



**NOTTINGHAM**  
**BUILDING SOCIETY**

## **NOTTINGHAM BUILDING SOCIETY**

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

**£25,000,000 7½ per cent. Permanent Interest Bearing Shares**

**Issue Price: 98 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 £25,000,000 7½ per cent. Permanent Interest Bearing Shares (the "PIBS"), comprising 5,000 PIBS of £5,000 each, of Nottingham Building Society (the "Society") to be admitted to the official list maintained by the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for the PIBS to be admitted to trading on the London Stock Exchange's market for listed securities, which together, under the listing rules of the UK Listing Authority, will constitute official listing on the London Stock Exchange.

Attention is drawn to the description under "Certain Provisions of the Act" on page 55 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 expected that the PIBS will be issued in registered form on or around 14 June 2001 and that official dealings in the PIBS on the London Stock Exchange will commence on or around 14 June 2001. The listing of the PIBS will be expressed as a percentage of their principal amount. The PIBS may be held in certificated or uncertificated form.

**The PIBS will be deferred shares in the Society for the purposes of section 119 of the Building Societies Act 1986, and will not be protected investments for the purposes of payments out of the Building Societies Investor Protection Fund. Attention is drawn to the sections of this document entitled "Risk factors associated with the PIBS" 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 Issue of the PIBS – Repayment and Purchase" on pages 10 and 11 of this document.

**The Royal Bank of Scotland**

**12 June 2001**

*This Offering Circular comprises listing particulars approved by the UK Listing Authority as required by the Financial Services Act 1986 in relation to the admission of the PIBS to the Official List and their admission to trading on the London Stock Exchange's market for listed securities 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 20 and 21 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors of the Society (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 The Royal Bank of Scotland 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 or the Group 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 PIBS have not been and will not be registered under the United States Securities Act of 1933, as amended, 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 any 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 59 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 associated with the PIBS" set out on page 4 of this document.**

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

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

*Terms used in this document shall, unless otherwise defined or 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 ASSOCIATED WITH THE PIBS

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

### (a) Permanence

There is **no expectation of repayment** unlike normal investment accounts where the Society must return the capital investment (plus any accrued interest) to investors as and when they demand it (subject, of course, to the stated period of notice etc. on that particular account). In the case of the PIBS, far from being obliged to repay the investment, the principal amount of the PIBS will be repayable only in certain limited circumstances as described in "Special conditions of issue of the PIBS – Repayment and Purchase" on pages 10 and 11 of this document. The Society is not permitted to redeem/repay the PIBS without the permission of the Building Societies Commission or any successor body performing for the time being the same or similar functions in relation to building societies (the "Commission"). The Society is under no obligation to the investor to seek the Commission's permission to repay the PIBS and permission will generally only be given in exceptional circumstances and for a significant block of shares. The PIBS are not withdrawable and will not be repayable at the option of the PIBS holders.

### (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 liabilities of the Society and, in a winding up or dissolution of the Society, the claims of the PIBS holders, as to principal and interest, will rank behind all Creditors, where "Creditors" is as defined on page 11. 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 Fund**.

### (f) Payments of interest may be missed

Interest in respect of the PIBS will not be payable (i) if the Society has at any time before the date for payment of the interest cancelled the payment of any interest or dividend upon any Deposit or Shares (other than deferred shares) or (ii) where the Board of Directors of the Society is of the opinion that there has been a failure by the Society to satisfy the second criterion of prudent management set out in section 45(3) of the Act and such failure is then continuing or the payment or crediting of the interest, or, as the case may be, the payment or crediting in full of the interest, would cause or contribute to such a failure by the Society and in

such case, the Board passes a resolution cancelling the interest or, as the case may be, reducing the interest to such extent as may be necessary to ensure that there will be no such failure.

**(g) Interest is not cumulative**

If the Society does not make an interest payment in respect of the PIBS in accordance with paragraph (f) above, such interest will be cancelled.

**(h) 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.

**(i) Competitiveness of Markets**

Investors should be aware that the United Kingdom mortgage and savings markets are expected to remain very competitive and it is anticipated that net interest margins will continue to fall.

**(j) 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, 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 undated subordinated debt of that body ranking behind any undated subordinated debt previously issued by the Society, and do not become repayable.

In relation to any benefits which might accrue to members should the Society convert to a company or other corporate body in the future, potential investors should review "Mutual Status and Charitable Assignment Scheme" on page 15.

Investors' attention is also drawn to the information in respect of the Society appearing on pages 15 to 21 of this document.

**SUMMARY OF CERTAIN PROVISIONS OF THE RULES OF THE SOCIETY  
AND THE ACT APPLICABLE TO THE PIBS**

The rights and restrictions attaching to the PIBS will be governed by the Rules and the Act and the special conditions of issue of the PIBS set out on pages 9 to 14 of this document.

Set out below is a summary of certain provisions of the Rules and certain provisions of the Act insofar as they might affect the rights of the PIBS holders. Terms defined in the Rules will, unless the context otherwise requires, have the same meanings when used in this summary.

**1. General**

The Person whose name is entered in the PIBS Register as the holder of a PIBS or a fraction of a PIBS is a Shareholding Member of the Society.

Each PIBS holder, and all Persons claiming through him or on his behalf or under the Rules, shall be bound by the Rules, by the Memorandum and by the Act.

**2. Meetings**

As Shareholding Members of the Society, the PIBS holders, subject to the provisions of the Rules, will enjoy various membership rights. In particular, the PIBS holders will be entitled to receive notice of, to participate in a requisition for, to propose resolutions at, to attend, to be counted in a quorum at and to vote or appoint a proxy at any general meeting of the Society.

A PIBS holder will be entitled to exercise one vote (irrespective of the size of his holding) on a resolution (whether an Ordinary Resolution or a 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 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.

**3. 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 change of name or address as the Society may require.

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

*The Society has appointed Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA as its registrar for the PIBS issue.*

#### **4. 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 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 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 with the Registrar. The PIBS will be capable also of being held in uncertificated form.*

#### **5. 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.

#### **6. 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.

#### **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 Shareholdings at the date of commencement of the dissolution or winding-up.

*Notwithstanding these provisions of the Rules regarding the application of any surplus on a dissolution or winding-up of the Society, the PIBS holders will not be entitled to any share in any final surplus upon a winding-up or dissolution of the Society as provided in "Special conditions of issue of the PIBS – Repayment and Purchase" on pages 10 and 11.*

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 £1,000.

#### **8. 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 provided the Society has first given 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.

#### **9. 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.



## SPECIAL CONDITIONS OF ISSUE OF THE PIBS

*The following are the special conditions of issue of the PIBS as they apply to holders of the PIBS and in the form in which they will appear on the reverse of each share certificate issued in respect of each holding of PIBS (a "PIBS Certificate").*

The PIBS (as defined below) are issued under the Rules (the "Rules") of Nottingham Building Society (the "Society"). The PIBS holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of the Rules. The PIBS 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) "PIBS" means the £25,000,000 7% per cent. Permanent Interest Bearing Shares of the Society and, unless the context otherwise requires, shall include any further permanent interest bearing shares issued pursuant to Condition 9 and forming a single series with the PIBS.
- (2) Unless the context otherwise requires, the expression "PIBS holder" means a person whose name and address is entered in the PIBS Register as the holder of a PIBS.
- (3) Words and expressions defined in the Rules will have the same meanings when used in these Conditions, unless the context otherwise requires.
- (4) **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 investments for the purpose of payments out of the Building Societies Investor Protection Fund provided for under the Act;
  - (c) are not withdrawable; and
  - (d) are classified as PIBS for the purposes of the Rules.
- (5) Lloyds TSB Registrars (the "Registrar") shall, on behalf of the Society, issue a PIBS Certificate in respect of each holding of PIBS to each PIBS holder who holds his PIBS in certificated form within one month after one is requested in writing.

*The exchange of certificated PIBS for uncertificated PIBS and vice versa shall be effected in accordance with The Uncertificated Securities Regulations 1995, as amended from time to time, and the rules, practices and procedures of a relevant system. No fee shall be charged in respect of an exchange.*

### 2. Form and denomination

The PIBS are in registered form and are transferable in accordance with the Rules in amounts and integral multiples of £5,000.

### 3. Interest

- (1) The PIBS bear interest from and including 14 June 2001 at the rate of 7<sup>7</sup>/<sub>8</sub> per cent. per annum payable in arrear by equal half-yearly instalments on 14 June and 14 December in each year (each an "Interest Payment Date"), commencing on 14 December 2001. Each half-yearly period from and including one Interest Payment Date to but excluding the next succeeding Interest Payment Date (including the period from issue to 14 December 2001) is called an "Interest Period". Interest on the PIBS is non-cumulative as described below.

The interest payment in respect of any period shorter than an Interest Period will be calculated on the basis of the actual number of days in the relevant Calculation Period divided by the product of (1) the number of days in the Interest Period in which the relevant Calculation Period falls and (2) the number of Interest Periods in any year, rounding the resultant figure to the nearest penny (half a penny being rounded upwards).

As used above "Calculation Period" means the relevant period for which interest is to be calculated (from and including the first such day to but excluding the last).

- (2) Interest in respect of the PIBS shall not be paid or credited in respect of any Interest Period if the Society has at any time before the date for payment of the interest cancelled the payment of any interest or dividend upon:

- (a) any other 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(2):

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

If, and to the extent that, the payment or crediting of interest is prohibited under this Condition 3(2), interest in respect of the PIBS will be cancelled and the PIBS holders will have no rights in respect of the cancelled interest.

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

- (a) there has been a failure by the Society to satisfy the second criterion of prudent management set out in section 45(3) of the Act and such failure is then continuing; or
- (b) the payment or crediting of the interest or, as the case may be, the payment or crediting in full of the interest would cause or contribute to such a failure by the Society,

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

- (4) Any amount representing interest on the PIBS 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 for such payment and shall revert to the Society.

#### **4. Repayment and Purchase**

- (1) The PIBS constitute permanent non-withdrawable deferred shares in the Society and have no specified final maturity date. The PIBS will become repayable only as provided in this Condition.
- (2) The PIBS will become repayable on the date that an instrument or order is made or an effective resolution is passed for the winding-up or, otherwise than by virtue of section 93(5), section 94(10),

section 97(9) or section 97(10) of the Act, dissolution of the Society but only if and subject to the condition that all sums due from the Society to Creditors claiming in the winding-up or dissolution have been paid in full.

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

- (3) The claims of the PIBS holders in a winding-up or dissolution of the Society will be for the principal amount of their PIBS together, subject to Condition 3, with interest accrued to but excluding the date of repayment after all sums due from the Society to Creditors have been paid in full. The PIBS holders will not be entitled to any Share in any final surplus upon a winding-up or dissolution of the Society.
- (4) The Society or any of its subsidiaries, having obtained prior Relevant Supervisory Consent (if required) and, for so long as the PIBS are admitted to the official list maintained by the UK Listing Authority and admitted by the London Stock Exchange plc (the "London Stock Exchange") to trading on its 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, may purchase any of the PIBS. In the case of purchases of PIBS by tender, tenders shall be made available to all PIBS holders alike.
- (5) All PIBS repaid or purchased in accordance with this Condition shall be cancelled forthwith and may not be reissued or resold.
- (6) For the purpose of this Condition, "Relevant Supervisory Consent" means consent by the Building Societies Commission (or any successor body performing for the time being the same or similar functions in relation to building societies) to the relevant purchase (as referred to in Condition 4(4)).

## **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 to the address of the relevant PIBS holder shown in the PIBS Register on the Record Date (as defined below) and made payable to or to the order of the relevant PIBS holder appearing in the PIBS Register at the close of business on the fifteenth day before the relevant due date (the "Record Date"). Upon application of a PIBS holder (being, in the case of a joint holding of PIBS, the Representative Joint Shareholder) or the person to whose order the payment is to be made to the Registrar in the form obtainable from the specified office of the Registrar, not less than ten days before the due date for any payment, 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 maintained by the relevant PIBS holder or the person to whose order the payment is to be made with a bank or building society in the United Kingdom. In this Condition 5, "business day" means any day (except where such day is a Saturday or a Sunday) on which banks are open for business in England.

All payments in respect of the PIBS will be paid without any deduction or withholding for or on account of taxes except as may be required by law. If any tax is required to be deducted from payments on the PIBS, or if any amount is withheld from payments on the PIBS, the Society will not be obliged to, and will not, pay any additional amounts to PIBS holders to compensate for such withholding or deduction.

## **6. Succession**

- (1) Upon an amalgamation of the Society with another building society under section 93 of and Schedule 16 to the Act or a transfer of its engagements (including the obligations under the PIBS) 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 (including as to ranking).
- (2) The Society will procure that any amalgamation or transfer of its engagements referred to in paragraph (1) above will comply with the provisions of that paragraph.

