

The directors and the prospective director of Halifax, whose names appear in paragraph 7.1, accept responsibility for the information contained in these Listing Particulars. To the best of the knowledge and belief of the directors and the prospective director (who have taken all reasonable care to ensure that such is the case) the information contained in these Listing Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made to the London Stock Exchange Limited (the "London Stock Exchange") for up to 225,000,000 non-cumulative, fixed rate, sterling preference shares (the "Preference Shares") and the £50,000,000 9% per cent. Perpetual Subordinated Bonds (the "Bonds") to be admitted to the Official List. A copy of these Listing Particulars, which comprise listing particulars relating to Halifax plc in accordance with the rules of the London Stock Exchange made under section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration as required by section 149 of the Financial Services Act 1986.

In these Listing Particulars, references to "Halifax plc", "Halifax" and the "Company" are references to Halifax plc, and references to the "Halifax Group" or the "Group" are to Halifax and its subsidiary undertakings.

No person is authorised in connection with the issue or listing of the Preference Shares and the Bonds to give any information or to make any representation not contained in this document and any information or representation not contained herein must not be relied upon as having been authorised by Halifax or Deutsche Bank. The distribution of these Listing Particulars in certain jurisdictions may be restricted by law. Neither Halifax nor Deutsche Bank represents that these Listing Particulars may be lawfully distributed in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, save for obtaining the approval of these Listing Particulars as listing particulars by the London Stock Exchange and delivery of copies of these Listing Particulars to the Registrar of Companies in England and Wales, no action has been taken by Halifax or Deutsche Bank which would permit distribution of these Listing Particulars in any jurisdiction where action for that purpose is required. Accordingly, neither these Listing Particulars nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws.

No Preference Shares or Bonds have been marketed nor are any available for purchase, in whole or in part, to the public in the United Kingdom or elsewhere in connection with the admission to the Official List.

HALIFAX plc

(Incorporated and registered in England and Wales under the Companies Act 1985, registered number 2367076)



Issue of up to 225,000,000

**Non-Cumulative Fixed Rate Sterling Preference Shares of £1 each
and £50,000,000 9% per cent. Perpetual
Subordinated Bonds**

Sponsor and listing agent: Deutsche Bank

The Preference Shares will have a nominal value of £1 each and will be issued credited as fully paid. Subject as provided in this document, dividends on the Preference Shares will be paid in equal half-yearly instalments on 15 March and 15 September in each year. The first dividend instalment on the Preference Shares is expected to be payable on 15 September 1999 and to be calculated as if the Preference Shares had been in issue since 15 March 1999.

The Preference Shares will rank *pari passu* amongst themselves and in priority as regards participation in profits and assets to the ordinary shares of 20p each (the "Ordinary Shares") and any other shares of Halifax.

The issue of the Preference Shares is conditional upon the ordinary shareholders of Halifax approving an increase in the authorised share capital of Halifax from £660,000,000 to £1,660,000,000 by the creation of one billion preference shares of £1 each at an extraordinary general meeting of Halifax to be held on 18 November 1998 and on the Transfer occurring on the Vesting Date. A summary of the rights attaching to the Preference Shares is set out under "Description of the Preference Shares".

Interest on the Bonds is payable from and including the Vesting Date, semi-annually in arrear on 1 March and 1 September in each year (each an "Interest Payment Date"), at the rate of 9% per cent. per annum, except that the first such payment, which will be made on the first Interest Payment Date following the Vesting Date, will be in respect of the period from and including the Vesting Date, to but excluding 1 September 1999, as described under "Terms and Conditions of the Bonds - 3 Interest". The issue of the Bonds is conditional, amongst other things, on the Transfer occurring on the Vesting Date.

The Bonds will constitute unsecured and subordinated obligations of Halifax, as described under "Terms and Conditions of the Bonds - 2 Status and Subordination".

Neither the Preference Shares nor the Bonds have been or will be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"). Subject to certain exceptions, neither the Preference Shares nor the Bonds may be offered, sold or delivered within the United States or to U.S. persons. Neither the delivery of these Listing Particulars nor any sale made hereunder shall, under any circumstances, create any implication or constitute a representation that there has been no change in the affairs of Halifax or the Group since the date hereof. These Listing Particulars do not constitute an offer of, or an invitation by or on behalf of Halifax or Deutsche Bank to subscribe for or purchase, any of the Preference Shares or the Bonds.

