision	0.3	0.4	(0.1)
	<u>0.5</u>	<u>0.6</u>	<u>(0.1)</u>
Adjustments to specific provision resulting from recoveries	(0.8)	(0.7)	(0.1)
	<u>(0.3)</u>	<u>(0.1)</u>	<u>(0.2)</u>
At 30 June 2001			
– general provision	17.7	17.0	0.7
– specific provision	1.5	1.2	0.3
	<u>19.2</u>	<u>18.2</u>	<u>1.0</u>
At 31 December 1999			
– general provision	15.3	14.4	0.9
– specific provision	6.3	1.3	5.0
	<u>21.6</u>	<u>15.7</u>	<u>5.9</u>
At 31 December 1998			
– general provision	11.3	10.1	1.2
– specific provision	8.5	2.5	6.0
	<u>19.8</u>	<u>12.6</u>	<u>7.2</u>

12 Loans and Advances to Customers

	<i>As at</i> 30 June	<i>As at 31 December</i>		
	2001	2000	1999	1998
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Loans fully secured on residential property	5,175.7	4,859.9	4,466.0	3,822.9
Other loans				
Loans fully secured on land	366.8	391.8	465.5	501.6
Other loans	0.1	0.1	0.2	0.4
	<u>5,542.6</u>	<u>5,251.8</u>	<u>4,931.7</u>	<u>4,324.9</u>

Other loans fully secured on land include £14.9 million (2000: £32.1 million, 1999: £52.3 million, 1998: £8.2 million) of loans which are fully secured on residential property and were made to corporate bodies, such as housing associations, prior to 1 October 1998, the date the Society adopted the powers of the Building Societies Act 1997. The classification of these assets is not consistent with the treatment of similar loans made after 1 October 1998, which are included in 'Loans fully secured on residential property', but is reported in this fashion in order to comply with the requirements of the Building Societies Act 1997.

Maturity analysis

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

Accrued interest	0.1	0.4	0.5	0.6
On call and at short notice	1.2	1.3	1.4	3.1
In not more than three months	30.7	24.2	31.5	31.2
In more than three months but not more than one year	61.7	57.6	52.9	70.4
In more than one year but not more than five years	444.8	394.3	366.1	348.0
In more than five years	5,023.3	4,793.0	4,500.9	3,891.4
	<u>5,561.8</u>	<u>5,270.8</u>	<u>4,953.3</u>	<u>4,344.7</u>
Less: provisions (note 11)	(19.2)	(19.0)	(21.6)	(19.8)
	<u>5,542.6</u>	<u>5,251.8</u>	<u>4,931.7</u>	<u>4,324.9</u>

13 Tangible Fixed Assets

	<i>Total £m</i>	<i>Land and buildings £m</i>	<i>Assets in course of construction £m</i>	<i>Investment property £m</i>	<i>Equipment fixtures fittings & vehicles £m</i>
Cost or valuation					
At 1 January 2001	84.8	26.0	22.1	–	36.7
Additions	6.7	0.7	4.4	–	1.6
Disposals	(1.4)	(0.8)	–	–	(0.6)
At 30 June 2001	<u>90.1</u>	<u>25.9</u>	<u>26.5</u>	<u>–</u>	<u>37.7</u>
Depreciation and diminution in value					
At 1 January 2001	30.2	3.6	–	–	26.6
Charged in period	2.5	0.5	–	–	2.0
Disposals	(0.8)	(0.3)	–	–	(0.5)
At 30 June 2001	<u>31.9</u>	<u>3.8</u>	<u>–</u>	<u>–</u>	<u>28.1</u>
Net book value					
At 30 June 2001	<u>58.2</u>	<u>22.1</u>	<u>26.5</u>	<u>–</u>	<u>9.6</u>
At 31 December 2000	<u>54.6</u>	<u>22.4</u>	<u>22.1</u>	<u>–</u>	<u>10.1</u>
At 31 December 1999 as restated	<u>45.3</u>	<u>23.3</u>	<u>7.0</u>	<u>–</u>	<u>15.0</u>
At 31 December 1998	<u>58.0</u>	<u>29.1</u>	<u>1.2</u>	<u>11.2</u>	<u>16.5</u>
		<i>As at 30 June 2001 £m</i>	<i>As at 31 December 2000 £m</i>	<i>As at 31 December 1999 as restated £m</i>	<i>1998 £m</i>
The net book value of land and buildings comprises					
Freehold		17.1	17.1	18.5	25.1
Long leasehold		0.6	0.6	0.9	1.8
Short leasehold		4.4	4.7	3.9	2.2
		<u>22.1</u>	<u>22.4</u>	<u>23.3</u>	<u>29.1</u>
Occupied by the Group for its own activities		<u>16.1</u>	<u>16.6</u>	<u>17.1</u>	<u>20.2</u>

The value in use for properties which have been subject to an impairment test in 2000 has been calculated using a discount rate of 7.5 per cent.

Change of accounting policy

The Group has adopted FRS15 'Tangible Fixed Assets' and has followed the transitional arrangements to restate certain land and buildings to historical cost, as a prior year adjustment. As a consequence, the net book value of the Group and Society tangible fixed assets as at 31 December 1999 was reduced by £4.8 million, the revaluation reserve of £4.5 million was eliminated and general reserves have been reduced by £0.3 million. The effect of this on the reported profits for the year ended 31 December 2000 was an additional depreciation charge of £0.4 million (1999: £1.0 million) and a reduction in administrative expenses of £0.3 million (1999: £0.1 million).

14 Investments in Subsidiary Undertakings

The Society directly holds the following interest in subsidiary undertakings

	Country of registration or incorporation	Principal activity	Class of shares held	Interest of Society %
Portman Channel Islands Ltd	Guernsey	Offshore deposit taking	Ordinary	100
Residential Property Reversions V Ltd	England	Non-trading	Ordinary	100
Ridgeway Mortgage Services Ltd	England	Mortgage lending	Ordinary	100
Ridgeway Rentals IV Ltd	England	Non-trading	Ordinary	100
Ridgeway Rentals V Ltd	England	Non-trading	Ordinary	100
Ridgeway Rentals VI Ltd	England	Non-trading	Ordinary	100

15 Prepayments and Accrued Income

	As at 30 June 2001 £m	2000 £m	As at 31 December 1999 £m	1998 £m
Interest accrued on financial instruments	25.6	35.0	24.4	45.2
Deferred tax asset	1.5	2.1	1.3	0.8
Other	2.1	1.4	1.7	2.0
	<u>29.2</u>	<u>38.5</u>	<u>27.4</u>	<u>48.0</u>
Deferred tax asset				
At 1 January	2.1	1.3	0.8	1.6
Movement in period	(0.6)	0.8	0.5	(0.8)
At period end	<u>1.5</u>	<u>2.1</u>	<u>1.3</u>	<u>0.8</u>
The amounts provided for deferred tax relate to				
Excess of depreciation over capital allowances	0.6	0.7	0.2	-
Other timing differences	0.9	1.4	1.1	0.8
	<u>1.5</u>	<u>2.1</u>	<u>1.3</u>	<u>0.8</u>
The full potential deferred tax asset is as follows				
Excess of depreciation over capital allowances	0.6	0.7	0.2	(0.2)
Other timing differences	6.2	6.6	5.7	4.1
	<u>6.8</u>	<u>7.3</u>	<u>5.9</u>	<u>3.9</u>