## **7. Conversions and takeovers**

- (1) Upon a transfer by the Society of the whole of its business to a successor company in accordance with section 97 of the Act, the successor company, in accordance with section 100(2)(a) of the Act, will assume as from the vesting date a liability (subject to this Condition) to every qualifying Member of the Society as in respect of a deposit made with the successor company corresponding in amount to the value of the qualifying Shares held by the Shareholding Member in the Society.
- (2) The liability assumed by the successor company in respect of the PIBS shall be as in respect of a non-transferable subordinated deposit carrying the same rate of interest as the PIBS ranking behind any undated subordinated debt previously issued by the Society (a "Subordinated Deposit").
- (3) The Subordinated Deposit will be applied on the vesting date (or as soon as reasonably practicable thereafter), on behalf of and to the order of the PIBS holders, in the subscription of perpetual subordinated bonds of the successor company ranking behind any undated subordinated debt issued previously by the Society (the "Bonds"). The principal amount of such Bonds will be equal to the principal amount of the Subordinated Deposit and the Bonds will carry the same rate of interest as the PIBS.
- (4) 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 the same or similar functions in relation to banks.
- (5) The terms of the Subordinated Deposits and the terms and conditions of the Bonds will be available for inspection by the PIBS holders at the principal office of the Society and the specified office of the Registrar at that time, not later than the time at which notice is given to Members of resolutions to be proposed to approve such transfer and, subject as provided above, will be determined by the Board in its absolute discretion.
- (6) The Society will procure that any transfer referred to in paragraphs (1) to (5) above will comply with the provisions of those paragraphs.

## **8. Variations of these Conditions and the Rules**

- (1) These Conditions may only be varied by the Society with the consent in writing of the PIBS holders of 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 10 by a majority of three-quarters in principal amount of the PIBS holders voting in person or by proxy at such meeting.
- (2) These Conditions do not limit the rights of Members to change the Rules.

Any amendment to the Rules that is both (i) inconsistent with the provisions of these Conditions and (ii) materially prejudicial to the interests of the PIBS holders in that capacity shall not limit any rights of the PIBS holders to bring an action for breach of contract against the Society in circumstances where the Society is in breach of these Conditions or afford the Society any defence to any claim made in any such action.

## **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 permanent interest bearing 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 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 permanent interest bearing shares ranking ahead of the PIBS.

#### **10. 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 paragraph (11) of this Condition 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 any 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 paragraph (2).
- (7) A poll shall be taken in such manner as the chairman directs and the result of the poll shall be deemed to be the resolution of the meeting.
- (8) The chairman may, notwithstanding the presence of a quorum, 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 paragraph (9), at any meeting every person who is present shall have one vote in respect of each £5,000 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 or such other place as the Board may determine not less than 2 clear days (or such longer period, not exceeding 7 days, as the Board may determine) 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 paragraph 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 the 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.

## **11. 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 48 hours following the mailing of such notice.

## **12. Governing Law**

The rights and obligations in respect of the PIBS are governed by, and shall be construed in accordance with, English law.

# NOTTINGHAM BUILDING SOCIETY

## Introduction and Constitution

Nottingham Building Society (the "Society") is a building society incorporated under the Building Societies Act 1986 (as amended) (the "Act") for an unlimited duration. As such, it is a mutual organisation owned by its members, is regulated by the Building Societies Commission and is registered with the Registry of Friendly Societies in London, registered number 411B. The Society's business is conducted in accordance with the Act, the regulations made thereunder and its Memorandum and Rules. The principal office of the Society is Nottingham House, 5/13 Upper Parliament Street, Nottingham, NG1 2BX. The Society was established in 1850.

As at 31 December 2000, the Society and its subsidiaries (together, the "Group") had total assets of £1,550 million and had approximately 173,000 shareholding members and 34,000 borrowing members. The Society is the 16th largest building society in the United Kingdom based on total assets as at 31 December 2000.

The Society provides products and services to its members through centralised postal operations based in Nottingham and through its branch network, which comprises 33 branches located in Nottinghamshire, Derbyshire, Lincolnshire, South Yorkshire and central London. The Society also provides information on its products and services on its website. The Society's wholly owned subsidiary, Nottingham Property Services Limited ("NPSL"), operates an estate agency business and shares occupancy with 18 of the Society's branch offices. NPSL has one further branch just outside Nottingham.

During the year to 31 December 2000, the Group employed an average of 273 full time and 219 part time employees. For the financial years ended 31 December 1999 and 1998, the corresponding figures were 265 full time and 230 part time employees, and 268 full time and 231 part time employees respectively.

## Mutual Status and Charitable Assignment Scheme

The Society is a mutual organisation and is owned by its members. The Society has two categories of members: shareholding members and borrowing members. Each member is entitled to one vote at a general meeting subject to certain conditions which are set out in the Society's Rules. The Society does not pay dividends to its shareholders in the same way as a limited liability company but seeks to return value to its members by offering competitive interest rates to its shareholding and borrowing members.

The Society is committed to remaining mutual and to using the advantages of mutuality to deliver continuing benefits to its members. In January 1999, the Society introduced a Charitable Assignment Scheme to reduce disruption to the Society's business caused by speculators opening investment accounts in the hope of receiving a windfall benefit should the Society convert to a company or other corporate body in the future. The scheme requires shareholding members opening new investment accounts (subject to certain exceptions) to assign any such windfall benefit to the Charities Aid Foundation. Accordingly, in relation to any existing or past members of the Society who have agreed to assign windfall benefits pursuant to the scheme, any windfall benefits in respect of their holding of PIBS will fall within the terms of such agreed assignment and thus will be assigned to the Charities Aid Foundation. The scheme does not apply to certain members of the Society who were existing shareholding members at the time the scheme was launched, nor does it apply to borrowing members. In addition, the scheme will not apply to members who first open an investment account on or after the issue date of the PIBS in respect only of any entitlement to a windfall benefit arising from their holding of PIBS.

## Business Activities and Strategy

The principal purpose of the Society, as stated in paragraph 3 of its Memorandum, is that of making loans which are secured on residential property and are funded substantially by its members. The Society mainly obtains funds by way of personal savings accounts through the retail market and raises funds in the wholesale money markets. In the course of its business the Society maintains liquid balances which are invested in readily realisable assets in accordance with the Act (see "Liquid Assets" below).

The structure of the Group's balance sheet reflects its principal purpose. As at 31 December 2000, 99.3 per cent. of its business assets (as defined on page 44) were in the form of loans fully secured on residential property. At the same date, funding from shareholding members represented 85.5 per cent. of all shares and borrowings of the Society.

In addition to traditional savings and loans, the Group offers property valuation and house selling services through its estate agency, NPSL, regulated life, pensions and investment products through its association with AXA Sun Life Marketing Group and general insurance products which are mortgage payment protection insurance and household insurance via agency arrangements with UK insurers. The Society's only active subsidiary is NPSL; the Society has 6 other subsidiaries, each of which is dormant.

The Society remains committed to its core business strategy, which is to provide products and services that customers value as an independent mutual building society. Certain of the Society's products have featured regularly in "Best Buy" tables published in the national press and regularly over recent years the Society's standard variable mortgage rate has been below that of the major clearing banks and those building societies that have converted to banks.

In order to strengthen its competitive position and further enhance customer service, the Society intends to continue to control costs and achieve greater efficiencies. Concentration on costs and efficiencies has resulted in a reduction in the Group's management expenses, expressed as a percentage of mean total assets, from 1.51 per cent. in 1995 to 1.13 per cent. in 2000.

The Society's current strategy is to achieve profitable growth consistent with members' interests and to maintain an adequate solvency ratio for the Group. To this end, the Society's Board believes that the issue of the PIBS by the Society will enhance the Society's ability to take advantage of potential business opportunities without being restricted by its capital position.

### *Mortgage Lending*

The Society'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, loans fully secured on residential property amounted to £1,288.6 million, comprising 99.7 per cent. of all mortgage loans outstanding.

The Society's existing residential mortgage loans are predominantly administered on variable interest rates. At 31 December 2000, the value of fixed or capped mortgages totalled £208.6 million or 16.1 per cent. of all mortgage loans outstanding. An analysis of mortgage loans shows a concentration in the East Midlands and South Yorkshire, with approximately 76 per cent. of loans being situated in these regions.

The Society follows a detailed Board Lending Policy. Any changes to the Lending Policy must be approved by the Board. All offers of mortgage advances are subject to approval by the Lending Services department to ensure compliance with the Lending Policy. Advances below £300,000 are approved by the Lending Services department. Advances between £300,000 and £500,000 are approved at executive Director level and advances between £500,000 and £1,000,000 are approved by either the Managing Director or the Deputy Managing Director and either the Chairman or the Vice-Chairman. Advances in excess of £1,000,000 require Board approval. A loan application is only approved after an assessment of the customer's ability and commitment to make repayments together with the suitability of the property to be mortgaged. On receipt of an application, an inspection and valuation of the property is made by one of the Society's own qualified staff or one of the panel of approved qualified valuers. Subject to the valuer's report, credit checks and various other factors, including the income of the applicant, the Society may make an offer of an advance. Where an advance exceeds 76 per cent. of the lower of the valuation or cost of the relevant property, the Society will obtain additional protection, normally through the use of a mortgage indemnity guarantee policy. In approving loans, the Society subscribes to the Mortgage Code.

In the year ended 31 December 2000, new mortgage advances totalled £331 million, compared to £243 million and £209 million for the years ended 31 December 1999 and 1998 respectively.



In the year ended 31 December 2000, the Society received 63 per cent. of its mortgage applications through intermediary introduction and 37 per cent. direct, compared to 61 per cent. and 39 per cent. (respectively) for the year to 31 December 1999 and 59 per cent. and 41 per cent. (respectively) for the year to 31 December 1998.

### ***Mortgage Arrears and Provisioning***

The Society reports on mortgage arrears for regulatory purposes where arrears on an account represent 2.5 per cent. or more of the mortgage balance outstanding. At 31 December 2000, 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 1.82 per cent. of the value of all Group mortgage loans outstanding.

The Society follows regulatory advice on mortgage provisioning using a statistical propensity methodology which is based on actual experience.

The Group's charges for bad and doubtful debts in the years ended 31 December 2000, 1999 and 1998 were £0.06 million credit, £0.24 million and £0.59 million respectively. At 31 December 2000, the Group carried forward provisions for bad and doubtful debts of £2.05 million of which £1.52 million represented a general provision.

The numbers of mortgage accounts 12 months or more in arrears, including properties in possession, as at 31 December 2000, 1999 and 1998 were 56, 83 and 66, respectively. The numbers of properties in possession at those dates were 22, 41 and 48, respectively.

### ***Liquid Assets***

All building societies are required to maintain adequate assets in liquid form. The objective of liquidity is to help smooth mis-matches between maturing assets and liabilities and to provide protection against any unexpected developments. The Society's policy is to maintain sufficient funds in liquid form at all times to ensure that the Group can meet its liabilities as they fall due. In addition, the Group maintains undrawn committed borrowing facilities in order to provide additional flexibility in the management of the Group's liquidity.

The types and maturity ranges of listed and unlisted securities in which building societies may invest are specified in guidance issued by the Building Societies Commission. As at 31 December 2000, the Group's liquid assets, including accrued interest, totalled £245.4 million or 16.9 per cent. of its total shares and borrowings.

### ***Estate Agency***

NPSL, a wholly owned subsidiary of the Society, was established in 1988. In the years ended 31 December 2000, 1999 and 1998 NPSL made profit after tax of £0.112 million, £0.242 million and £0.119 million respectively. Where there is joint occupation of branches with the Society, NPSL carries a proportion of the overheads. In addition, NPSL introduces mortgage business to the Society.

### ***Other products***

Through the Group's relationship with AXA Sun Life Marketing Group, the Group offers personal financial services through its branches. Current AXA products include mortgage protection insurance, investment bonds, ISAs, pensions, life assurance and permanent health insurance. The Group's income from the sale of those products in the year ended 31 December 2000 totalled £0.844 million.

In addition, the Society offers mortgage payment protection insurance, underwritten by London & Edinburgh Insurance Company Limited, a CGNU Group Company, to all eligible new borrowers and from time to time to existing borrowers. The Society also offers buildings, home contents and family possessions insurance to all eligible borrowers through a block policy underwritten by Royal & SunAlliance. For the year ended 31 December 2000, income from the sale of those products totalled £2.261 million.

## ***Funding***

Members' savings are the Group's major source of funding and totalled £1,240 million as at 31 December 2000, which represented 85.5 per cent. of total shares and borrowings. The Society maintained approximately 214,000 share accounts as at 31 December 2000. The majority of the Society's retail funding bears interest on a variable rate basis. The Society is required to obtain at least 50 per cent. of its total funding in the form of share account balances provided by individuals.

The Society also raises funds from the wholesale money markets. Funding not in the form of shares held by individuals, comprising principally time deposits and certificates of deposit, amounted to £209.5 million including accrued interest (approximately, 14.5 per cent. of total shares and borrowings) as at 31 December 2000. The Society maintained £45 million of undrawn committed facilities at 31 December 2000.

The Group has a formal structure for managing risk, including establishing risk limits, reporting lines, mandates and other control procedures. The structure is reviewed regularly by the Society's Assets and Liabilities Committee ("ALCO"), which is charged with the responsibility for managing and controlling the balance sheet exposures of the Society and the Group. The ALCO's members are the Chairman, the Vice-chairman, the Managing Director, the Deputy Managing Director, the Finance Director and the Treasurer. The ALCO reports to the Board on a monthly basis. Instruments used for risk management purposes include derivative financial instruments. These instruments are used in accordance with the requirements of the Act. The objective of the Group in using derivatives is to limit the extent to which the Group will be affected by changes in interest rates. Derivatives are not used in trading activities or for speculative purposes.