Deutsche Bank is regulated by the Securities and Futures Authority Limited ("SFA"). Deutsche Bank is acting exclusively for Halifax in relation to the listing of the Preference Shares and the Bonds and will not regard any other person (whether or not a recipient of this document) as its customer in relation to the listing of the Preference Shares or the Bonds or afford them the customer protections provided under the SFA rules. As a result, the customer protections provided under the SFA rules will not be available to any person other than Halifax.

The date of these Listing Particulars is 26 October 1998.

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1 Reasons for the issue of the Preference Shares and the Bonds

1 Reasons for the issue of the Preference Shares and the Bonds

1.1 Preference Shares

On 30 July 1998, the directors of Halifax announced that they had agreed terms with the board of BMBS under which Halifax would acquire the business of BMBS for a consideration of £750 million (to be satisfied by a combination of cash and Preference Shares), subject to the approval of BMBS members and the appropriate regulatory bodies including the Commission. Given the restrictions in the Act which apply to the acquisition of BMBS, Halifax is not permitted to satisfy all of the consideration in cash. The Act does not, however, prevent Halifax from issuing shares as consideration to certain investing members and borrowers of BMBS and to certain other persons who will be entitled to receive them under the terms of the BMBS Distribution Scheme contained in the Transfer Document.

The directors are committed to an ongoing programme of capital management. This programme includes managing the absolute amount, mix and composition of each type of regulatory capital. Non-cumulative preference shares can provide an opportunity to reduce the overall cost of Tier 1 capital. Consequently, the directors have decided to issue Preference Shares, which will form part of Halifax's Tier 1 capital, as part of the consideration for the Transfer. Halifax will receive no proceeds from the issue of the Preference Shares and the issue will not be underwritten.

1.2 Bonds

If the acquisition of the business of BMBS takes place, Halifax will issue the Bonds to those investing members of BMBS who are holders of PIBS of BMBS on the day before the Vesting Date.

This is because the special conditions of issue of the PIBS provide that, upon a transfer by BMBS of the whole of its business to a successor company in accordance with section 97 of the Act, the successor company will, in accordance with section 100(2)(a) of the Act, assume, as from the Vesting Date, a liability to every qualifying member of BMBS (which includes a holder of PIBS) as in respect of a subordinated deposit made with the successor company, corresponding in amount to the principal amount of the PIBS held by the member.

The special conditions also provide that each such deposit will be applied on behalf of the holder of PIBS in the subscription of a principal amount of perpetual subordinated bonds of the successor company carrying the same rate of interest as the PIBS and equal to the principal amount of the deposit.

If the Transfer takes place, the Bonds will, therefore, replace the PIBS. None of the Bonds has been or will be marketed or made available to any person prior to the Vesting Date other than to the holders of the PIBS. Halifax will receive no proceeds from the issue of the Bonds and the issue will not be underwritten.

2 Description of the Preference Shares

2 Description of the Preference Shares

The Preference Shares, which will be non-cumulative, will be constituted by a board resolution of Halifax to be passed on or before the Vesting Date in accordance with the Articles of Association of Halifax as proposed to be amended prior to the Vesting Date. The principal rights attaching to the Preference Shares are summarised below.

2.1 Denomination, status and form

The Preference Shares will have a nominal value of £1 each and will be issued credited as fully paid. The Preference Shares will rank as regards participation in profits and assets equally amongst themselves and with any other class of shares that are expressed to rank equally with the Preference Shares as regards participation in profits or assets. The Preference Shares will rank in priority to the Ordinary Shares and in priority to any other class of shares in the capital of Halifax.

The Preference Shares will be in registered form and may be held in either certificated form or uncertificated form in CREST. Temporary documents of title will not be issued in respect of the Preference Shares pending the despatch by post of definitive certificates for the Preference Shares. It is expected that certificates will be sent within five Business Days and, in any event, not later than ten days, following the Vesting Date to those persons qualifying for a Preference Shares distribution who have returned a validly signed Share Registration Form by the specified date and have requested a share certificate. Share certificates will not be issued in respect of those Preference Shares to be sold on the Vesting Date pursuant to the share dealing facility referred to in paragraph 4.3 below or those to be issued to, or to a nominee for, the Trustee. Pending the issue of definitive certificates for the Preference Shares, transfers will not be certified against the register held by Halifax's registrars.