16 Shares

	<i>As at</i> 30 June 2001 <i>£m</i>	<i>As at 31 December</i>		
		2000 <i>£m</i>	1999 <i>£m</i>	1998 <i>£m</i>
Held by individuals	6,328.6	5,882.1	4,933.4	4,298.1
Other shares	2.0	2.2	2.5	6.9
	<u>6,330.6</u>	<u>5,884.3</u>	<u>4,935.9</u>	<u>4,305.0</u>

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

Accrued interest	124.3	195.6	135.3	147.6
On demand	5,068.9	4,306.3	3,667.4	2,830.0
Other shares with remaining maturity repayable				
In not more than three months	168.6	376.8	237.0	284.2
In more than three months but not more than one year	721.7	709.2	548.7	718.1
In more than one year but not more than five years	247.1	296.4	347.5	325.1
	<u>6,330.6</u>	<u>5,884.3</u>	<u>4,935.9</u>	<u>4,305.0</u>

17 Amounts Owed to Credit Institutions

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

Accrued interest	0.1	0.2	0.8	0.5
On demand	19.4	6.3	0.4	0.6
Other amounts owed to credit institutions with remaining maturity repayable				
In not more than three months	-	10.0	8.0	23.1
In more than three months but not more than one year	10.0	-	-	2.0
In more than one year but not more than five years	-	25.0	75.0	75.0
In more than five years	0.5	0.5	0.5	0.5
	<u>30.0</u>	<u>42.0</u>	<u>84.7</u>	<u>101.7</u>

18 Amounts Owed to Other Customers

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

	As at 30 June 2001 £m	2000 £m	As at 31 December	
			1999 £m	1998 £m
Accrued interest	3.8	7.0	10.4	6.9
On demand	130.8	118.5	81.8	48.3
Other amounts owed to other customers with remaining maturity repayable				
In not more than three months	34.0	46.8	433.4	337.6
In more than three months but not more than one year	32.9	35.9	33.8	71.4
In more than one year but not more than five years	5.2	6.5	2.9	27.1
	<u>206.7</u>	<u>214.7</u>	<u>562.3</u>	<u>491.3</u>

19 Debt Securities in Issue

Certificates of deposit	96.6	66.4	154.1	172.7
Fixed and floating rate notes	147.6	178.6	155.7	150.6
	<u>244.2</u>	<u>245.0</u>	<u>309.8</u>	<u>323.3</u>

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

Accrued interest	1.6	1.4	2.9	5.3
Other debt securities with remaining maturity repayable				
In not more than one year	95.0	96.0	157.0	318.0
In more than one year	147.6	147.6	149.9	–
	<u>244.2</u>	<u>245.0</u>	<u>309.8</u>	<u>323.3</u>

20 Other Liabilities

Income tax	1.2	21.4	16.5	17.6
Corporation tax	14.2	11.1	12.4	16.4
Other creditors	2.4	1.7	1.3	1.6
	<u>17.8</u>	<u>34.2</u>	<u>30.2</u>	<u>35.6</u>

21 Accruals and Deferred Income

	<i>As at 30 June</i>	<i>As at 31 December</i>		
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Interest accrued on financial instruments	1.6	0.5	0.3	0.2
Interest accrued on subordinated liabilities	0.4	0.4	0.4	–
Mortgage indemnity premia	11.8	11.4	11.3	8.5
Other	3.3	5.8	4.0	4.4
	<u>17.1</u>	<u>18.1</u>	<u>16.0</u>	<u>13.1</u>

22 Provisions for Liabilities and Charges

Provisions for property costs				
At 1 January	1.1	1.2	–	–
Provisions (release)/charge	(0.1)	(0.1)	1.2	–
	<u>1.0</u>	<u>1.1</u>	<u>1.2</u>	<u>–</u>
At period end				

Provisions for property costs represent onerous contracts relating to future rentals in relation to vacant leased properties. The provisions will reverse over the length of the lease or, if sooner, the period to the anticipated date of disposal.

23 Subordinated Liabilities

Dated loan capital				
Subordinated loan 2009	25.0	25.0	25.0	–
Subordinated loan 2014	15.0	15.0	15.0	–
Subordinated loan 2019	15.0	15.0	15.0	–
	<u>55.0</u>	<u>55.0</u>	<u>55.0</u>	<u>–</u>

All loans are denominated in sterling. The loan maturing in 2009 has a variable interest rate, set at 0.7% above 3 month LIBOR. The loans maturing in 2014 and 2019 are fixed at interest rates of 6.73% and 6.74% respectively.

The Society may, with the prior consent of the Building Societies Commission, exercise its option to repay the debt five years before each final maturity.

The rights of repayment of the holders of subordinated debt are subordinated to the claims of all depositors, all creditors and members holding shares in the Society, as regards the principal of their shares and interest due on them.

24 Reserves

	<i>As at 30 June 2001 £m</i>	<i>As at 31 December</i>		
		<i>2000 £m</i>	<i>1999 £m</i>	<i>1998 £m</i>
General reserves				
At start of period	359.1	322.0	285.6	255.5
Prior year adjustment (note 13)	–	(0.3)	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
At start of period as restated	359.1	321.7	285.6	255.5
Profit for the financial period	22.3	37.4	36.1	31.4
Transfer from investment property revaluation reserve on sale of property	–	–	–	(1.3)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of period	381.4	359.1	321.7	285.6
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Revaluation reserve				
At start of period	–	4.5	5.1	7.1
Prior year adjustment (note 13)	–	(4.5)	(5.1)	–
	<hr/>	<hr/>	<hr/>	<hr/>
At start of period as restated	–	–	–	7.1
Revaluation deficit for the year	–	–	–	(2.0)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of period	–	–	–	5.1
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

25 Memorandum Items

Commitments				
Undrawn committed loan facilities	3.9	7.5	20.1	28.9
	<hr/>	<hr/>	<hr/>	<hr/>

26 Related Party Transactions

The Society has related party transactions, as defined under FRS 8 'Related Party Transactions', with Portman Financial Services Ltd ("PFS"), which is a wholly-owned subsidiary of CGNU plc. Robert Sharpe (Chief Executive) and Matthew Wyles (Group Operations Director) are members of the Board of PFS. PFS provides financial planning advice to the Portman members, and the Society receives commission for any financial services products which are sold as a result of these introductions. The Society received commission amounting to £4.1 million for the six months to 30 June 2001 and £7.8 million for the year to 31 December 2000 (1999: £7.2 million, 1998: £0.6 million) and at the balance sheet date the amount owing from PFS to the Society amounted to £0.9 million (2000: £0.6 million, 1999: £0.4 million, 1998: £0.6 million).

27 Guarantees and Other 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.

Subsidiary undertakings

The Society has given a contractual undertaking to discharge the liabilities of its offshore subsidiary Portman Channel Islands Ltd in so far as that subsidiary is unable to discharge them out of its own assets. It is also the intention of the Board to support its other subsidiary undertakings.