## **Sources of Income**

The Group's main source of income is interest earned on loans fully secured on residential property, which totalled £82.3 million, £69.1 million and £77.9 million in the years ended 31 December 2000, 1999 and 1998 respectively. In the year ended 31 December 2000, returns earned on the Group's liquid assets amounted to £14.2 million and income from fees, commissions, rents and others sources was £7.5 million.

Commissions are primarily derived from the sale of general insurance products (namely, building, contents and mortgage payment protection insurance) and commissions received from the sale of life assurance, permanent health insurance, pensions, mortgage protection insurance and investments products as a result of the Society's association with AXA Sun Life Marketing Group.

## **Capital Strengths**

The Group's key capital ratio remains strong with a total solvency ratio at 31 December 2000 of 12.4 per cent., which is derived wholly from Tier 1 capital.

## **Principal establishments and premises**

The Society's principal office, Nottingham House in Nottingham, has a floor area of approximately 20,535 square feet. Approximately 130 people work in the building, which is freehold and wholly owned by the Society. In addition, the Society leases two buildings in the centre of Nottingham for branch and administrative purposes. These premises are held on leases which expire in 2007 and 2027. As at 31 December 2000, 19 of the 33 Society branch locations and the independent branch location of NPSL were freehold and wholly owned by either the Society or NPSL. The remaining 14 Society branch locations were leasehold premises with an average of 11.4 years remaining on their leases.

## **Recent Developments and Prospects for the Group**

For the 2001 financial year the Group expects to achieve similar growth and profits to those achieved in the 2000 financial year. For the period from 31 December 2000 to 31 May 2001, mortgage advances exceeded mortgage advances made during the same period in the previous year. Funding (comprising principally of members' savings and funds raised from the wholesale money markets) for the period from 31 December 2000 to 31 May 2001 increased, representing an increase over the same period in the preceding year.

The Society is committed to remaining mutual and using the advantages of mutuality to deliver continued benefits to its members. At the Society's Annual General Meeting on 23 April 2001 the Chairman reconfirmed the Society's commitment to remaining mutual.

### **The Board of Directors**

The business of the Society is under the control of the Board. The Board consists of 9 Directors, 4 of which are executive Directors (the Managing Director, the Deputy Managing Director, the Finance Director and the Sales & Marketing Director), with the remainder being non-executive Directors. Each Director is elected by the members, retires by rotation and, having retired by rotation, is eligible for re-election in accordance with the Rules of the Society. The business address of the Directors is Nottingham House, 5/13 Upper Parliament Street, Nottingham, NG1 2BX.

### **Certain provisions of the Rules relating to the Directors**

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

The Board must consist of not less than six Directors, of whom not less than four shall be present at a Board meeting to form a quorum.

Directors must declare any interest in accordance with the Act and any other material interest and (except in relation to remuneration decided in accordance with the Rules) must not vote on any matter to be decided by the Board in which they have such an interest and cannot be counted in the quorum present at the meeting at which such a matter is considered.

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 5 pence per one hundred pounds of total assets of the Society as at the beginning of the financial year in which payment is made. Directors are entitled to be paid such reasonable travelling, accommodation and other expenses as they might incur while attending Society business with the approval of the Board. The Board may also resolve that Directors be paid for professional or other work done by them on behalf of the Society in addition to their usual services as a Director.

The Board may, on such terms as it thinks fit, establish, maintain and administer pension, life assurance, sickness, annuity and other funds and schemes (whether contributory or not) for the benefit of past, present or future Directors of the Society who have held an executive position in the Society and their spouses, children and dependants. In addition, the Board may grant pensions, allowances, gratuities, donations and bonuses to such persons on such terms as it thinks fit.

The Memorandum of the Society permits the Society to do all things (including raising capital and other funds in any manner, whether or not involving the issue of securities, other than by the creation of a floating charge) which, in the opinion of the Board of Directors, or any duly authorised officer or employee of the Society, are necessary or may help the Society to achieve any of its purposes.

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, unless he is re-elected at that meeting.

## 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.

<i>Name</i>	<i>Responsibilities within the Society</i>	<i>Business Occupation</i>	<i>Other Directorships and Partnerships held within the last five years</i>
Laurence Adrian Coppel BSc. (Econ), FCA	Chairman (non-executive)	Director	Wade Furniture Group Ltd British Polythene Industries PLC Nottingham Hospitals Concert 2000 Ltd Queen's Medical Centre Nottingham University Hospital NHS Trust*
John Michael Hall FCA	Vice-chairman (non-executive)	Chartered Accountant	Baker Tilly* Baker Tilly Financial Services Limited* Balexair Properties Holding SA* Collier Motor Group Ltd Colliers of Solihull Ltd James Fleming Investments Ltd Lewis Spring Properties Ltd LS Daray (UK) Ltd Robinsons Removal Specialists Ltd Selwood Group Limited Selwood Limited Howard S Cooke and Co (Holdings) Ltd Marley plc* Plan B Consulting
Stuart Edward Brandreth FCIB, ACII	Managing Director	Building Society Chief Executive	Nottingham Property Services Ltd Nottingham Ltd Nottingham Insurance Services Ltd Nottingham Life Assurance Ltd Nottingham Direct Mortgages Ltd Nottingham Direct Ltd Nottingham Mortgage Services Ltd The Building Societies Ombudsman Company Ltd Nottinghamshire Business Venture*
Alan Henry Hawksworth TD, DL, MA, FCIPD	Director (non-executive)	Director	Queen's Medical Centre Nottingham University Hospital NHS Trust* Boots Charitable Trust The Boots Company PLC* Boots Pensions Ltd* Nottingham Business Venture* Universities and Colleges Employers Association Nottinghamshire Chamber of Commerce and Industry* Bilborough College, Nottingham*
Ronald Critchley Kenyon	Director (non-executive)	Director	CTC Enterprises (Nottingham Ltd) Abbeyfield Nottingham Society Ltd The Abbeyfield Society Penn Asia*

<i>Responsibilities Name</i>	<i>Business within the Society</i>	<i>Other Directorships and Partnerships Occupation</i>	<i>held within the last five years</i>
Andrew Ralph Patrick Milner ACMA	Finance Director	Building Society Executive	Nottingham Property Services Ltd
Ian John Rowling MBA, FCIB	Deputy Managing Director	Building Society Executive	Nottingham Property Services Ltd Nottingham Ltd Nottingham Insurance Services Ltd Nottingham Life Assurance Ltd Nottingham Direct Mortgages Ltd Nottingham Direct Ltd Nottingham Mortgage Services Ltd
Carol Ann Scott BA (Hons.), FCIB	Sales and Marketing Director	Building Society Executive	Nottingham Property Services Ltd
Juliet Jane Woodin PhD, MPhil, BA (Hons.), MHSM	Director (non-executive)	Chief Executive	Nottingham Health Authority Nottingham Hospitals Concert 2000 Ltd

The Directorships and partnerships marked \* are not currently held.

At the date of this document, none of the Directors has any unspent convictions in relation to indictable offences, has had a bankruptcy or receivership order made against them, has been a party to an individual voluntary arrangement, has been subject to any public criticism by statutory or regulatory authorities or has been disqualified by a court from acting as a Director of or from acting in the management or conduct of the affairs of a company, a bank or building society. None of the Directors has been a Director with an executive function of a company, bank or building society which has been placed in receivership, liquidation or administration or has been a party to a voluntary arrangement or a composition or arrangement with its creditors while they were a Director with an executive function of that company, bank or building society or within the twelve months after they ceased to be a Director with an executive function of that company, bank or building society. None of the Directors 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 or had a receiver appointed over any of its assets, either while they were a partner in that partnership or within the twelve months after they ceased to be a partner in that partnership.

**CAPITALISATION AND INDEBTEDNESS OF  
NOTTINGHAM BUILDING SOCIETY**

The following table is a summary of the Group's unaudited shareholders' funds and indebtedness as at 31 March 2001 as adjusted to reflect the issue of the PIBS:

	<i>Total £ million</i>
<b>Shareholders' funds</b>	
Shares .....	1,236
PIBS (now being issued)* .....	25
General reserve .....	95
<b>Total shareholders' funds .....</b>	<b>1,356</b>
<b>Indebtedness</b>	
Amounts owed to credit institutions .....	35
Amounts owed to other customers .....	143
Debt securities in issue .....	39
<b>Total indebtedness .....</b>	<b>217</b>
<b>Total capitalisation .....</b>	<b>1,573</b>

\* before deduction of issue costs

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 31 March 2001.

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 number or value of shares held. Holders of investment shares (other than PIBS) may withdraw funds from their share accounts subject to the Rules of the Society and the terms upon which their shares are issued.

## GROUP FINANCIAL SUMMARY

### Financial Results for the years ended 31 December 1996 to 2000

The information appearing on this page has been extracted or derived without material adjustment from the audited annual reports and accounts of the Society for the five years ended 31 December 2000.

#### Group Financial Summary

	2000	1999	1998	1997	1996
	£ 000	£ 000	£ 000	£ 000	£ 000
<b>Balance sheet</b>					
Total Assets.....	1,550,179	1,391,013	1,213,381	1,158,839	1,048,755
Mortgage Balances .....	1,290,195	1,116,245	1,018,766	945,923	855,586
Shares and Borrowings.....	1,449,518	1,297,252	1,123,853	1,075,846	971,749
Reserves.....	92,876	85,349	79,285	73,394	68,416
<b>Balance Sheet Ratios</b>					
<b>% of Shares and Borrowings</b>					
	%	%	%	%	%
Liquidity .....	16.9	20.3	15.9	18.7	18.9
Gross Capital .....	6.4	6.6	7.1	6.8	7.0
Free Capital.....	5.9	6.0	6.4	6.2	6.4
<b>Profitability</b>					
	£ 000	£ 000	£ 000	£ 000	£ 000
Interest Margin .....	20,656	19,028	19,224	17,531	15,978
Pre Tax Profit.....	10,419	8,681	8,517	7,598	6,884
<b>Financial Performance</b>					
	%	%	%	%	%
Return on Mean Total Assets.....	0.51	0.47	0.50	0.45	0.44
Return on Mean Total Reserves .....	8.45	7.37	7.72	7.02	6.64
Costs to Mean Total Assets .....	1.13	1.29	1.36	1.43	1.42
Mortgage Provisions to Mean					
Total Assets.....	0.00	0.02	0.05	0.00	(0.02)
<b>Growth Ratios</b>					
	%	%	%	%	%
Total Assets.....	11.44	14.64	4.71	10.50	9.44
Mortgage balances.....	15.58	9.57	7.70	10.56	11.35
Reserves.....	8.82	7.65	8.03	7.28	6.87
Increase in Pre Tax Profit .....	20.02	1.93	12.10	10.37	(24.35)

## GROUP FINANCIAL STATEMENTS

The information appearing on pages 24 to 26 of this document has been extracted without material adjustment from the Society's audited annual reports and accounts for the three years ended 31 December 2000.

### Group income and expenditure accounts

	<i>Notes</i>	<i>For the year ended 31 December</i>		
		<i>2000</i> £ 000	<i>1999</i> £ 000	<i>1998</i> £ 000
Interest receivable and similar income .....	2	95,229	79,091	96,028
Interest payable and similar charges .....	3	74,573	60,063	76,804
Net interest receivable.....		20,656	19,028	19,224
Fees and commissions receivable .....		7,496	7,453	6,783
Fees and commissions payable .....		(1,185)	(905)	(798)
Other operating income.....		34	85	5
Total income.....		27,001	25,661	25,214
Administrative expenses .....	4	14,971	15,033	14,421
Depreciation and amortisation .....	14	1,671	1,703	1,683
Profit before provisions.....		10,359	8,925	9,110
Provisions for bad and doubtful debts .....	12	(60)	244	593
Profit on ordinary activities before tax .....		10,419	8,681	8,517
Tax on profit on ordinary activities.....	8	2,892	2,617	2,626
Profit for the financial year .....	23	7,527	6,064	5,891

Profit for the financial year arises from continuing operations.

The notes on pages 20 to 41 form part of these accounts.

The Group had no recognised gains or losses other than the profit for each financial year.

Note

The reference to pages 20 to 41 refers to the information set out on pages 27 to 43 of this document.