Title to Preference Shares will pass by transfer and registration on the register for the Preference Shares in accordance with the amended Articles of Association of Halifax. The amended Articles will provide, amongst other matters, that transfers of Preference Shares in certificated form are to be effected by instrument of transfer in the usual standard form or in any other form approved by the directors of Halifax. Instruments of transfer of the Preference Shares must be signed by the transferor or executed in some other legally valid way.

The directors of Halifax may refuse to register a transfer of Preference Shares in certificated form unless the instrument of transfer:

- is in respect of Preference Shares only;
- is in favour of not more than four transferees;
- is duly stamped; and
- is deposited at the office of Halifax's registrars accompanied by the relevant share certificate(s) and any other evidence which the directors of Halifax ask for to prove the entitlement of the person wishing to make the transfer.

The directors of Halifax may refuse to register a transfer of uncertificated Preference Shares where the transfer is in favour of more than four transferees and in the circumstances set out in the 1995 Regulations.

Any such registration of transfer will be effected without fee to the person requesting the registration and subject in all respects to the amended Articles of Association of Halifax.

2.2 Dividends

The rights attaching to the Preference Shares will be as follows:

- 2.2.1** Holders of the Preference Shares will be entitled (subject as described below) to receive a non-cumulative preferential dividend (the "**Preference Dividend**") payable at a fixed rate per annum determined by nominated market makers which will set the rate in accordance with the Transfer Agreement immediately before the Transfer at a level which, in their opinion, should result in the Preference Shares having a market value of approximately £1 per Preference Share at the time of commencement of dealings (the "**Agreed Rate**"), such dividend to be in respect of the half-years ending on (but excluding) 15 March and 15 September in each year, payable in equal half-yearly instalments in arrear on those dates or, if any such date is not a Business Day, on the next succeeding Business Day (and without any interest or other payment in respect of such delay) (each a "**Dividend Payment**").

2 Description of the Preference Shares

Date”). The first payment of the Preference Dividend is expected to be made on 15 September 1999 and to be calculated as if the Preference Shares had been in issue since 15 March 1999. The Preference Dividend will be paid to those holders of Preference Shares named on the register of Preference Shares on any date chosen by the directors up to 42 days prior to the relevant Dividend Payment Date.

Dividends payable in respect of the Preference Shares allotted to, or to a nominee for, the Trustee will be paid into a separate account in the name of Halifax and will not be paid to those entitled to those shares under the trust unless they have returned a validly signed Share Registration Form.

- 2.2.2** The Preference Shares will rank for dividend equally amongst themselves and with any other class of shares which may be issued by Halifax that are expressed to rank equally with the Preference Shares as regards participation in profits and otherwise in priority to the Ordinary Shares and in priority to any other share capital in Halifax.
- 2.2.3** If, in the opinion of the directors, the distributable profits of Halifax are sufficient to cover the payment in full of the Preference Dividend on any Dividend Payment Date and also the payment in full of all other dividends payable on such date on any other class of shares which may be issued by Halifax that are expressed to rank equally with the Preference Shares as regards participation in profits, then, subject to paragraph 2.2.6 below, each Preference Dividend will be declared and paid in full.
- 2.2.4** If, in the opinion of the directors, the distributable profits of Halifax are insufficient to cover the payment in full of the Preference Dividend on any Dividend Payment Date and also the payment in full of all other dividends payable on such date on any other class of shares which may be issued by Halifax that are expressed to rank equally with the Preference Shares as regards participation in profits, then, subject to paragraph 2.2.6 below, dividends will be declared by the directors pro rata for the Preference Shares and any other class of shares which may be issued by Halifax that are expressed to rank equally with the Preference Shares as regards participation in profits to the extent of the available distributable profits (if any) to the intent that the amount of dividend declared per share on each Preference Share and each share of any other class which may be issued by Halifax that is expressed to rank equally with the Preference Shares as regards participation in profits will bear to each other the same ratio as the dividends accrued per share on each Preference Share and each share of any other class which may be issued by Halifax that is expressed to rank equally with the Preference Shares as regards participation in profits, bear to each other.
- 2.2.5** If it subsequently appears that any Preference Dividend which has been paid should not have been paid because there were insufficient distributable profits of Halifax, then, provided the directors of Halifax have acted in good faith, they will not incur any liability for any loss which any shareholder may suffer in consequence of such payment having been made.
- 2.2.6** If, in the opinion of the directors, the declaration or payment of any Preference Dividend would breach or cause a breach of the Financial Services Authority's capital adequacy requirements applicable to Halifax or any other member of the Halifax Group, then none of that Preference Dividend will be declared or paid unless the Financial Services Authority otherwise agrees.
- 2.2.7** Holders of the Preference Shares will have no further right to participate in the profits of Halifax and, subject to paragraph 2.2.10, if and to the extent that any Preference Dividend (or any part of a Preference Dividend) is not paid on any occasion for the reasons described in paragraph 2.2.4 or 2.2.6 above, the holders of Preference Shares will have no claim in respect of such non-payment.
- 2.2.8** The amount of Preference Dividend payable on the Preference Shares in respect of any period shorter or longer than a full dividend period other than the first dividend period will be calculated on the basis of a 365 day year and the actual number of days elapsed in such period.
- 2.2.9** To the extent that its payment would be lawful and regardless of any other provision in the amended Articles of Association of Halifax, the directors may in any calendar year declare and pay a special dividend on any class of shares in respect of which no dividend has previously been paid in that year of an amount not exceeding £0.01 per share if, in their opinion, it is necessary to preserve the status of the shares of the relevant class as wider range investments under the Trustee Investments Act 1961 (as amended or re-enacted from time to time).