Capital commitments at 30 June for which no provision has been made in the Accounts

	As at 30 June 2001 £m	As at 31 December 2000 £m	1999 £m	1998 £m
Contracted but not provided for	3.9	8.0	24.8	2.1

Commitments under operating leases

There are commitments to make payments during the forthcoming year under operating leases for land and buildings, which terminate as follows

Within one year	0.2	0.2	0.1	0.1
Within two to five years	0.4	0.6	0.7	0.6
After five years	2.3	2.2	2.2	1.6
	2.9	3.0	3.0	2.3

28 Financial Instruments

Derivative financial instruments

The Society is a retailer of financial instruments in the form of mortgages, savings and insurance products. The Group uses wholesale financial instruments to invest liquid assets, raise wholesale funding and to manage the risks arising from its operations. Derivative financial instruments ("derivatives") are used by the Group to reduce the risk of loss arising from changes in interest rates or other factors which affect the business.

Derivatives are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices.

The Assets and Liabilities Committee ("ALCO") is responsible for managing the balance sheet exposures of the Group and the minutes of each ALCO meeting are reviewed by the Board of Directors at its subsequent Board meeting. The ALCO is responsible for overseeing the use of derivative products.

Types of derivatives

The principal derivatives used in balance sheet risk management are interest rate swaps ("IRS"), caps and forward rate agreements ("FRA"), which are used to hedge Group balance sheet exposures arising from fixed rate mortgage lending and savings products, funding and investment activities.

The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks. Alternatively, such risks may be managed using on balance sheet instruments as part of an integrated approach to risk management.

<i>Activity</i>	<i>Risk</i>	<i>Type of hedge</i>
Management of the investment of reserves and other net non-interest bearing liabilities	Sensitivity to changes in interest rates	IRS
Fixed rate savings products and fixed rate funding	Sensitivity to falls in interest rates	IRS which receive fixed interest rates and pay variable interest rates; FRA
Fixed rate mortgage lending and other fixed rate asset investments	Sensitivity to increases in interest rates	IRS which pay fixed interest rates and receive variable interest rates; FRA

The accounting policies for derivatives are described in the Statement of Accounting Policies on pages 32 and 33 of this document.

The table below analyses derivatives used by type of contract and maturity. Nominal principal amount indicates the volume of business outstanding at the balance sheet date and does not represent the amount at risk. The replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date and reflecting the Group's exposure, should the counterparties default. The credit risk weighted amount, which is calculated according to rules specified by the Building Societies Commission, is based on the replacement cost, but also takes into account the extent of potential future exposures and the nature of the counterparty.

	<i>As at</i>	<i>As at 31 December</i>		
	<i>30 June</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Interest rate contracts				
Interest rate swaps				
Nominal principal amount	2,834.1	2,607.2	1,876.2	2,226.0
Credit risk weighted amount	11.0	11.6	9.0	13.9
Replacement cost	41.8	48.2	40.2	64.2
Forward rate agreements				
Nominal principal amount	780.0	202.0	1,209.0	1,150.0
Credit risk weighted amount	0.1	–	0.7	1.0
Replacement cost	0.6	–	2.5	–

All of the Group's derivatives activity is contracted with OECD financial institutions.

In addition to credit risk, the financial risks faced by the Group include liquidity risk and interest rate risk.

Liquidity risk

The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations. This is achieved by maintaining a prudent level of liquid assets and wholesale funding facilities, and through managing the growth of the business.

Interest rate risk

The net interest income and market value of the Group's debt securities/financial instruments are exposed to movements in interest rates. This exposure is managed on a continuous basis within limits set by the Board using a combination of on and off balance sheet instruments.

The interest rate sensitivity of the Group after taking into account the various derivatives entered into by the Group was:

Interest rate risk

	<i>Not more than 3 months</i>	<i>More than 3 months but not more than 6 months</i>	<i>More than 6 months but not more than 1 year</i>	<i>More than 1 year but not more than 5 years</i>	<i>More than 5 years</i>	<i>Non-interest bearing</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
At 30 June 2001							
Assets							
Liquid assets	1,388.5	141.1	80.0	25.0	–	17.9	1,652.5
Loans and advances to customers	3,466.9	90.8	343.2	1,345.7	315.2	(19.2)	5,542.6
Tangible fixed assets	–	–	–	–	–	58.2	58.2
Other assets	–	–	–	–	–	30.5	30.5
Total assets	4,855.4	231.9	423.2	1,370.7	315.2	87.4	7,283.8
Liabilities							
Shares	5,635.1	190.9	439.4	65.2	–	–	6,330.6
Other borrowings	352.9	44.4	78.5	5.1	–	–	480.9
Other liabilities	–	–	–	–	–	35.9	35.9
Subordinated liabilities	25.0	–	–	–	30.0	–	55.0
Reserves	–	–	–	–	–	381.4	381.4
Total liabilities	6,013.0	235.3	517.9	70.3	30.0	417.3	7,283.8
Off balance sheet items	654.3	186.0	148.1	(698.1)	(290.3)	–	–
Interest rate sensitivity gap	(503.3)	182.6	53.4	602.3	(5.1)	(329.9)	–
At 31 December 2000							
Assets							
Liquid assets	1,170.5	136.5	158.4	25.5	–	16.3	1,507.2
Loans and advances to customers	3,316.0	144.6	456.6	1,027.4	326.2	(19.0)	5,251.8
Tangible fixed assets	–	–	–	–	–	54.6	54.6
Other assets	–	–	–	–	–	39.9	39.9
Total assets	4,486.5	281.1	615.0	1,052.9	326.2	91.8	6,853.5
Liabilities							
Shares	5,033.3	318.9	335.6	196.5	–	–	5,884.3
Other borrowings	459.3	24.2	11.7	6.5	–	–	501.7
Other liabilities	–	–	–	–	–	53.4	53.4
Subordinated liabilities	25.0	–	–	–	30.0	–	55.0
Reserves	–	–	–	–	–	359.1	359.1
Total liabilities	5,517.6	343.1	347.3	203.0	30.0	412.5	6,853.5
Off balance sheet items	191.7	151.6	249.5	(285.8)	(307.0)	–	–
Interest rate sensitivity gap	(839.4)	89.6	517.2	564.1	(10.8)	(320.7)	–

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

The Society manages its balance sheet risk using dynamic simulation under various interest rate scenarios. The risk to net interest receivable is determined and stress testing is carried out on interest rate movements and business strategy.

Gains and losses on hedges

Gains and losses on hedges of financial instruments are recognised on an equivalent basis to the assets, liabilities or positions that are being hedged. The hedge accounting gains and losses that arose in the six month period ended 30 June 2001 were £28.6 million (2000: £40.4 million) and £2.9 million (2000: £1.7 million) respectively. The hedge accounting gains carried forward in the balance sheet at 30 June 2001 were £24.0 million (2000: £34.5 million). Gains of £4.7 million (2000: £13.1 million) and losses of £1.3 million (2000: £3.7 million) are expected to be recognised in the income and expenditure account during the next financial period. There were gains of £16.4 million (2000: £13.2 million) and losses of £13.6 million (2000: £24.7 million) unrecognised at 30 June 2001.

The table below compares the book and fair values of some of the Group's financial instruments by category as at 30 June 2001 and 31 December 2000. Market values have been used to determine fair values where available and, where not, fair values have been calculated by discounting cash flows at the prevailing interest rate.