## Group balance sheets

	<i>Notes</i>	<i>As at 31 December</i>		
		<i>2000</i>	<i>1999</i>	<i>1998</i>
		<i>£ 000</i>	<i>£ 000</i>	<i>£ 000</i>
<b>Assets</b>				
<b>Liquid assets</b>				
Cash in hand and balances with the				
Bank of England .....		864	11,089	651
Loans and advances to credit institutions .....	9	45,299	74,086	29,918
Debt securities .....	10	199,213	177,634	148,173
Loans and advances to customers .....	11			
Loans fully secured on residential property .....		1,286,523	1,111,883	1,014,925
Other loans .....		3,672	4,362	3,841
<b>Investments</b>				
Investments in subsidiary undertakings .....	13	—	—	—
<b>Tangible fixed assets</b> .....	14	8,767	8,964	9,414
<b>Other assets</b> .....		500	434	863
<b>Prepayments and accrued income</b> .....	15	5,341	2,561	5,596
<b>Total assets</b>		<u>1,550,179</u>	<u>1,391,013</u>	<u>1,213,381</u>
<b>Liabilities</b>				
Shares .....	16	1,239,992	1,104,934	940,129
Amounts owed to credit institutions .....	17	37,408	33,192	57,235
Amounts owed to other customers .....	18	151,616	148,046	126,489
Debt securities in issue .....	19	20,502	11,080	—
Other liabilities .....	20	4,341	4,232	5,270
Accruals and deferred income .....	21	3,433	4,175	4,965
Provisions for liabilities and charges .....	22	11	5	8
<b>Reserves</b>				
General reserve .....	23	92,876	85,349	79,285
<b>Total liabilities</b>		<u>1,550,179</u>	<u>1,391,013</u>	<u>1,213,381</u>

The notes on pages 20 to 41 form part of these accounts.

These accounts were approved by the board of directors on 14 February 2001 and signed on its behalf by:

Laurence Coppel *Chairman*   Stuart Brandreth *Managing Director*   Andrew Milner *Finance Director*

### Note

The reference to pages 20 to 41 refers to the information set out on pages 27 to 43 of this document.

## Group cash flow statements

	Notes	For the year ended 31 December		
		2000 £ 000	1999 £ 000	1998 £ 000
Net cash (outflow) / inflow from operating activities .		(13,830)	71,781	60,285
Taxation.....		(2,902)	(3,748)	(2,569)
Capital expenditure and financial investment				
Purchase of tangible fixed assets .....		(1,590)	(1,459)	(2,707)
Disposal of tangible fixed assets.....		150	291	28
Purchase of debt securities.....		(473,001)	(600,012)	(507,017)
Disposal of debt securities .....		453,000	569,493	455,000
<b>(Decrease) / increase in cash.....</b>	<b>24</b>	<b>(38,173)</b>	<b>36,346</b>	<b>3,020</b>
Reconciliation of operating profit (profit on ordinary activities before tax) to net cash (outflow) / inflow from operating activities				
Operating profit.....		10,419	8,681	8,517
(Increase) / decrease in prepayments and accrued income		(4,356)	3,427	(4,476)
Increase / (decrease) in accruals and deferred income		9,318	(8,953)	13,935
Loans and advances written off net of recoveries .....		(150)	(298)	(34)
Depreciation and amortisation .....		1,671	1,703	1,683
Profit on disposal of fixed assets .....		(34)	(85)	(5)
Net losses on disposal and amortisation of debt securities		1	523	20
Net cash inflow from trading activities.....		16,869	4,998	19,640
Movement in				
Loans and advances to customers.....		(173,800)	(97,181)	(72,809)
Shares .....		127,355	171,312	(22,622)
Amounts owed to credit institutions and other customers		5,851	(750)	57,189
Loans and advances to credit institutions .....		836	(18,117)	79,275
Debt securities in issue.....		9,000	11,000	-
Other assets .....		(66)	429	(480)
Other liabilities.....		125	90	92
<b>Net cash (outflow) / inflow from operating activities</b>		<b>(13,830)</b>	<b>71,781</b>	<b>60,285</b>

Note: The information in respect of the year ended 31 December 1998 appearing on this page has been extracted from the comparative information shown in the Group cash flow statement in the Society's audited annual report and accounts for the year ended 31 December 1999.

## NOTES TO THE ACCOUNTS

The information appearing on pages 27 to 43 of this document has been extracted without material adjustment from the Society's audited annual reports and accounts for the three years ended 31 December 2000.

### 1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the Group and Society's accounts.

#### *Basis of preparation*

These accounts have been prepared under the historical cost accounting rules and in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998 and applicable accounting standards.

#### *Basis of consolidation*

The Group accounts consolidate the accounts of the Society and its subsidiary, both having accounting periods ending 31 December.

Investments in the subsidiary are stated at cost.

#### *Tangible fixed assets and depreciation*

Additions and alterations to office premises and equipment are capitalised at cost. The balance sheet fixed asset value represents the original cost less cumulative depreciation. The costs less estimated residual values of assets are depreciated by equal instalments over their estimated useful economic lives as follows:

Freehold buildings over 100 years.

Leasehold premises over the remainder of the lease.

Refurbishment of premises over 5 to 10 years.

Equipment, fixtures, fittings and vehicles over 4 to 7 years.

No depreciation is provided on freehold land.

#### *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 adjusted to exclude accrued interest. Premiums and discounts arising on the purchase of financial fixed assets are amortised over the period to the maturity date of the security. Any amounts so amortised are charged or credited to the income and expenditure account for the relevant financial years.

Where there is a permanent diminution in value of a financial fixed asset a provision is made to write down the cost of the security to its recoverable amount.

#### *Provisions for loans and advances*

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

Throughout the year and at the year end individual assessments are made of all loans and advances on properties which are in possession, or in arrears by two months or more. Specific provision is made against those loans and advances which are considered to be impaired. In considering the specific provision for impaired loans, account is taken of any discount which may be needed against the value of the property at the balance sheet date to agree a sale within three months of that date, the amounts recoverable under

mortgage indemnity policies and anticipated realisation costs. The directors recognise that not all accounts in arrears will result in possession and apply a factor based on recent experience to reflect this probability when calculating the provision for accounts in arrears.

A general provision is made against those advances not in possession, which have not been specifically identified as impaired, but where the Society's experience and the general economic climate would indicate that losses may ultimately be realised.

Interest in respect of 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 and where it is considered unlikely that the interest will be collected. Such interest is credited to an interest suspense account.

Loans and advances in the balance sheet are shown net of provisions, specific and general, and net of the balance in the interest suspense account. The charge to the income and expenditure account comprises the movement in the provisions together with losses written off in the year.

#### *Hedging contracts*

The net income or expense attributable to hedging contracts is included in interest receivable for asset related hedges and interest payable for liability related hedges.

#### *Mortgage guarantee insurance*

It is the Society's policy to effect mortgage guarantee insurance where an advance results in a loan to value ratio in excess of a certain level. Where, having assessed the risks, the Society considers some risk of loss is retained, income is deferred within accruals and deferred income in the balance sheet.

Claims from the fund of deferred income are credited as they arise against the charge for provisions for bad and doubtful debts. The deferred income is recognised as income, through other operating income, when the risks of the lending to which the income relates can be assessed as minimal.

#### *Incentives to borrowers*

Cashbacks and other expenses related to borrowers are charged against interest receivable in the year in which the offer is made. Cashbacks were previously charged against other operating charges and the comparative figures have been reanalysed accordingly. Interest discounts reduce interest receivable over the period of the relevant discounted rate.

#### *Pensions costs*

Contributions to the Group's pension schemes are charged to the income and expenditure account so as to spread the costs of pensions over the expected working lives of employees in the schemes.

#### *Leases*

Rental charges under operating leases are charged to the income and expenditure account in the year in which the expenditure is incurred.

Assets held by the Society for use in operating leases are included as tangible fixed assets. Rents receivable under operating leases are recognised in the income and expenditure account as they fall due.

#### *Taxation*

The charge for taxation is based on the profit for the year 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.

## 2. Interest receivable and similar income

	2000 £ 000	1999 £ 000	1998 £ 000
On loans fully secured on residential property.....	82,344	69,116	77,892
On other loans.....	327	309	467
Cashbacks provided to customers on residential mortgage loans.....	(1,648)	(2,530)	(3,194)
On debt securities			
Interest and other income .....	12,346	12,251	11,588
Net losses arising on realisation .....	(1)	(523)	(20)
On other liquid assets			
Interest and other income .....	1,893	1,335	1,867
Net (expense)/income on financial instruments .....	(32)	(867)	7,428
	<u>95,229</u>	<u>79,091</u>	<u>96,028</u>

Interest on debt securities arose wholly from fixed income debt securities.

Interest on secured loans, as shown above, has been reduced by interest suspended on non-performing loans in accordance with the Society's accounting policy.

Movements in the suspended interest account are:

	2000 £ 000	1999 £ 000	1998 £ 000
At 1 January .....	18	25	31
Interest written off during the year.....	(32)	(57)	(70)
Interest suspended in the year.....	37	50	64
At 31 December .....	<u>23</u>	<u>18</u>	<u>25</u>

The amount of interest suspended at 31 December has been deducted from the appropriate loans and advances in the balance sheets.

## 3. Interest payable and similar charges

	2000 £ 000	1999 £ 000	1998 £ 000
On shares held by individuals.....	61,075	50,137	58,484
On deposits and other borrowings.....	13,628	10,501	11,358
Net (income)/expense on financial instruments .....	(130)	(575)	6,962
	<u>74,573</u>	<u>60,063</u>	<u>76,804</u>

#### 4. Administrative expenses

	2000 £ 000	1999 £ 000	1998 £ 000
Staff costs			
Wages and salaries .....	7,727	7,461	7,315
Social security costs .....	613	582	562
Other pension costs .....	710	909	739
	<u>9,050</u>	<u>8,952</u>	<u>8,616</u>
Other administrative expenses .....	5,921	6,081	5,805
	<u>14,971</u>	<u>15,033</u>	<u>14,421</u>
Other administrative expenses include			
Operating lease rentals .....	611	592	606
Remuneration of auditors and associates			
For audit work .....	54	50	50
For non audit work .....	28	74	30

#### 5. Remuneration of directors

	2000 £ 000	1999 £ 000	1998 £ 000
(a) Total directors' remuneration .....	<u>666</u>	<u>637</u>	<u>534</u>
(b) Non-executive directors' remuneration			
L A Coppel .....	38	37	36
J M Hall .....	26	25	22
A H Hawksworth .....	22	21	16
R C Kenyon .....	17	17	16
E C Tarr (retired 12.02.99) .....	-	3	16
J J Woodin .....	17	17	16
Total emoluments for services as directors .....	<u>120</u>	<u>120</u>	<u>122</u>

Non-executive directors' remuneration is all on a fee basis

(c) Executive directors' remuneration

	Salary	Annual bonuses	Benefits	Sub-total	Increase in accrued pension	Total
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
2000						
S E Brandreth (Managing Director).....	132	27	11	170	5	175
I J Rowling (Deputy Managing Director).....	101	21	9	131	4	135
A R P Milner (Finance Director).....	95	19	7	121	4	125
C A Scott (Sales and Marketing Director).....	83	17	8	108	3	111
	<u>411</u>	<u>84</u>	<u>35</u>	<u>530</u>	<u>16</u>	<u>546</u>
1999						
S E Brandreth (Managing Director).....	123	23	10	156	6	162
I J Rowling (Deputy Managing Director).....	96	18	8	122	3	125
A R P Milner (Finance Director).....	90	17	8	115	3	118
C A Scott (Sales and Marketing Director).....	78	15	11	104	8	112
	<u>387</u>	<u>73</u>	<u>37</u>	<u>497</u>	<u>20</u>	<u>517</u>
1998						
S E Brandreth (Managing Director).....	115	20	10	145	3	148
I J Rowling (Deputy Managing Director).....	90	16	8	114	2	116
A R P Milner (Finance Director).....	85	15	7	107	8	115
C A Scott (Sales and Marketing Director – appointed 30.09.98).....	19	13	1	33	–	33
	<u>309</u>	<u>64</u>	<u>26</u>	<u>399</u>	<u>13</u>	<u>412</u>

6. Employees

	2000	1999	1998
The average number of persons employed during the year was:			
Full time.....	273	265	268
Part time.....	219	230	231
	<u>492</u>	<u>495</u>	<u>499</u>
Building Society			
Central administration.....	185	178	179
Branches.....	205	214	212
Subsidiary.....	102	103	108
	<u>492</u>	<u>495</u>	<u>499</u>

7. Pension arrangements

- (a) The Group operates a contributory defined benefit scheme, the assets of which are held in a separate trustee administered fund. This scheme is now closed to new members.

The pension cost is assessed following the advice of an independent qualified actuary using the projected unit method. The latest funding review of the scheme was as at 1 April 1999. The assumptions which have the most significant effect on the results of the valuation are those relating to the rates of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would exceed the rate of salary increases by 2.25% and that pensions would increase at the rate of 3.8% per annum.

The board of directors may consider recommendations from the trustees of the scheme, acting on actuarial advice, for improvements in the scheme benefits.

The latest funding review showed that the market value of the scheme assets was £11,893,000 and that the actuarial value of those assets represented 109% of the benefits that had accrued to members after allowing for expected future increases in salaries.

- (b) The Group also operates contributory defined contribution schemes. The assets of these schemes are held separately from those of the Group.

The total pension cost for the Group was £710,000 (1999: £909,000; 1998: £739,000).

## 8. Taxation

The taxation charge for the year comprises:

	2000 £ 000	1999 £ 000	1998 £ 000
UK corporation tax at 30% (1999: 30%; 1998: 31%) on the profit for the year on ordinary activities.....	3,369	2,820	2,958
Corporation tax adjustment for previous years .....	(483)	(200)	(314)
Deferred taxation .....	6	(3)	(18)
	<u>2,892</u>	<u>2,617</u>	<u>2,626</u>

## 9. Loans and advances to credit institutions

Loans and advances to credit institutions have remaining maturities as follows:

	2000 £ 000	1999 £ 000	1998 £ 000
Accrued interest .....	193	196	53
Repayable on demand.....	14,100	42,048	16,140
Other loans and advances by residual maturity repayable:			
In not more than three months.....	27,000	30,000	13,000
In more than three months but not more than one year .....	4,006	1,842	725
	<u>45,299</u>	<u>74,086</u>	<u>29,918</u>

## 10. Debt securities

Transferable debt securities are issued by other borrowers (not public bodies). All such securities are unlisted and have remaining maturities as follows:

	2000 £ 000	1999 £ 000	1998 £ 000
Accrued interest .....	4,213	2,634	3,169
Other debt securities repayable:			
In not more than one year.....	175,000	175,000	145,004
In more than one year but not more than five years .....	20,000	-	-
	<u>199,213</u>	<u>177,634</u>	<u>148,173</u>
Included in debt securities are unamortised premiums .....	<u>-</u>	<u>-</u>	<u>4</u>



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

	2000 £ 000	1999 £ 000	1998 £ 000
Movements during the year of debt securities held as financial fixed assets are analysed as follows:			
Adjusted cost and net book value (excluding accrued interest)			
At 1 January .....	175,000	145,004	93,007
Additions .....	473,001	600,012	507,017
Amortisation .....	(1)	(16)	(20)
Disposals .....	(453,000)	(570,000)	(455,000)
At 31 December .....	<u>195,000</u>	<u>175,000</u>	<u>145,004</u>

#### 11. Loans and advances to customers

	2000 £ 000	1999 £ 000	1998 £ 000
Loans fully secured on residential property .....	1,286,523	1,111,883	1,014,925
Other loans fully secured on land .....	3,672	4,362	3,841
	<u>1,290,195</u>	<u>1,116,245</u>	<u>1,018,766</u>
Loans and advances to customers have remaining maturities as follows:			
On call and at short notice .....	3,858	4,165	4,705
Loans and advances by residual maturity repayable:			
In not more than three months .....	4,682	3,581	2,719
In more than three months but not more than one year .....	14,491	11,057	9,013
In more than one year but not more than five years .....	97,356	76,876	61,043
In more than five years .....	1,171,862	1,022,770	943,788
	<u>1,292,249</u>	<u>1,118,449</u>	<u>1,021,268</u>
Less: Provisions for bad and doubtful debts .....	2,054	2,204	2,502
	<u>1,290,195</u>	<u>1,116,245</u>	<u>1,018,766</u>

Mortgage loans and advances rarely run their full course. The actual repayment profile is likely to be significantly different from that shown in the above analysis.

## 12. Provisions for bad and doubtful debts

	<i>Loans fully secured on residential property £ 000</i>	<i>Other loans fully secured on land £ 000</i>	<i>Total £ 000</i>
<b>At 1 January 2000</b>			
General provision .....	1,507	10	1,517
Specific provision.....	686	1	687
	<u>2,193</u>	<u>11</u>	<u>2,204</u>
<b>Amounts written off during the year</b>			
Specific provision.....	(90)	-	(90)
<b>Provisions for bad and doubtful debts</b>			
General provision .....	(1)	-	(1)
Specific provision.....	(27)	10	(17)
	<u>(28)</u>	<u>10</u>	<u>(18)</u>
<b>Adjustments to provisions for bad and doubtful debts resulting from recoveries during the year</b>			
Specific provision.....	(42)	-	(42)
Credit for the year .....	(70)	10	(60)
	<u>(70)</u>	<u>10</u>	<u>(60)</u>
<b>At 31 December 2000</b>			
General provision .....	1,506	10	1,516
Specific provision.....	527	11	538
	<u>2,033</u>	<u>21</u>	<u>2,054</u>
<b>At 31 December 1999</b>			
General provision .....	1,507	10	1,517
Specific provision.....	686	1	687
	<u>2,193</u>	<u>11</u>	<u>2,204</u>
<b>At 31 December 1998</b>			
General provision .....	1,532	10	1,542
Specific provision.....	951	9	960
	<u>2,483</u>	<u>19</u>	<u>2,502</u>

These provisions have been deducted from the appropriate asset values shown in the balance sheet.

## 13. Investments in subsidiary undertakings

Investments in subsidiary undertakings represent the cost of shares owned in Nottingham Property Services Limited, a long term loan advanced to fund its development and the cost of shares owned in a number of dormant subsidiaries. All subsidiary companies are 100% owned.

Nottingham Property Services' principal business activity is the provision of estate agency services. The directors' opinion is that the loan to Nottingham Property Services is of a financing nature, they have therefore classified it as a fixed asset.

Shares held in subsidiary undertakings were £112 (1999: £112; 1998: £112).

#### 14. Tangible fixed assets

	<i>Land and buildings £ 000</i>	<i>Equipment, fixtures, fittings and vehicles £ 000</i>	<i>Total £ 000</i>
<b>Cost</b>			
At 1 January 2000.....	11,068	9,086	20,154
Additions.....	460	1,130	1,590
Disposals.....	(154)	–	(154)
At 31 December 2000.....	<u>11,374</u>	<u>10,216</u>	<u>21,590</u>
<b>Depreciation</b>			
At 1 January 2000.....	4,426	6,764	11,190
Charge for the year.....	544	1,127	1,671
On disposals.....	(38)	–	(38)
At 31 December 2000.....	<u>4,932</u>	<u>7,891</u>	<u>12,823</u>
<b>Net book value</b>			
At 31 December 2000.....	<u>6,442</u>	<u>2,325</u>	<u>8,767</u>
At 31 December 1999.....	<u>6,642</u>	<u>2,322</u>	<u>8,964</u>
At 31 December 1998.....	<u>6,865</u>	<u>2,549</u>	<u>9,414</u>
	<i>2000</i>	<i>1999</i>	<i>1998</i>
	<i>£ 000</i>	<i>£ 000</i>	<i>£ 000</i>
<b>The net book value of land and buildings comprise:</b>			
Freehold.....	5,589	5,748	6,020
Short lease.....	853	894	845
	<u>6,442</u>	<u>6,642</u>	<u>6,865</u>
<b>Land and buildings occupied by the Group for its own activities:</b>			
At 31 December.....	<u>6,100</u>	<u>6,170</u>	<u>6,272</u>

#### 15. Prepayments and accrued income

	<i>2000 £ 000</i>	<i>1999 £ 000</i>	<i>1998 £ 000</i>
Accrued income relating to off balance sheet instruments.....	4,901	2,142	5,220
Other.....	440	419	376
	<u>5,341</u>	<u>2,561</u>	<u>5,596</u>

## 16. Shares

	2000 £ 000	1999 £ 000	1998 £ 000
Held by individuals.....	1,239,992	1,104,934	940,129
Shares are repayable from the balance sheet date in the ordinary course of business as follows:			
Accrued interest.....	41,824	34,121	40,628
Repayable on demand.....	1,114,182	1,035,185	846,185
Other shares by residual maturity repayable:			
In not more than three months.....	–	19,609	–
In more than three months but not more than one year.....	25,785	4,437	49,007
In more than one year but not more than five years.....	58,201	11,582	4,309
	<u>1,239,992</u>	<u>1,104,934</u>	<u>940,129</u>

## 17. Amounts owed to credit institutions

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

	2000 £ 000	1999 £ 000	1998 £ 000
Accrued interest.....	298	409	1,224
Repayable on demand.....	3,110	783	3,511
Other amounts owed to credit institutions by residual maturity repayable:			
In not more than three months.....	25,000	24,000	31,000
In more than three months but not more than one year.....	9,000	6,000	20,500
In more than one year but not more than five years.....	–	2,000	1,000
	<u>37,408</u>	<u>33,192</u>	<u>57,235</u>

## 18. Amounts owed to other customers

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

	2000 £ 000	1999 £ 000	1998 £ 000
Accrued interest.....	5,077	3,031	3,952
Repayable on demand.....	44,389	42,267	18,286
Other amounts owed to other customers by residual maturity repayable:			
In not more than three months.....	33,400	47,748	37,321
In more than three months but not more than one year.....	56,250	40,500	60,930
In more than one year but not more than five years.....	12,500	14,500	6,000
	<u>151,616</u>	<u>148,046</u>	<u>126,489</u>

**19. Debt securities in issue**

	2000 £ 000	1999 £ 000	1998 £ 000
Certificates of deposit.....	20,502	11,080	—
Debt securities in issue are repayable from the balance sheet date in the ordinary course of business as follows:			
Accrued interest.....	502	80	—
Other debt securities in issue by residual maturity repayable:			
In not more than one year.....	20,000	1,000	—
In more than one year but not more than two years.....	—	10,000	—
	<u>20,502</u>	<u>11,080</u>	<u>—</u>

**20. Other liabilities**

	2000 £ 000	1999 £ 000	1998 £ 000
Falling due within one year			
Corporation tax.....	1,919	1,935	3,063
Income tax.....	94	143	131
Other creditors.....	2,328	2,154	2,076
	<u>4,341</u>	<u>4,232</u>	<u>5,270</u>

**21. Accruals and deferred income**

	2000 £ 000	1999 £ 000	1998 £ 000
Deferred mortgage guarantee income.....	2,022	2,094	2,004
Other.....	1,411	2,081	2,961
	<u>3,433</u>	<u>4,175</u>	<u>4,965</u>

**22. Provisions for liabilities and charges**

	2000 £ 000	1999 £ 000	1998 £ 000
Deferred taxation			
At 1 January.....	5	8	26
Increase/(decrease) in provision (note 8).....	6	(3)	(18)
At 31 December.....	<u>11</u>	<u>5</u>	<u>8</u>

The amount provided for deferred taxation represents the full potential liability and comprises the excess of capital allowances over depreciation.

Deferred tax assets of £1,056,000 (1999: £1,015,000; 1998: £1,039,000) in respect of other timing differences have not been included in the accounts.

### 23. General reserve

	2000	1999	1998
	£ 000	£ 000	£ 000
At 1 January.....	85,349	79,285	73,394
Profit for the financial year.....	7,527	6,064	5,891
At 31 December.....	<u>92,876</u>	<u>85,349</u>	<u>79,285</u>

### 24. (Decrease)/Increase in cash

Analysis of cash balances and movement in the year

	1999	Flows	2000
	£ 000	£ 000	£ 000
Cash in hand and balances with the Bank of England.....	11,089	(10,225)	864
Loans and advances to credit institutions repayable on demand .....	42,048	(27,948)	14,100
	<u>53,137</u>	<u>(38,173)</u>	<u>14,964</u>

	1998	Flows	1999
	£ 000	£ 000	£ 000
Cash in hand and balances with the Bank of England.....	651	10,438	11,089
Loans and advances to credit institutions repayable on demand .....	16,140	25,908	42,048
	<u>16,791</u>	<u>36,346</u>	<u>53,137</u>

### 25. Financial instruments

A financial instrument is a contract that gives rise to a financial asset or financial liability. Nottingham Building Society is a retailer of financial instruments, mainly in the form of mortgages, savings and insurance products. The Society uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and to manage the risks arising from its operations.

The Group has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. The structure is reviewed regularly by the Assets and Liabilities Committee ('ALCO'), which is charged with the responsibility for managing and controlling the balance sheet exposures of the Society and the Group. The ALCO reports to the main Board on a monthly basis.

Instruments used for risk management purposes include derivative financial instruments ('derivatives'), which are contracts whose value is derived from one or more of underlying price, rate or index inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices.

The objective of the Group in using derivatives is in accordance with the Building Societies Act 1986 (as amended by the Building Societies Act 1997) and is to limit the extent to which the Group will be affected by changes in interest rates. Derivatives are not used in trading activity or for speculative purposes and consequently all such instruments are classified as hedging contracts.

The derivative instruments used by the Group in managing its balance sheet risk exposures are interest rate swaps. These are used to protect the Society from exposures arising principally from fixed rate mortgage lending, fixed rate savings products and fixed rate deposit funding. The duration of the off balance sheet contract is generally short to medium term and their maturity profile reflects the nature of the exposures arising from the underlying business activities.

#### Risk management

The main financial risks arising from the Group's activities are listed below. The ALCO and Board reviews and agrees policies for managing each of these risks.

## Credit risk

All mortgage loan applications are assessed with reference to the Society's lending policy. Changes to policy are approved by the Board and the approval of loan applications is mandated. The ALCO is responsible for approving Treasury counterparties for both derivatives and investment purposes.

## Liquidity risk

The Group's policy is to maintain sufficient funds in liquid form at all times to ensure that the Group can meet its liabilities as they fall due. The objective of liquidity is to help smooth mis-matches between maturing assets and liabilities and to provide protection against any unexpected development that may arise. In addition, it is the Group's policy to maintain undrawn committed borrowing facilities in order to provide additional flexibility in the management of the Group's liquidity.