Assets/(liabilities)

	<i>Book value</i>	<i>Fair value</i>	<i>Book value</i>	<i>Fair value</i>
	<i>2001</i>	<i>2001</i>	<i>2000</i>	<i>2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
On balance sheet instruments				
Liquid assets	1,629.4	1,629.7	1,487.9	1,488.5
Other borrowings	(475.4)	(475.4)	(493.1)	(493.1)
Subordinated liabilities	(55.0)	(55.0)	(55.0)	(55.0)
	<hr/>	<hr/>	<hr/>	<hr/>
Off balance sheet and similar instruments	24.0	26.8	34.5	23.0
	<hr/>	<hr/>	<hr/>	<hr/>

ANNUAL BUSINESS STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2000

1 Statutory Percentages

	<i>2000</i>	<i>Statutory limit</i>
	%	%
Proportion of business assets other than in the form of loans fully secured on residential property (the "lending limit")	8.15	25.00
Proportion of shares and borrowings other than in the form of shares held by individuals (the "funding limit")	7.89	50.00

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, the Building Societies Act 1986 (as amended by the Building Societies Act 1997) and are based on the consolidated balance sheet.

Business assets are the total assets of the Society and its subsidiary undertakings as shown in the balance sheet plus provisions for bad and doubtful debts less fixed and liquid assets.

Loans fully secured on residential property are the amount of principal and interest owing by borrowers. This is the amount shown in the balance sheet before provisions for bad and doubtful debts plus suspended interest.

2 Other Percentages

	<i>2000</i>	<i>1999</i>
	%	<i>as restated</i>
		%
As a percentage of shares and borrowings		
Gross capital	6.48	6.39
Free capital	5.90	5.88
Liquid assets	23.60	22.26
As a percentage of mean total assets		
Profit after taxation	0.57	0.61
Management expenses	0.85	0.94

The above percentages have been calculated from the Group accounts.

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

'Gross capital' represents the aggregate of general reserves and subordinated liabilities.

'Free capital' represents the aggregate of gross capital and general provision for bad and doubtful debts less tangible fixed assets.

'Mean total assets' is the average of the total assets during the financial year.

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

'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

3 Information Relating to Directors and Officers

Directors as at 31 December 2000

<i>Name</i>	<i>Date of birth</i>	<i>Date of appointment</i>	<i>Occupation</i>
R S Barnes, BA	16 May 1946	18 Nov 1997	Chief executive of a charity
F A L Robinson	19 Sep 1937	1 Jul 1998	Company director
D J S Roques, CA	14 Oct 1938	1 Jun 1995	Chartered accountant & company director
*R Sharpe	14 Feb 1949	20 Sep 1994	Chief Executive
*G M Smith, MA, FCA	15 Sep 1952	1 Oct 1999	Group Finance Director
The Rt Hon Lord Stewartby, RD, FBA	10 Aug 1935	1 May 1995	Company director
P M Vaz, MCIPS	9 Oct 1946	1 Jul 1998	Company director
A H Westropp	22 Dec 1944	1 May 1989	Company director
*M P V Wyles, ACII	25 Aug 1958	1 Oct 1999	Group Operations Director

* Executive Directors

Correspondence and other documents may be addressed to any of the Directors, care of KPMG Audit Plc, 1 The Embankment, Neville Street, Leeds, LS1 4DW.

Service contracts for Executive Directors

Robert Sharpe, Glyn Smith and Matthew Wyles are each employed on service contracts dated 1 October 1999 for a term expiring at the age of 60. The period of notice the Society is required to give in the event of termination is 1 year. The period of notice required from each Executive Director in the event of termination is 6 months.

Directorships as at 31 December 2000

<i>Name</i>	<i>Other Directorships</i>
R S Barnes	Council for the Registration of Forensic Practitioners.
F A L Robinson	Marshall of Cambridge (Holdings) Ltd; New England Company (Charity); RMC Group Plc; St Nicholas' Hospice (Suffolk) (Charity).
D J S Roques	BBA Group Plc; Premier Farnell Plc.
R Sharpe	Portman Financial Services Ltd; Residential Property Reversions V Ltd; Ridgeway Mortgage Services Ltd; Ridgeway Rentals IV Ltd; Ridgeway Rentals V Ltd; Ridgeway Rentals VI Ltd.
G M Smith	Portman Channel Islands Ltd; Residential Property Reversions V Ltd; Ridgeway Mortgage Services Ltd; Ridgeway Rentals IV Ltd; Ridgeway Rentals V Ltd; Ridgeway Rentals VI Ltd.
Lord Stewartby	Amlin Plc; Angerstein Investments Ltd; Diploma Plc; Framlington Group Ltd; Framlington Income & Capital Trust Plc; Govett Emerging Markets Investment Trust Plc; SBA Underwriting Ltd; Stace Barr Angerstein Plc; Standard Chartered Plc; The Third Throgmorton Trust Ltd; The Throgmorton Trust Plc; T.T. Finance Plc.
P M Vaz	Roffey Park Institute Ltd; Tomorrow's People Ltd.
A H Westropp	Abacus Polar Plc; Agrivert Ltd; Baxall Ltd; Bepton Farms Ltd; Bepton Investments Ltd; Bepton Organic Farms Ltd; Midhurst Whites Ltd; The Nickerson Group Rothwell Ltd; Norbain Ltd; Norbain SD Ltd; Poolbrook Ltd; Upperpoint Group Ltd.
M P V Wyles	Portman Channel Islands Ltd; Portman Financial Services Ltd; Ridgeway Mortgage Services Ltd.

Officers and their directorships as at 31 December 2000

<i>Name</i>	<i>Directorships</i>	<i>Occupation</i>
S A T Baker	None	Building Society Executive
A R James	None	Building Society Executive
A R Jones	None	Building Society Executive
S J Peters	None	Building Society Executive

DIRECTORS' REPORT

The Directors have pleasure in presenting their Report, together with the Annual Accounts and Annual Business Statement of the Society and its subsidiaries (the "Group") for the year ended 31 December, 2000.

Business Objectives

The Portman's primary business objective is to remain a profitable, independent building society. The Board of the Society reviews strategy for the Portman every year. It is the Board's view that members' interests continue to be best served by the Portman remaining mutual.

The Society's principal activity continues to be the raising of funds through investment by members in order to make mortgage advances on residential property and to offer a wide range of related services through its branches, emphasising quality and customer service in all aspects of its operations.

Business Review and Future Developments

During the year, a business review was undertaken in order to ensure that the primary business objective remained valid and would continue to be delivered. The review concluded that the Group would focus on:

- the branch network to provide the personal, face-to-face environment preferred by the majority of Portman customers;
- expanding other delivery channels as required by customers;
- keeping costs under control;
- the Society's core businesses of savings and secured residential lending;
- further improving the Society's knowledge of its customers so that it can deliver a high quality service tailored to their individual needs.

Competitive Environment – Competition intensified during the year, with a number of major players attempting to buy market share through aggressive pricing that the Board believes to be unsustainable. The Portman savings and mortgage products were consistent in price and remained competitive through the year, reflecting a commitment to value at all times. As a result, gross new lending was above natural market share, whilst the increase in savings balances was twice natural share.