## Interest rate risk

The Group is exposed to movements in interest rates and manages this exposure on a continuous basis, within limits set by the ALCO and the Board, using a combination of on and off balance sheet instruments. After taking into account the various derivatives entered into by the Group, the interest rate sensitivity exposure at 31 December 2000 was:

### Interest rate risk

as at 31 December 2000

	<i>Not more than three months £m</i>	<i>More than three months but not more than six months £m</i>	<i>More than six months but not more than one year £m</i>	<i>More than one year but not more than five years £m</i>	<i>More than five years £m</i>	<i>Non-interest bearing £m</i>	<i>Total £m</i>
<b>Assets</b>							
Liquid assets .....	121.1	52.0	46.0	20.0	–	6.3	245.4
Loans and advances to customers .....	1,080.7	21.7	2.0	185.1	1.8	(1.1)	1,290.2
Tangible fixed assets .....	–	–	–	–	–	8.8	8.8
Other assets .....	–	–	–	–	–	5.8	5.8
<b>Total assets .....</b>	<b>1,201.8</b>	<b>73.7</b>	<b>48.0</b>	<b>205.1</b>	<b>1.8</b>	<b>19.8</b>	<b>1,550.2</b>
<b>Liabilities</b>							
Shares .....	1,114.2	25.8	–	58.2	–	41.8	1,240.0
Amounts owed to credit institutions and other customers and debt securities in issue .....	132.1	47.7	8.5	12.5	–	8.7	209.5
Other liabilities .....	–	–	–	–	–	7.8	7.8
Reserves .....	–	–	–	–	–	92.9	92.9
<b>Total liabilities .....</b>	<b>1,246.3</b>	<b>73.5</b>	<b>8.5</b>	<b>70.7</b>	<b>–</b>	<b>151.2</b>	<b>1,550.2</b>
Off balance sheet items .....	68.5	35.5	6.5	(109.0)	(1.5)	–	–
<b>Interest rate sensitivity gap .....</b>	<b>24.0</b>	<b>35.7</b>	<b>46.0</b>	<b>25.4</b>	<b>0.3</b>	<b>(131.4)</b>	<b>–</b>

Interest rate risk  
as at 31 December 1999

	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Non-interest bearing £m	Total £m
<b>Assets</b>							
Liquid assets.....	192.0	6.0	30.0	20.0	–	14.8	262.8
Loans and advances to customers.....	922.9	–	7.6	184.9	1.9	(1.1)	1,116.2
Tangible fixed assets.....	–	–	–	–	–	9.0	9.0
Other assets.....	–	–	–	–	–	3.0	3.0
<b>Total assets.....</b>	<b>1,114.9</b>	<b>6.0</b>	<b>37.6</b>	<b>204.9</b>	<b>1.9</b>	<b>25.7</b>	<b>1,391.0</b>
<b>Liabilities</b>							
Shares.....	1,054.8	–	4.4	11.6	–	34.1	1,104.9
Amounts owed to credit institutions and other customers and debt securities in issue.....	124.2	23.0	24.5	16.5	–	4.1	192.3
Other liabilities.....	–	–	–	–	–	8.4	8.4
Reserves.....	–	–	–	–	–	85.4	85.4
<b>Total liabilities.....</b>	<b>1,179.0</b>	<b>23.0</b>	<b>28.9</b>	<b>28.1</b>	<b>–</b>	<b>132.0</b>	<b>1,391.0</b>
Off balance sheet items.....	166.5	–	2.5	(167.0)	(2.0)	–	–
Interest rate sensitivity gap.....	102.4	(17.0)	11.2	9.8	(0.1)	(106.3)	–

Interest rate risk  
as at 31 December 1998

	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Non-interest bearing £m	Total £m
<b>Assets</b>							
Liquid assets.....	104.1	50.0	20.0	–	–	4.6	178.7
Loans and advances to customers.....	861.2	–	8.2	127.2	23.2	(1.0)	1,018.8
Tangible fixed assets.....	–	–	–	–	–	10.3	10.3
Other assets.....	–	–	–	–	–	5.6	5.6
<b>Total assets.....</b>	<b>965.3</b>	<b>50.0</b>	<b>28.2</b>	<b>127.2</b>	<b>23.2</b>	<b>19.5</b>	<b>1,213.4</b>
<b>Liabilities</b>							
Shares.....	846.2	28.6	20.4	4.3	–	40.6	940.1
Amounts owed to credit institutions and other customers and debt securities in issue.....	68.3	59.3	22.1	7.0	–	27.0	183.7
Other liabilities.....	–	–	–	–	–	10.3	10.3
Reserves.....	–	–	–	–	–	79.3	79.3
<b>Total liabilities.....</b>	<b>914.5</b>	<b>87.9</b>	<b>42.5</b>	<b>11.3</b>	<b>–</b>	<b>157.2</b>	<b>1,213.4</b>
Off balance sheet items.....	59.6	62.8	27.1	(121.5)	(28.0)	–	–
Interest rate sensitivity gap.....	110.4	24.9	12.8	(5.6)	(4.8)	(137.7)	–



## Fair values of financial assets and financial liabilities

Set out below is the comparison of book and fair values of some of the Group's financial instruments (including accrued interest) by category at 31 December 2000. The table excludes financial assets and financial liabilities which are not listed or publicly traded, or for which a liquid or active market does not exist. It therefore excludes items such as mortgages, share accounts and deposits with banks and building societies.

	2000		1999		1998	
	<i>Book value</i> £000	<i>Fair value</i> £000	<i>Book value</i> £000	<i>Fair value</i> £000	<i>Book value</i> £000	<i>Fair value</i> £000
Financial assets and liabilities for which active financial markets exist						
Debt securities.....	199,213	199,863	177,634	177,396	148,173	148,605
Interest rate swaps.....	4,822	2,782	2,100	5,914	5,205	278
Debt securities in issue .....	<u>(20,502)</u>	<u>(20,514)</u>	<u>(11,080)</u>	<u>(11,159)</u>	<u>—</u>	<u>—</u>

Market values have been used to determine the fair value of debt securities, interest rate swaps and debt securities in issue.

The table below shows the notional principal amounts, credit risk weighted amounts and replacement costs of derivatives. Notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The credit risk weighted amount, which is calculated according to rules specified by the Building Societies Commission, is based on the replacement cost but also takes into account measures of the extent of potential future exposure and nature of the counter-party. The replacement costs represent the costs of replacing contracts with a positive value, calculated at market rates current at the balance sheet date reflecting the Group's maximum exposure should all counter-parties default.

	2000 £ 000	1999 £ 000	1998 £ 000
Unmatured interest rate swaps			
Notional principal amount.....	354,750	276,700	288,900
Risk weighted amount .....	1,305	1,471	1,284
Replacement cost .....	<u>5,261</u>	<u>6,263</u>	<u>5,644</u>

## Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. These gains and losses represent the expected future benefit of interest rate hedges to the Group, given current economic conditions and after taking account of unrealised gains and losses which have been recognised in the balance sheet as at 31 December 2000 and 31 December 1999.

<i>Group</i>	<i>2000 Unrecognised gains £ 000</i>	<i>2000 Unrecognised losses £ 000</i>	<i>2000 Net gain/(loss) £ 000</i>	<i>1999 Unrecognised gains £ 000</i>	<i>1999 Unrecognised losses £ 000</i>	<i>1999 Net gain/(loss) £ 000</i>
Gains and losses						
Unrecognised at the start of the year.....	6,263	349	5,914	5,644	5,366	278
Items unrecognised at the start of the year recognised in the year.....	(1,995)	(90)	(1,905)	(5,466)	(92)	(5,374)
Items unrecognised at the start of the year and unrecognised at the year end.	4,268	259	4,009	178	5,274	(5,096)
Gains and losses arising in the year unrecognised in the year .....	993	2,220	(1,227)	6,085	(4,925)	11,010
Unrecognised at the end of the year .....	<u>5,261</u>	<u>2,479</u>	<u>2,782</u>	<u>6,263</u>	<u>349</u>	<u>5,914</u>
Of which:						
Expected to be recognised in not more than one year.....	2,383	132	2,251	1,817	59	1,758
Expected to be recognised in more than one year.....	<u>2,878</u>	<u>2,347</u>	<u>531</u>	<u>4,446</u>	<u>290</u>	<u>4,156</u>
	<u>5,261</u>	<u>2,479</u>	<u>2,782</u>	<u>6,263</u>	<u>349</u>	<u>5,914</u>

## 26. Guarantees and other financial commitments

- (a) The Society has guaranteed its subsidiary's bank overdraft; at the year end this was £18,000 (1999: £3,000; 1998: £23,000).

	<i>2000 £ 000</i>	<i>1999 £ 000</i>	<i>1998 £ 000</i>
(b) Capital commitments			
Capital expenditure contracted for but not provided for in the accounts .....	<u>515</u>	<u>79</u>	<u>806</u>

	2000 £ 000	1999 £ 000	1998 £ 000
<b>(c) Leasing commitments</b>			
Payments committed at the end of the year for the next financial year for operating leases were:			
Land and buildings:			
Commitments expiring:			
In not more than one year.....	9	14	–
In more than one year, but not more than five years.....	8	21	40
In more than five years.....	391	365	350
Other:			
Commitments expiring:			
In not more than one year.....	15	5	26
In more than one year, but not more than five years.....	128	170	133
	<u>551</u>	<u>575</u>	<u>549</u>

## 27. Directors' loans and transactions

At 31 December 2000 there were outstanding mortgage loans totalling £368,000 (1999: £260,000; 1998: £273,000) made in the ordinary course of business to five (1999: five; 1998: five) directors and their connected persons. 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, for the financial year ended 31 December 2000, will be available for inspection at the head office for a period of 15 days up to and including the annual general meeting.

## ANNUAL BUSINESS STATEMENT

The information appearing on pages 44 to 46 of this document has been extracted without material adjustment from the Society's audited annual report and accounts for the year ended 31 December 2000.

	2000 %	<i>Statutory limit</i> %
<b>1. Statutory percentages</b>		
<b>Lending limit</b>		
Proportion of business assets not in the form of loans fully secured on residential property .....	0.7	25
<b>Funding limit</b>		
Proportion of shares and borrowings not in the form of shares held by individuals.....	14.5	50

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, sections 6 and 7 of the Building Societies Act 1986 as amended by the Building Societies Act 1997 and are based on the Group balance sheet.

Business assets are the total assets of the Society and its subsidiary undertakings as shown in the Group balance sheet plus provisions for bad and doubtful debts (note 12), less fixed assets and liquid assets.

Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the Group balance sheet plus provisions for bad and doubtful debts on loans fully secured on residential property (note 12).

Total 'shares and borrowings' are the aggregate of the first four items from the liabilities side of the Group balance sheet. Shares held by individuals are found in note 16.

	2000 %	1999 %
<b>2. Other percentages</b>		
As a percentage of shares and borrowings		
Gross capital .....	6.4	6.6
Free capital.....	5.9	6.0
Liquid assets .....	16.9	20.3
As a percentage of mean total assets		
Profit after taxation.....	0.51	0.47
Management expenses.....	1.13	1.29

'Shares and borrowings' are the aggregate of the first four items on the liabilities side of the Group balance sheet.

'Gross capital' is the general reserve (note 23).

'Free capital' is gross capital plus general loss provision (note 12) less tangible fixed assets in the Group balance sheet.

'Mean total assets' are calculated by halving the aggregate of total assets at the beginning and end of the financial year for the Group.

'Liquid assets' are the first three items on the asset side of the Group balance sheet.

'Management expenses' are the aggregate of administrative expenses and depreciation and amortisation taken from the Group income and expenditure account.

### 3. Information about the directors, chief executive and other officers at 31 December 2000:

Director's name	Date of appointment	Date of birth	Business occupation	Other directorships (and offices)
L. A. Coppel BSc. (Econ.), FCA Chairman	1.10.85	15.5.39	Director	Wade Furniture Group Ltd British Polythene Industries PLC Nottingham Hospitals Concert 2000 Ltd Djanogly City Technology College Nottingham (Governor) The Staff Pension Scheme of Nottingham Building Society (Trustee) Council of the Order of St. John for Nottinghamshire (Chairman) Business for Sterling (National and East Midlands Council Member)
J. M. Hall FCA Vice-Chairman	1.12.91	30.1.36	Chartered Accountant	Baker Tilly (Consultant) Baker Tilly Financial Services Ltd Collier Motor Group Ltd Colliers of Solihull Ltd Howard S Cooke and Co. (Holdings) Ltd James Fleming Investments Ltd Lewis Spring Properties Ltd L S Daray (UK) Ltd Plan B Consulting Robinsons Removal Specialists Ltd Selwood Group Limited Selwood Limited
S. E. Brandreth FCIB, ACII Managing Director	10.10.86	30.5.46	Building Society Chief Executive	Nottingham Property Services Ltd Nottingham Ltd Nottingham Insurance Services Ltd Nottingham Life Assurance Ltd Nottingham Direct Mortgages Ltd Nottingham Direct Ltd Nottingham Mortgage Services Ltd The Building Societies Ombudsman Company Ltd The Staff Pension Scheme of Nottingham Building Society (Trustee) The Building Societies Ombudsman Council (Member)
A. H. Hawksworth TD,DL,MA,FCIPD	31.12.97	9.10.35	Director	The University of Nottingham (Pro-Chancellor) The University of Nottingham Contributory Pension and Assurance Scheme (Trustee) Boots Charitable Trust (Chairman) Doctors' and Dentists' Review Body (Member) The Staff Pension Scheme of Nottingham Building Society (Trustee) Universities and Colleges Employers Association
R. C. Kenyon	31.12.97	8.3.37	Director	Djanogly City Technology College Nottingham (Chairman and Trustee) CTC Enterprises (Nottingham) Ltd (Chairman) Abbeyfield Nottingham Society Ltd (Chairman) The Abbeyfield Society Nottinghamshire Probation Committee (Member) Technology Colleges Trust
A. R. P. Milner ACMA Finance Director	1.7.93	2.4.47	Building Society Executive	Nottingham Property Services Ltd
I. J. Rowling MBA, FCIB Deputy Managing Director	1.12.87	15.5.52	Building Society Executive	Nottingham Property Services Ltd Nottingham Ltd Nottingham Insurance Services Ltd Nottingham Life Assurance Ltd Nottingham Direct Mortgages Ltd Nottingham Direct Ltd Nottingham Mortgage Services Ltd
C. A. Scott BA (Hons.), FCIB Sales and Marketing Director	30.9.98	24.12.50	Building Society Executive	Nottingham Property Services Ltd
J. J. Woodin PhD, MPhil, BA(Hons.), MHSM	1.2.97	23.7.53	Chief Executive	Nottingham Health Authority Nottingham Hospitals Concert 2000 Ltd Public Health and Health Services Research Board of the Medical Research Council (Member)

Correspondence to directors jointly or individually should be addressed 'Private and Confidential' and c/o KPMG Audit Plc, St. Nicholas House, Park Row, Nottingham NG1 6FQ.

#### Directors' service contracts:

S. E. Brandreth and I. J. Rowling have service contracts entered into on 31 December 1994. A. R. P. Milner has a contract entered into on 1 July 1993 and C. A. Scott has a contract entered into on 1 July 1995.

All four directors' contracts are terminable at any time by the Society on two years' notice and by the individual on six months' notice. All the contracts are reviewed annually in June.

**Officers:**

D. R. Watts, LLB  
Secretary

D. J. Carter, BA(Hons), ACIB, AMCT  
Treasurer

G. J. Cresswell, FCIB  
Head of Marketing

A. S. E. Doll, MIA, QiCA, FIA  
Head of Internal Audit

M. C. Gray, FCIB  
Head of Lending Services

R. J. Hodgkinson  
Regional Sales Controller

A. R. Juffs, MBA, ACIB, MIMgt  
Head of Customer Services

C. J. Parker, BA(Hons), FCIB  
Business Development Controller

G. E. Parkes, BSC, ACA  
Chief Accountant

M. A. Philpott, BA(Hons)  
Regional Sales Controller

P. J. Shepherd, MIMIS  
Head of Information Technology

S. M. Ward, FCIPD  
Head of Personnel and Training

A. M. Williams, BSC(Hons), MRICS  
Head of Professional Services

*None of the officers holds any  
directorships*

## DIRECTORS' REPORT

The information appearing on pages 47 to 50, including references to page numbers, of this document has been extracted without material adjustment from the Society's audited annual report and accounts for the year ended 31 December 2000.

The directors are pleased to present their annual report and accounts for the year ended 31 December 2000.

### Business objectives and activities

Nottingham Building Society will continue to be progressive, financially sound and run for the benefit of its savers and borrowers. Within its area of operation, Nottingham Building Society and its subsidiary aim to be the customers' first choice in the house purchase, estate agency and personal savings markets by providing quality products and services which customers will value.

### Review of the year and future plans

The Group's business activities and future plans are reviewed by the Chairman and by the Managing Director on pages 2 to 7.

### Results

Group profit before tax was £10.42 million. The profit after tax for the year transferred to general reserve was £7.53 million. Nottingham Building Society needs, as a mutual organisation, to make enough profit to maintain the financial strength of the Society but no more than that. By limiting our profit to these levels we are able to pass on extra benefits to our savers and borrowers.

### Loans and advances

During 2000, total lending was £331 million and the average advance made was £53,209 with the average debt at the end of the year being £38,513.

At 31 December 2000 there were 56 cases, including properties in possession, 12 or more months in arrears; the total amount of principal loans outstanding in those cases was £1.99 million with arrears of £0.43 million, representing 0.03% of total mortgage balances.

Mortgage losses realised during the year were £0.09 million (0.01% of mortgage balances). We continued our prudent approach to providing for mortgage losses by making an overall provision of £2.05 million at 31 December 2000.

We believe our long term mortgage arrears levels continue to compare well with the industry as a whole, a position made possible by our prudent lending standards and the emphasis we give to counselling borrowers who are in arrears.

### Capital

Gross capital of the Group at the end of the year, shown in the balance sheet as general reserve, was £92.88 million being 6.41% of total shares and borrowings. Free capital was £85.63 million being 5.91% of total shares and borrowings. Free capital is the general reserve plus the general provision for bad and doubtful debts (note 12) less fixed assets as shown in the balance sheet. Past events have demonstrated the importance of maintaining a strong capital position and the directors remain committed to this.

## **Fixed assets**

### *Tangible fixed assets*

Freehold premises owned by the Group are shown in the accounts at cost less depreciation. An estimate of the value of those properties, prepared in late 2000 by the Group's Professional Services Department, indicates that market value is £1.42 million higher than book value.

### *Financial fixed assets*

Details of movements in liquid assets treated as financial fixed assets are given in note 10 to the accounts and reflect our active management of liquidity.

## **Charitable donations**

During the year, the Group made charitable donations of £63,801 including Nottingham Building Society's Community Awards Scheme. No contributions were made for political purposes.

## **Supplier payment policy**

The Group's policy is that payment will be made 30 days from receipt of the invoice, provided that the supplier has complied with all relevant terms and conditions. Variation of the 30 day policy can be agreed at the time an order is placed.

At 31 December 2000 the total amount owed to suppliers was equivalent to 30 days' credit.

## **Economic and monetary union**

The Society continues to monitor the progress of the single currency that took effect in 11 European countries at the beginning of 1999.

Planning is progressing to ensure that systems will be in place, staff trained and customers briefed within two years of any decision being taken for the UK to join the single currency.

## **Employees**

The directors record their thanks to all the staff for another year of excellent results.

The Group believes in effective communication with staff who are kept informed of the various financial and economic factors affecting performance, together with other information that may interest them. This is achieved through regular circulars, our intranet, newsletters and meetings. An annual briefing session on our corporate plan is held with all managers and in turn managers brief their own teams and quarterly updates are given. In addition, staff at all levels are encouraged to understand the part they each play in achieving corporate objectives to ensure involvement and initiative throughout the Group. A staff council has been established to further improve internal communication. Teams and individuals are encouraged, by personal development review meetings with their managers, to develop relevant skills.

We give every consideration to applications for employment from all people regardless of sex, marital status, ethnic classification or disability. It is the Group's policy to develop the skills and potential of all staff by giving them equal access to training and promotional opportunities. In the event of existing staff members becoming disabled, every effort is made to ensure they can continue to work within the Group.

## **Directors**

Information on the directors is given in the annual business statement on pages 43 and 44. Brief biographical details are also given on pages 10 and 11.

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### **Note**

The reference to pages 43 and 44 refers to the information set out on page 45 of this document.



Mr A H Hawsworth, Mr R C Kenyon and Mr I J Rowling retire by rotation at the annual general meeting and, being eligible, seek re-election.

### **Board committees**

Board committees exist to cover the key areas of audit, remuneration, and assets and liabilities. There is also a Directors' Committee. Membership of these committees is shown on pages 10 and 11 and is reviewed by the board annually. Reports from the committees, making recommendations where appropriate, are made to the full board.

The Audit Committee monitors internal controls, accounting policies and regulatory compliance matters. The internal and external auditors both have direct access to this committee.

The Remuneration Committee reviews and agrees employment terms for the Group's employees and executive directors. It also considers and recommends to the full board the remuneration for non-executive directors.

The Assets and Liabilities Committee monitors and controls balance sheet risks (including the use of off balance sheet instruments), funding and liquidity in line with Nottingham Building Society's prudent policy statements.

The Directors' Committee assists the board in complying with the Building Societies Commission Code of Practice on boards and management by making timely recommendations on the board and executive succession plan, board recruitment and composition, and other relevant matters to ensure good corporate governance.

### **Directors' emoluments**

The board of directors and the Remuneration Committee have been assisted by Hay Management Consultants Ltd, a leading provider of remuneration advice and data, in ensuring that the remuneration paid to both non-executive and executive directors is fair and relates properly to the remuneration paid by similar financial services organisations.

### **Non-executive directors**

The Remuneration Committee, together with Hay Management Consultants Ltd, considered the level of fees for non-executive directors. Benchmark information from a building society comparator group and from a wider group of UK listed companies was used and fees were agreed by the board upon the advice of the Committee.

There are no bonus schemes or incentive schemes for any non-executive director including the Chairman. Similarly, non-executive directors have no pension scheme entitlements.

### **Executive directors**

The remuneration arrangements for executive directors, which were in force during the period covered by the annual report, are as follows:

- The four executive directors have service contracts on a 24 month 'rolling' basis requiring 24 months' notice by the Society to terminate and 6 months' notice by the individual.
- Basic salary is assessed by reference to jobs carrying similar responsibilities in comparable organisations and by reference to data relating to jobs of a similar size using the job evaluation system of Hay Management Consultants Ltd. The principal comparator group consists of jobs within the financial services sector. Additionally, a secondary comparator group consists of executive director positions within building societies of a similar size and complexity.
- Performance related awards are in two parts. An annual bonus equivalent to the average payment made under the Society's Group profit share scheme which covers all the Society's staff and an additional

incentive payment of twice that sum paid under a separate executive bonus scheme. Both the Group profit share scheme and the executive bonus scheme are based on three group performance measures: profit (a specific profit level is necessary to trigger a payment), growth in the size of the Society's mortgage portfolio and the extent to which the Group costs are beneath a budgeted figure. In 2000 a cap on the Group scheme ensured that the maximum average payment would not exceed 6.7% of salary.

- A medium term executive incentive scheme was introduced on 1 January 1999. This three year scheme for executive directors focuses primarily on the Society's costs to mean assets ratio.
- Executive directors are members of the Staff Pension Scheme of Nottingham Building Society. The scheme is contributory, with executives contributing 5% of basic annual earnings (see note 7 on the Staff Pension Scheme).
- Executive directors receive other taxable benefits including a car (or car allowance) and a limited mortgage subsidy.

#### **Accounts disclosure**

Full details of individual directors' remuneration and their increase in accrued pension are contained in note 5 to the accounts. The increase in accrued pension represents the change in the annual pension to which each director is entitled as the result of changes in pensionable earnings (excluding inflation) and increases in pensionable service during the year. Other business interests are shown in the annual business statement. None of the directors has any beneficial interest in, or any rights to subscribe for shares in, or debentures of, any connected undertaking of the Society.

#### **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 the reappointment of KPMG Audit Plc as auditors is to be proposed at the annual general meeting.

On behalf of the board of directors

Laurence Coppel  
Chairman

14 February 2001

## **CORPORATE GOVERNANCE AND DIRECTORS' RESPONSIBILITIES**

The information appearing on this page, including references to page numbers, has been extracted without material adjustment from the Society's audited annual report and accounts for the year ended 31 December 2000.

### **Corporate governance**

Nottingham Building Society complies with the Code of Practice included in the Prudential Note 'Boards and Management' issued in August 1998 by the Building Societies Commission, except in respect of service contracts for executive directors entered into before its issue.

### **Directors' responsibilities for preparing the annual accounts**

The following statement, which should be read in conjunction with the statement of auditors' responsibilities on page 16, is made by the directors about their responsibilities for the preparation of the annual accounts, annual business statement and the directors' report.

The Building Societies Act 1986 requires the directors to prepare annual accounts for each financial year. These must give a true and fair view of the income and expenditure of the Society and the Group for the year and of the state of affairs of the Society and the Group as at the end of the year. In preparing those accounts, the directors:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the presumption, which the directors believe is appropriate, that the Group is a going concern.

In addition to the accounts, the Building Societies Act 1986 requires the directors to prepare an annual business statement and a directors' report, each containing prescribed information relating to the business of the Society and its subsidiary undertaking.

### **Directors' responsibilities for accounting records and internal control**

The directors are responsible for seeing that proper accounting records are kept which show with reasonable accuracy at any time the financial position of the Society and the Group and which enable them to ensure that the accounts comply with the Building Societies Act 1986 and regulations made thereunder; and for maintaining proper systems of internal control and inspection and report. They have a general responsibility for safeguarding the assets of the Society and the Group and for taking reasonable steps to prevent and detect fraud and other irregularities. Under the Act the directors are required to report to the Building Societies Commission, for each financial year, on the compliance of these systems with the Act. The auditors are required to make a similar, but separate, report to the Commission.