During the course of the year, the Board made a decision to withdraw from two areas of non-core business, commercial lending and offshore deposit taking. Intense competition had resulted in returns which could no longer justify the investment in the respective operations. In both instances, the Society has withdrawn from marketing for new business but will continue to manage the existing portfolios.

Performance Highlights – Despite strong asset growth, income was broadly unchanged, reflecting a reduction in the net interest margin to 1.28% (1999: 1.45%), which meant that the Portman's savers and borrowers benefited from more competitive rates throughout the year. This reduction was made possible by controlling costs and maintaining a high quality mortgage portfolio resulting in lower bad debt provisions.

Other important achievements in 2000 were:

- over £1.2 billion gross new residential mortgage lending, which illustrated the competitive nature of the Portman's product range;
- an exceptionally low number of mortgages in arrears, demonstrating a responsible approach to lending. At the end of the year, the Society had just 26 properties in possession;
- retail savings inflow of twice the Portman's natural market share, reflecting the benefits provided to new and existing savers;
- a 5% increase to 40,000 introductions to Portman Financial Services (a wholly owned subsidiary of CGNU plc), demonstrating the value the Society's customers place on the provision of this branch based service;

- substantial investment in a new Head Office, information technology and the branch network to improve the service delivered to customers;
- a management expenses ratio which ranked amongst the best in the Portman's peer group of building societies;
- a strong solvency ratio which ensures security for the Society's members.

Distribution Channels – The Board's commitment to the Portman branch network is absolute. Independent research shows that 85% of Portman customers interviewed prefer dealing with the Society through its branches. Going into 2001, the Portman remains firmly committed to improving and expanding its branch network.

The Board is, however, aware that some of the Society's customers may wish to transact through new technologies and therefore investment in 2000 has been across all forms of distribution. The Portman has:

- opened or relocated 4 branches in prime high street locations;
- fully refurbished a further 10 branch premises;
- further developed its internet channel, enabling on-line applications for mortgages, with an 'in principle' agreement delivered in seconds;
- enhanced its Call Centre, increasing the number of operatives and range of services available, resulting in a 42% increase in activity compared with 1999;
- established a Direct Mortgage telephone operation, which was handling 10% of all new mortgage lending within 9 months.

Products and Services – Offering products and services that consistently deliver excellent value remains the core philosophy of the Portman. During 2000, a number of product and service initiatives were introduced:

- an Instant Bonus scheme providing over one million Instant Access customers with the opportunity to benefit on new investments. It is estimated that over £7 million will be paid in bonuses in April 2001;
- ISAs that have consistently been recommended by financial journalists as 'Best Buys';
- a monthly income bond paying an Annual Equivalent Rate in excess of base rate throughout 2000;
- competitive fixed rate mortgages for terms between 2 and 5 years;
- a re-mortgage scheme where the Portman paid for all the associated costs of the transaction.

Outlook for 2001 – Looking forward, the Group is well positioned to deliver continued growth and improved customer service, with resultant benefits to members. During 2001, the Group will:

- improve further its distribution channels, primarily the branch network but also the internet, Call Centre and Direct Mortgage Unit. It will also consider the use of mobile branches to serve smaller communities;
- introduce new services as appropriate to enhance its product range and customer service;
- aim to achieve the Investors in People Standard;
- complete the roll-out of the Customer Relationship Management system to the majority of customer facing areas;
- move all central functions and operations to a new Head Office building;
- invest in a significant upgrade of IT infrastructure;
- take the necessary action to ensure compliance with the new Financial Services Authority regulatory regime.

Group Results for the Year

Profits and Capital – Group pre-tax profit for the year was £54.3 million. The post-tax profit, transferred to general reserves, was £37.4 million. Gross capital totalled £414 million at the year end, made up of general reserves of £359 million and subordinated debt of £55 million. The gross capital ratio at 31 December 2000 was 6.5%, and the free capital ratio was 5.9%. The Group solvency ratio at the year end was 12.8%.

Assets – Group assets rose by 8% to £6.9 billion at the year end. Liquid assets, in the form of cash and authorised investments, amounted to £1.5 billion, representing 24% of shares and borrowings. Details of movements in liquid assets treated as financial fixed assets are given in Note 10 to the Accounts on page 38.

Funding – Net share receipts during the year amounted to £709 million (excluding interest credited) and retail investors' balances at 31 December 2000 totalled £5.9 billion, an increase of 19% on the previous year. The Group continued to be active in the wholesale money markets and deposits amounted to £502 million at the year end.

Lending – Gross lending for the year was £1.3 billion and net lending was £448 million. Residential lending for the year amounted to £1.2 billion and other loans and advances amount to £66 million.

Arrears and Provisions – At the year end, there were 26 mortgages, with balances of £1.8 million, including properties in possession, where payments were twelve or more months in arrears. These arrears amounted to £0.4 million or 0.01% of mortgage balances. Provisions for potential losses on mortgages totalled £19 million.

Directors

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

D John S Roques, Chairman

Lord Stewartby, Vice-Chairman

Rosemary S Barnes

Robert H Mann

F Alastair L Robinson

Robert Sharpe

Glyn M Smith

Patricia M Vaz

A Harry Westropp

Matthew P V Wyles

Robert Mann served as Group Secretary until his retirement from the Board on 24 July, 2000.

In accordance with Rule 26, John Roques, Robert Sharpe and Harry Westropp are retiring and, being eligible, seek re-election at the Annual General Meeting.

None of the Directors or members of their families had any beneficial interest in, or rights to subscribe for, shares in, or debentures of, any connected undertaking of the Society at any time during the financial year.

Supplier Payment Policy

The Portman's policy for the payment of suppliers is as follows:

- at the start of the relationship with the supplier, payment terms will be agreed and will only be changed by agreement;
- terms of payment are normally within 30 days of the date of the invoice;

- suppliers are advised without delay when an invoice is contested and disputes are settled as quickly as possible.

The Group had trade creditors outstanding at the year end representing 9 days of purchases.

Regulation

The Portman's affairs are regulated by the Building Societies Commission and this responsibility will transfer to the Financial Services Authority in 2001. In addition, with regard to savings and mortgages, the two main areas of business, the Portman subscribes to voluntary codes of conduct: the Banking Code and the Mortgage Code. During the year, compliance visits were received from PricewaterhouseCoopers who were appointed by the relevant authorities to assess the Portman's level of compliance. In each case, the Portman received a positive report.

Corporate Governance

The Society adheres to the principles of good governance as set out in the Building Societies Commission's Code of Practice contained in the Prudential Note 1998/3 on Boards and Management. The Society also has regard to the recommendations on the Combined Code by the Committee on Corporate Governance.

The Board has established Committees to consider certain specialist areas in more detail than would be possible at a Board meeting. Each Committee operates within defined terms of reference. Minutes of meetings are formally recorded and reported to the Board by the respective Committee Chairman. The Committees and their summary terms of reference are set out below.

Board Committees

Chairman's Remuneration and Nomination Committee – consists entirely of Non-Executive Directors. The Committee reviews the Board composition and succession planning and considers nominations for new Board appointments. It also makes recommendations to the Board on remuneration packages and service contracts for Executive Directors and on fees for Non-Executive Directors.