### **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 use the 'going concern basis' in preparing the accounts.

Laurence Coppel  
Chairman

14 February 2001

## AUDITORS' REPORT

The information appearing on pages 52 to 53 of this document, including references to page numbers, has been extracted without material adjustment from the Society's audited annual report and accounts for the year ended 31 December 2000.

### **Auditors' report to the members of Nottingham Building Society**

We have audited the annual accounts on pages 17 to 41. 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 42 to 44 and pages 12 to 14 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 15, 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.

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#### Note

The reference to pages 42 to 44 and to pages 12 to 14 refers to the information set out on pages 44 to 46 and on pages 47 to 50 respectively, of this document.

The reference to page 15 refers to the information set out on page 51 of this document.

## **Opinion**

In our opinion:

- (a) 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;
- (b) 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;
- (c) the information given in the directors' report is consistent with the accounting records and the annual accounts; and
- (d) 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  
Nottingham

14 February 2001

## **USE OF PROCEEDS**

The net proceeds of issue of the PIBS (estimated to be approximately £24,187,500) will be used by the Society to strengthen further its capital base.

## **CERTAIN PROVISIONS OF THE ACT**

### **Amalgamation**

Section 93 of the Act permits a building society to amalgamate with one or more building societies by establishing a building society as their successor. Amalgamation requires approval by a shareholding members' resolution and a borrowing members' resolution (each as defined in Schedule 2 to the Act) of each amalgamating society and confirmation of amalgamation by the 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 a shareholding members' resolution and a borrowing members' resolution of each of the transferor society and the transferee society. However, the resolutions of the transferee society are not required if the 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 (including obligations under the PIBS) of the liabilities of the Society, the PIBS may, according to the terms of the transfer, 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 which 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 (which must satisfy certain additional voting thresholds which differ depending upon whether the successor company is a specially formed or existing company) 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 company. Pursuant to section 100(2)(a) of the Act, permanent interest bearing shares would be converted into deposits with the successor company. 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 company ranking behind any undated subordinated debt previously issued by the Society subject as provided therein.

Where, in connection with any transfer, rights are to be conferred on members of the society to acquire shares in priority to other subscribers, the right is restricted to shareholding members of the society who have held their shares throughout the period of two years expiring on a qualifying day specified by the society in the transfer agreement. On any such transfer, shareholding members of the society who were members on the qualifying day but not entitled to vote on the shareholding members' resolution will receive a statutory cash bonus equal to their notional share of reserves of the society. If the transfer is to an existing company, any distribution of funds (apart from the statutory cash bonus referred to above) may only be made to those shareholding members of the society who have held their shares for at least two years expiring on a

qualifying day specified by the society in the transfer agreement. No distribution of funds (apart from the statutory cash bonus) may be made if the transfer is to a specifically formed company.

### **General**

The Society, as a result of an amalgamation, transfer of engagements or transfer of business as described above, may 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.

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 the PIBS holders.

The Financial Services and Markets Act 2000 makes provision for the regulatory powers of the Commission to be transferred to the Financial Services Authority. The Financial Services and Markets Act 2000 is expected to come into force by the end of November 2001.



## UNITED KINGDOM TAXATION

The following is a summary of the Society's understanding of current law and practice in the United Kingdom relating to the taxation of the PIBS. The summary relates only to the tax treatment of persons who 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 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. PIBS holders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the PIBS are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the PIBS. In particular, PIBS holders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the PIBS even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.**

### Interest on the PIBS

1. The PIBS will constitute "quoted Eurobonds" provided that they carry a right to interest and are and continue to be listed on a recognised stock exchange within the meaning of section 841 of the Income and Corporation Taxes Act 1988 (the "Taxes Act"). The London Stock Exchange is currently so recognised. Accordingly, payments of interest on the PIBS may be made without withholding or deduction for or on account of United Kingdom income tax provided the PIBS continue to qualify as quoted Eurobonds.
2. If the PIBS cease to qualify as quoted Eurobonds an amount must be withheld from payment of interest by the Society on account of United Kingdom income tax at the lower rate (currently 20 per cent.) unless the Society has reasonable grounds to believe that the beneficial owner of the interest is either a United Kingdom resident company or a non-United Kingdom resident company which is within the charge to corporation tax as regards the interest. PIBS holders who are not resident in the United Kingdom may be able to recover all or part of any tax deducted pursuant to the provisions of an applicable double taxation treaty.

### United Kingdom Corporation Tax Payers

3. PIBS holders who are subject to United Kingdom corporation tax will be charged to tax on interest arising on the PIBS under the "loan relationships" regime in the Finance Act 1996, broadly in accordance with their accounting treatment. However, the PIBS themselves are not 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 by a holder subject to United Kingdom corporation tax such holder may realise a gain or loss for the purposes of United Kingdom corporation tax on chargeable gains, depending upon that holder's particular circumstances.

### Other United Kingdom Tax Payers

4. The PIBS will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal of PIBS by a holder will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.
5. PIBS are within the accrued income scheme. Accordingly, a disposal of PIBS by a PIBS holder, who is resident or ordinarily resident in the United Kingdom or who carries on a trade in the United Kingdom through a branch or agency to which the PIBS are attributable, may give rise to a charge to tax on income in respect of an amount representing interest on the PIBS which has accrued since the preceding interest payment date. However, the accrued income scheme does not apply, *inter alia*, to

individuals who do not hold securities with a nominal value of more than £5,000 at any time in both the year of assessment in which the relevant interest period ends and the preceding year of assessment.

#### **Stamp Duty**

6. No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue or transfer of the PIBS.

#### **Provision of information**

7. PIBS holders who are individuals should note that where any interest on PIBS is received by any person in the United Kingdom acting on behalf of the relevant PIBS holder (other than solely by clearing or arranging the clearing of a cheque) (a "collecting agent"), then the collecting agent may, in certain cases, be required to supply to the United Kingdom Inland Revenue details of the payment and certain details relating to the PIBS holder (including the PIBS holder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the PIBS holder is resident in the United Kingdom for United Kingdom taxation purposes. Where the PIBS holder is not so resident, the details provided to the United Kingdom Inland Revenue may, in certain cases, be passed by the United Kingdom Inland Revenue to the tax authorities of the jurisdiction in which the PIBS holder is resident for taxation purposes.

#### **Proposed European Withholding Tax Directive**

8. 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. The proposals are not yet final, and they may be subject to further amendment and/or clarification.

## MARKETING ARRANGEMENTS

The Manager, pursuant to a subscription agreement dated 12 June 2001 (the "Subscription Agreement"), has agreed with the Society, subject to the satisfaction of certain conditions, to subscribe for the PIBS at the issue price of 98 per cent. of their principal amount. The Society has agreed to pay the Manager a combined management and underwriting commission of 1.25 per cent. of such principal amount if the conditions to which the issue of the PIBS are 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.

The PIBS have not been and will not be registered under the United States Securities Act of 1933 (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons otherwise than in accordance with applicable United States securities laws and regulations. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The PIBS are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by US tax regulations. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code and regulations thereunder.

The Manager has represented and agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the PIBS, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells PIBS during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the PIBS within the United States or to, or for the account or benefit of, U.S. persons.

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 and agreed 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 IV of the Financial Services Act 1986 (the "FSA") 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 FSA (2) it has complied and will comply with all applicable provisions of the FSA 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 in the United Kingdom 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 listing rules under Part IV of the FSA) to a person who 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 such document may otherwise lawfully be issued or passed on.

Save for having obtained approval of this document by the UK Listing Authority pursuant to listing rules made under Part IV of the FSA 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, or is intended to, permit a public offer of the PIBS in any country or jurisdiction where action for that purpose is required. The PIBS may not be, directly or indirectly, offered or sold in any country or jurisdiction where action for that purpose is required. Accordingly, the PIBS may not, directly or indirectly, be offered or sold and neither this 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 or other requirements or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

## GENERAL INFORMATION

### Material change

There has been no significant change in the financial or trading position of the Society or the Group or any material adverse change in the prospects of the Society or the Group since 31 December 2000, being the date to which the latest published audited accounts were made up.

### Litigation

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

### Accounts

The consolidated accounts of the Society for the three years ended 31 December 2000 have been audited in accordance with United Kingdom auditing standards by KPMG Audit Plc, Chartered Accountants and Registered Auditors of St. Nicholas House, Park Row, Nottingham, NG1 6FQ and have been reported upon without qualification.

### Auditors

KPMG Audit Plc has given and not withdrawn its written consent to the inclusion herein of its report on the Society and the Group and the references thereto and to its name in the form and context in which they appear and has authorised the contents of that part of the listing particulars for the purposes of section 152(1)(e) of the Financial Services Act 1986.

### Authorisation

The issue of the PIBS was authorised by a resolution of the Board on 23 May 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 £607,600 (exclusive of VAT).

### Material contracts

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

- (i) the Subscription Agreement dated 12 June 2001 between the Manager and the Society; and
- (ii) the Registrar's Agreement to be dated 14 June 2001 between the Registrar and the Society appointing the Registrar as registrar for the PIBS.

### Directors' interests

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

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

### **Capital**

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

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

There have been no significant changes in the amount of issued capital of the Society, nor any of its subsidiary undertakings, during the past three years.

### **Guarantees and loans**

As at 31 December 2000, advances secured on residential property included mortgage loans made to Directors of the Society and persons connected with them, as defined by section 70 of the Act, the balances on which totalled £368,000.

No guarantees have been provided by the Society for the benefit of any Director of the Society.

### **Employee schemes**

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

### **Directors' service contracts**

The Society has entered into the following service contracts with its executive Directors:

- (i) a service contract with Stuart Brandreth dated 31 December 1994, pursuant to which he is employed as the Society's Managing Director at a current basic annual salary of £137,000. The contract is terminable at any time by the Society on 2 years' notice and by Mr Brandreth on 6 months' notice. The contract is reviewed annually in June;
- (ii) a service contract with Ian Rowling dated 31 December 1994 pursuant to which he is employed as the Society's Deputy Managing Director at a current basic annual salary of £104,000. The contract is terminable at any time by the Society on 2 years' notice and by Mr Rowling on 6 months' notice. The contract is reviewed annually in June;
- (iii) a contract with Andrew Milner dated 1 July 1993 pursuant to which he is employed as the Society's Finance Director at a current basic annual salary of £97,000. The contract is terminable at any time by the Society on 2 years' notice and by Mr Milner on 6 months' notice. The contract is reviewed annually in June; and
- (iv) a contract with Carol Scott dated 1 July 1995 pursuant to which she is employed as the Society's Sales and Marketing Director at a current basic annual salary of £86,000. The contract is terminable at any time by the Society on 2 years' notice and by Carol Scott on 6 months' notice. The contract is reviewed annually in June.

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

The Directors of the Society have not waived or agreed to waive future emoluments and no emoluments have been waived during the past financial year.

### **Amounts payable to the Directors**

Total aggregate remuneration and benefits in kind of £666,000 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 £697,000 (including remuneration for executive duties) 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. In addition, a further estimated sum of approximately £440,000 may become payable to the executive Directors of the Society under a three year executive incentive scheme in respect of the three years ending 31 December 2001.

### **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 in respect of the PIBS (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 the PIBS, issuing PIBS Certificates, 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 despatch the PIBS Certificates to all PIBS holders upon the request and at the risk of the person entitled thereto by first class post between 14 June 2001 and 28 June 2001 to the address specified in the PIBS Register. The ISIN for the PIBS is GB 00 305 17931 and the SEDOL number is 305 1793.

### **Payment for the PIBS**

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

### **Documents for inspection**

Copies of the following documents may be inspected at the offices of Clifford Chance Limited Liability Partnership, 200 Aldersgate Street, London EC1A 4JJ during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) during the period of 14 days from the date of this document:

- (i) the Rules and the Memorandum of the Society;
- (ii) the audited consolidated accounts of the Society for each of the five years ended 31 December 2000, 1999, 1998, 1997 and 1996;
- (iii) the Subscription Agreement;
- (iv) drafts (subject to modification) of the Registrar's Agreement and of a PIBS Certificate (including the special conditions of issue of the PIBS);
- (v) the consent of KPMG Audit Plc;
- (vi) the Directors' service agreements referred to above;
- (vii) all other reports, letters and documents provided by expert parties included or referred to in this document; and
- (viii) Prudential Note 1998/2 published by the Commission.

**THE SOCIETY**

**Nottingham Building Society**  
Nottingham House  
5/13 Upper Parliament Street  
Nottingham NG1 2BX

**REGISTRAR**

**Lloyds TSB Registrars**  
The Causeway  
Worthing  
West Sussex BN99 6DA

**LEGAL ADVISERS**

*To the Society*  
**Clifford Chance**  
**Limited Liability Partnership**  
200 Aldersgate Street  
London EC1A 4JJ

*To the Manager*  
**Allen & Overy**  
One New Change  
London EC4M 9QQ

**MANAGER**

**The Royal Bank of Scotland plc**  
135 Bishopsgate  
London EC2M 3UR

**AUDITORS**

**KPMG Audit Plc**  
St. Nicholas House  
Park Row  
Nottingham NG1 6FQ

**SPONSOR FOR LISTING**

**NCB Stockbrokers Limited**  
3 George's Dock  
International Financial Services Centre  
Dublin 1  
Republic of Ireland