The Committee also makes decisions on matters of urgency concerning the Society, which would otherwise require a decision by the Board and which cannot, in the opinion of the Committee, await the next monthly meeting of the Board. All decisions are reported to the Board and ratified at the next Board meeting.

Chairman John Roques
Lord Stewartby
Alastair Robinson
Harry Westropp

Audit and Compliance Committee – consists entirely of Non Executive Directors. The Committee reviews the effectiveness of the Group's systems of internal control and monitors compliance with regulatory requirements and with relevant codes of practice. The Committee approves the annual Internal Audit Plan, which is based on a thorough risk assessment of the full scope of the Group's business activities, and monitors progress against the Plan. The Committee also reviews in detail the Society's Annual Report and Accounts, prior to formal approval by the Board.

Chairman Lord Stewartby
Rosie Barnes
Alastair Robinson

Strategic Planning Committee – considers the strategic options open to the Society in the light of changes in its operating environment. The Committee also reviews the three year Business Plan.

Chairman Harry Westropp
Rosie Barnes
Robert Sharpe
Patricia Vaz

Assets and Liabilities Committee – determines treasury and balance sheet risk management strategies, capital requirements and the content of the Society's policy statements concerning liquidity, wholesale funding and structural risk management.

Chairman Lord Stewartby
Alastair Robinson
Robert Sharpe
Glyn Smith
Harry Westropp
Matthew Wyles
Gil Rosen

Information Technology Committee – determines the Society's information technology development strategy.

Chairman Patricia Vaz
Robert Sharpe
Glyn Smith
Sean Baker

Commercial Lending Committee – determines strategies and policies relating to the Society's commercial lending book.

Chairman Robert Sharpe
Glyn Smith
Matthew Wyles

Executive Directors' Remuneration

The Board's policy is to set remuneration levels so as to attract and retain high calibre Executive Directors and to encourage and reward performance in relation to the achievement of the Society's strategic objectives.

The main components of the remuneration package for Executive Directors are:

Basic Salary – Basic salaries for Executive Directors take into account the role and responsibilities, performance and experience of the individual, having regard to information from independent advisers on salary levels for similar positions in comparable financial services organisations.

Bonus – Executive Directors are eligible to receive an annual performance bonus, which is calculated by reference to a number of financial and business indicators and is based on performance. The Society is under no contractual obligation to pay performance-related bonuses. Bonus payments are not pensionable.

Pensions – A contributory final salary pension scheme is provided to Executive Directors, which is designed to provide a pension of two-thirds of final eligible salary by the age of 60 subject to a minimum pensionable service of 22 years. Subject to the approval of the Board, Executive Directors may be allowed to retire after the age of 55 without any actuarial adjustment to their pension. Pensions for Executive Directors are also provided through UURBS and FURBS as appropriate.

Other Benefits – Executive Directors are eligible for a range of benefits, which include the provision of a Society car and membership of a private medical insurance scheme.

Service Contracts – Details of Executive Directors' service contracts are set out in the Annual Business Statement on page 52.

Non-Executive Directors' Remuneration

The level of fees for Non-Executive Directors is reviewed annually and determined by reference to fees paid by comparable financial services organisations. Non-Executive Directors are remunerated solely by fees and do not receive any other benefits. The fees paid to the Chairman and Vice-Chairman reflect the responsibilities of these offices.

No Non-Executive Director is entitled to any pension from the Group.

Charitable and Political Donations

During the year, the Group made charitable donations, including sponsorship of the Bournemouth Symphony Orchestra, of £64,363. No political donations were made during the year.

People

The Portman attaches great importance to the quality of its people. The Society keeps its personnel policies under constant review and has extensive programmes for employee training and management development.

During the year, the number of mortgage consultants and branch managers who have completed the Certificate in Mortgage Advice (CeMAP) qualification increased to 108. In addition, a range of training and development programmes has been delivered, involving a total of over 4,700 training days and amounting to an average of four days' formal training per employee. To underline the Society's commitment to the development of all its people, a programme to attain the Investors in People Standard was launched in 2000.

The Society recognises the importance of good relations with employees and a staff survey was undertaken during the year to establish ways of improving communications. The Portman Staff Association continues to be involved in consultative processes covering a wide range of matters affecting employees. In addition, employees are kept up-to-date with details of the Society's objectives and performance by means of conferences, meetings, monthly briefings, an intranet, an in-house magazine, and regular branch visits by senior management.

The Portman is an equal opportunities employer. Its policy is to treat all applications for employment without discrimination, including those from disabled persons. Should any existing employees become disabled, every effort is made to enable them to continue with their current responsibilities or, if that is not possible, to employ them in a suitable position elsewhere within the Group.

Members' Resolutions

On 29 December, 2000, a member of the Society, who had advertised and co-ordinated support through a website, delivered six resolutions to the Society's Head Office. After careful analysis and checking, verified by legal advisors and independent scrutineers, it was confirmed that the resolutions did not have the necessary support.

Events since the Year End

The Directors consider that no events have occurred since the year end to the date of this Report that are likely to have a material effect on the financial position of the Group as disclosed in the Accounts.

Auditors

The Auditors, KPMG Audit Plc, have expressed their willingness to continue in office and, in accordance with Section 77 of the Building Societies Act 1986, a Resolution for their reappointment as Auditors of the Society is to be proposed at the Annual General Meeting.

For and on behalf of the Board



John Roques
Chairman
29 January 2001

STATEMENT OF DIRECTORS' RESPONSIBILITIES

In respect of the Annual Accounts

The following statement, which should be read in conjunction with the statement of the Auditors' responsibilities on page 60, is made by the Directors to explain their responsibilities in relation to the preparation of the Directors' Report, the Annual Accounts and the Annual Business Statement.

The Directors are required by the Building Societies Act 1986 (as amended) (the "Act") to prepare, for each financial year, Annual Accounts which give a true and fair view of:

- the state of affairs of the Society and the Group as at the end of the financial year; and
- the Income and Expenditure of the Society and the Group for the financial year.

In preparing those Accounts, the Directors are required to:

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

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

In respect of accounting records and internal control

The Directors are responsible for ensuring that the Society and its subsidiaries keep accounting records in accordance with the Act. The Directors are also responsible for ensuring that the Society and its subsidiaries establish and maintain systems of control of their business and records of inspection and report in accordance with the Act. Under the Act, the Directors are required to report to the Building Societies Commission (the "Commission"), for each financial year, on the compliance of those systems with the relevant requirements of the Act. KPMG Audit Plc is required to make a similar, but separate, report to the Commission. The Directors have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going Concern

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

AUDITORS' REPORT TO THE MEMBERS OF PORTMAN BUILDING SOCIETY

Auditors' Report to the Members of Portman Building Society

We have audited the Annual Accounts on pages 27 to 50. We have examined the Annual Business Statement (other than the details of Directors and Officers upon which we are not required to report) and the Directors' Report on pages 51 and 52 and pages 53 to 58 respectively.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Directors' Report, the Annual Business Statement and, as described on page 59, the Annual Accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the Annual Accounts give a true and fair view and are properly prepared in accordance with the Building Societies Act 1986 and regulations made under it. We also report to you our opinion as to whether certain information in the Annual Business Statement gives a true representation of the matters in respect of which it is given, whether the information in the Directors' Report is consistent with the accounting records and the Annual Accounts and whether the Annual Accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

We also report to you if, in our opinion, the Annual Accounts are not in agreement with the accounting records and if we have not received all the information and explanations that we require for our audit.

We read the other information accompanying the Annual Accounts, the Annual Business Statement and the Directors' Report and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Annual Accounts, Annual Business Statement and Directors' Report.

Basis of Opinion

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

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

Opinion

In our opinion:

- the Annual Accounts give a true and fair view of the state of affairs of the Society and of the Group as at 31 December, 2000 and of the Income and Expenditure of the Society and of the Group for the year then ended;
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;
- the information given in the Directors' Report is consistent with the accounting records and the Annual Accounts; and
- the Annual Accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of Part VIII of the Building Societies Act 1986 and regulations made under it.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Leeds
29 January 2001

INTERIM FINANCIAL INFORMATION

The following information has been extracted without material adjustment from the Society's consolidated audited interim accounts for the six months ended 30 June 2001 and from its consolidated unaudited interim accounts for the six months ended 30 June 2000.

Group Income and Expenditure Accounts

	<i>Six months ended 30 June 2001 (Audited) £m</i>	<i>Six months ended 30 June 2000 (Unaudited) £m</i>
Interest Receivable and Similar Income	207.6	196.9
Interest Payable and Similar Charges	(163.6)	(155.3)
Net Interest Receivable	44.0	41.6
Fees and Commissions Receivable	15.8	13.6
Fees and Commissions Payable	(1.7)	(0.9)
Other Operating Income	0.6	0.5
Total Income	58.7	54.8
Administrative Expenses	(25.0)	(22.1)
Depreciation and Amortisation	(2.5)	(2.6)
Total Operating Expenses	(27.5)	(24.7)
Operating Profit before Provisions	31.2	30.1
Provision for Bad and Doubtful Debts	0.3	(1.3)
Profit on Ordinary Activities Before Taxation	31.5	28.8
Taxation on Profit on Ordinary Activities	(9.2)	(9.4)
Profit for the Period	22.3	19.4

Group Balance Sheets

As at 30 June

	2001 (Audited) £m	2000 (Unaudited) £m
Assets		
Liquid Assets		
Cash In Hand and Balances with the Bank of England	11.0	21.5
Loans and Advances to Credit Institutions	874.1	821.3
Debt Securities	767.4	466.8
Other Liquid Assets	-	0.5
Total Liquid Assets	1,652.5	1,310.1
Loans and Advances to Customers		
Loans Fully Secured on Residential Property	5,175.7	4,747.7
Other Loans	366.9	448.5
Tangible Fixed Assets		
Other Assets, Prepayments and Accrued Income	58.2	54.7
	30.5	30.4
Total Assets	<u>7,283.8</u>	<u>6,591.4</u>
Liabilities		
Shares	6,330.6	5,436.7
Amounts owed to Credit Institutions	30.0	93.9
Amounts owed to Other Customers	206.7	337.6
Debt Securities in issue	244.2	287.0
Other Liabilities, Accruals and Deferred Income	34.9	35.3
Provisions for Liabilities and Charges	1.0	-
Subordinated Liabilities	55.0	55.0
	<u>6,902.4</u>	<u>6,245.5</u>
Reserves		
General Reserves	381.4	341.5
Revaluation Reserve	-	4.4
Total Liabilities	<u>7,283.8</u>	<u>6,591.4</u>

USE OF PROCEEDS

As described on page 20 of this document, the net proceeds of the issue of the PIBS (estimated to be approximately £59,250,000) will be used by the Society to strengthen its capital base. It is intended that the principal amount of the PIBS (£60,000,000) will be treated for capital adequacy purposes as Tier 1 capital.

UNITED KINGDOM TAXATION

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

Interest on the PIBS

- 1 While the PIBS continue to be listed on a recognised stock exchange within the meaning of section 841 Income and Corporation Taxes Act 1988, payments of interest may be made without withholding or deduction for or on account of income tax.
- 2 Persons in the United Kingdom paying interest to or receiving interest on behalf of another person may be required to provide certain information to the United Kingdom Inland Revenue regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.
- 3 If the PIBS cease to be listed then on making a payment of interest an amount will be withheld by the Society on account of United Kingdom tax at the lower rate (currently 20 per cent.) unless the Society reasonably believes that the person beneficially entitled to the interest is within the charge to United Kingdom corporation tax in respect of such interest and the Inland Revenue has not issued a direction that the payment be made subject to such withholding. Certain classes of taxpayer (such as tax exempt investors and individuals whose taxable income is below their personal allowance) may be able to reclaim all or part of any tax deducted. PIBS holders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted pursuant to the provisions of an applicable double taxation convention and may be able to make an individual claim to the relevant tax authorities for payment of interest gross.
- 4 Regardless of whether interest is received net of a lower rate income tax deduction or not, PIBS holders who are individuals or companies resident in the United Kingdom or who carry on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency with which the holding of the PIBS is connected may, depending on the circumstances, be liable to pay United Kingdom tax on the interest received.
- 5 The Society is required each year to supply to the Inland Revenue particulars of all interest paid or credited in relation to the PIBS.

Corporation Tax Payers

- 6 PIBS holders who are subject to United Kingdom corporation tax will be charged to tax on income arising on the PIBS under the "loan relationships" regime in the Finance Act 1996, broadly in accordance with their accounting treatment. However, the PIBS are not generally assets within the loan relationships regime (and are not "qualifying corporate bonds" for the purposes of corporation tax), and therefore on any disposal of the PIBS a holder subject to UK corporation tax may realise a gain or loss for the purposes of corporation tax on chargeable gains, depending upon that holder's particular circumstances.
- 7 On 26 July 2001, the Inland Revenue announced proposals for the amendment of the loan relationship rules. One of these proposals is for PIBS to be treated as loan relationships for UK corporation tax purposes. If this proposal is enacted, PIBS holders within the charge to United Kingdom corporation tax will be subject to tax as income on all profits and gains arising from, and from fluctuations in the value of, the PIBS broadly in accordance with their statutory accounting treatment.

Stamp Duty

- 8 No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue or transfer of the PIBS or on their purchase by the Society.

Withholding Tax: European Council Proposals

The European Union is currently considering proposals for a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Member States to opt instead for a withholding system for a transitional period in relation to such payments.

MARKETING ARRANGEMENTS

The Manager has, pursuant to a subscription agreement dated 28 November 2001 (the "Subscription Agreement"), agreed with the Society, subject to the satisfaction of certain conditions (including, without limitation, the admission of the PIBS to the Official List becoming effective by not later than 5 December 2001 or such later date as the Society and the Manager may agree), to subscribe for, or procure subscribers for, the PIBS at the issue price of 100 per cent. of their principal amount. The Society has agreed to pay the Manager a commission of 1.25 per cent. of such principal amount if the conditions to which the issue of the PIBS is subject are satisfied or waived by the Manager. The Manager is entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Society. The Society has agreed to indemnify the Manager against certain liabilities in connection with the issue of the PIBS.

It is the intention of the Society to distribute the PIBS as widely as possible. Accordingly, the Manager reserves the right to retain a portion of the offering for the purpose of making ongoing sales, at its absolute discretion, to professional intermediaries.

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

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

The Manager has represented that (1) it has not offered or sold and will not offer or sell any PIBS to persons in the United Kingdom prior to admission of the PIBS to listing in accordance with Part VI of the Financial Services and Markets Act 2000 (the "FSMA") except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) or the FSMA, (2) it has complied and will comply with all applicable provisions of the FS Act (and after they come into force, it will comply with all applicable provisions of the FSMA) with respect to anything done by it in relation to the PIBS in, from or otherwise involving the United Kingdom, and (3) it has only issued or passed on and will only issue or pass on to any person in the United Kingdom, before the repeal of Section 57 of the FS Act, any document received by it in connection with the issue of the PIBS (other than any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by the listing rules made under Part IV of the FS Act) if that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom the document may otherwise lawfully be issued or passed on. After the repeal of Section 57 of the FS Act it will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any PIBS in circumstances in which Section 21(1) of the FSMA does not apply to the Society.

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

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

GENERAL INFORMATION

Significant change

There has been no significant change in the financial or trading position of the Society or of the Group, save for the proposed acquisition of Sun Bank described on page 20 of this document since 30 June 2001, being the date to which the latest audited interim financial information of the Society has been prepared.

Litigation

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

Auditors

The consolidated accounts of the Society for the three years ended 31 December 2000 and the six months ended 30 June 2001 have been audited in accordance with United Kingdom auditing standards by KPMG Audit Plc and have been reported upon without qualification. KPMG Audit Plc has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its audit report and the references to its name and report in the form and context in which they are included, having also authorised the contents of its report for the purposes of section 152(1)(e) of the FS Act.

Authorisation

The issue of the PIBS was authorised by resolutions of the committee of the Board on 7 November 2001 and 26 November 2001 which committee was duly established by a resolution of the Board on 24 October 2001.

Expenses

The overall cost of the issue of the PIBS by the Society, including all commissions and expenses, is estimated to amount to approximately £950,000 (exclusive of VAT).

Material contracts

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

- (i) an agreement dated 14 September 2001 between SLC Financial Services (UK) Limited, Sun Life Financial Services of Canada Inc and the Society (the "Sun Bank Agreement"), pursuant to which the Society agreed to purchase the entire issued share and subordinated loan capital of Sun Bank for a cash consideration of £96,603,000, subject to upwards or downwards adjustment by an amount equal to the amount by which the consolidated net assets of Sun Bank and its subsidiary undertakings (together the "Sun Bank Group") at completion of the Sun Bank Agreement calculated in accordance with the Sun Bank Agreement, are greater or less than £59,603,000. Completion of the Sun Bank Agreement is conditional, inter alia, upon requisite approvals being received (or not withheld) under the Banking Act 1987 and the Society having received certain approvals under the laws of Jersey. In addition, further consideration may become payable in the event that a disposal of either or both of the asset finance portfolio and the commercial lending portfolio of the Sun Bank Group is agreed on or before the first anniversary of completion of the Sun Bank Agreement. The amount of such further consideration would be two thirds of any amount by which the net proceeds of such disposals exceed certain agreed amounts. The Sun Bank Agreement contains warranties and indemnities usual for a transaction of this type; and
- (ii) the Subscription Agreement dated 28 November 2001 between the Manager and the Society, and described under "Marketing Arrangements" on page 66 of this document.

The Society will enter into a Registrar's Agreement to be dated on or about 5 December 2001 with Lloyds TSB Registrars (the "Registrar") pursuant to which the Registrar will be appointed as registrar for the issue. Under this agreement, the Registrar shall provide a securities registration service in

respect of the issue. The Society will agree to indemnify the Registrar against certain liabilities in connection with the issue of the PIBS. The agreement will be terminable by either party giving at least six months written notice to the other.

Registrar

The Society has appointed Lloyds TSB Registrars at its specified office at The Causeway, Worthing, West Sussex, BN99 6DA to maintain the PIBS Register at such specified office. It is intended that the Registrar will act as agent of the Society for the purposes of maintaining the PIBS Register, accepting instructions for, and effecting, transfers of PIBS, issuing PIBS Certificates to new PIBS holders, receiving requests for the replacement of, and replacing, defaced, damaged, stolen, worn-out, lost or destroyed PIBS Certificates and making payments in respect of the PIBS as they fall due.

PIBS Certificates

No temporary documents of title shall be issued by the Society in respect of the PIBS. The Registrar will, from 5 December 2001, commence despatching the PIBS Certificates to all PIBS holders who decide to hold their PIBS in certificated form, at the risk of the persons entitled thereto, by first class post to the address detailed on the relevant application form. The ISIN for the PIBS is GB0031049215 and the SEDOL number is 3104921. PIBS will be held and transferred through the CREST System operated by CREST Co Limited.

Payment for the PIBS

Payment for the PIBS subscribed for by the Manager or by persons procured by the Manager will be made by telegraphic transfer (or other approved means) to the account nominated by the Society in accordance with the Subscription Agreement.

Subsidiary undertakings

Details of the subsidiary undertakings of the Society (excluding Sun Bank and its subsidiaries) are set out on page 42 of this document. The registered office of each subsidiary undertaking is the same as the Society's Principal Office, save for Portman Channel Islands Ltd. whose registered office is at Ollivier Court, Ollivier Street, St Anne, Alderney, Channel Islands, G49 3EF.

Changes in Capital

During the three years preceding the date of this document, the Society issued £75 million subordinated notes on 9 October 2001, as described on page 26 of this document, and has also made the following borrowings of loan capital:

Date	Borrowing
22 March 1999	£25 million Subordinated Loan Capital due 2009
6 April 1999	£15 million Subordinated Loan Capital due 2019
7 May 1999	£15 million Subordinated Loan Capital due 2014

Details of the terms of this Subordinated Loan Capital appear on page 45 of this document.

Documents for inspection

Copies of the following documents may be inspected at the offices of Addleshaw Booth & Co at 25 Cannon Street, London EC4M 5TB during normal business hours on any weekday (Saturdays and public holidays excepted) during the period of 14 days from the date of this document:

- (i) the Rules and the Memorandum;
- (ii) the published audited consolidated accounts of the Society for each of the two years ended 31 December 1999 and 2000 and the interim audited consolidated interim accounts of the Society for the six month period ended 30 June 2001;
- (iii) a draft (subject to modification) of a PIBS Certificate (including the special conditions of issue of the PIBS);
- (iv) the Directors' service agreements referred to above;
- (v) the consent of KPMG Audit Plc referred to above;
- (vi) the material contracts referred to above; and
- (vii) all other reports, letters and documents provided by expert parties included or referred to in this document.

PRINCIPAL OFFICE OF THE SOCIETY

Portman Building Society

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REGISTRAR

Lloyds TSB Registrars

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To the Manager
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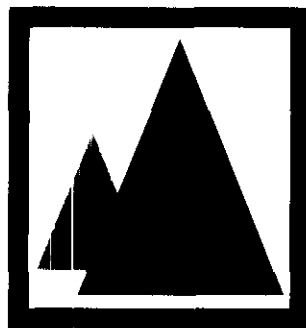
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PORTMAN