2 Description of the Preference Shares

2.2.10 If a dividend is not paid in full on any Preference Shares for the reasons described in paragraph 2.2.4 or paragraph 2.2.6, the directors of Halifax will, if Halifax has sufficient distributable profits and/or reserves to do so, allot and issue to each holder of Preference Shares an additional number of Preference Shares credited as fully paid. The total nominal value of the additional Preference Shares will be equal to an amount determined by multiplying the unpaid amount of any Preference Dividend which would have been payable pursuant to paragraph 2.2.1 (exclusive of any associated tax credit) by 1%. Application will be made to list such additional Preference Shares on the London Stock Exchange prior to their issue.

Any Preference Dividend unclaimed after a period of 12 years from the date when it was declared will be forfeited and will revert to Halifax and the payment by the directors of any unclaimed Preference Dividend or other sum payable on or in respect of a Preference Share into a separate account will not constitute Halifax as trustee in respect of it. See also paragraphs 2.6.1, 2.6.2 and 2.6.3 below.

2.3 Capital

2.3.1 On a return of capital or distribution of assets, whether or not on a winding up, other than a redemption or purchase by Halifax of any of its share capital, holders of the Preference Shares will be entitled to receive in sterling out of surplus assets of Halifax remaining after payment of Halifax's liabilities:

- (i) equally with the holders of any other class of shares which may be issued by Halifax that are expressed to rank equally with the Preference Shares as regards participation in assets and in priority to the holders of Ordinary Shares and in priority to any other share capital in Halifax a sum equal to:
 - (a) the amount of any Preference Dividend which is due for payment after the date of commencement of the winding up or liquidation or other return of capital but which is payable in respect of a period ending on or before such date; and
 - (b) the proportion (whether or not declared or earned) of the Preference Dividend that would otherwise be payable and is not otherwise paid in cash in respect of any period that begins before, but ends after, the date of commencement of the winding up or liquidation or other return of capital and which is attributable to the part of the period that ends on such date; and
- (ii) subject thereto, equally with the holders of any other class of shares which may be issued by Halifax that are expressed to rank equally with the Preference Shares as regards participation in assets and otherwise in priority to the Ordinary Shares and in priority to any other share capital in Halifax, a sum equal to the amount paid up or credited as paid up on the Preference Shares.

2.3.2 If, upon any return of capital or distribution of assets, the amounts available for payment are insufficient to cover the amounts payable in full on the Preference Shares and any other class of shares which may be issued by Halifax that are expressed to rank equally with the Preference Shares as regards participation in assets, the holders of the Preference Shares and any other class of shares which may be issued by Halifax that are expressed to rank equally with the Preference Shares as regards participation in assets will share rateably in the distribution of surplus assets (if any) of Halifax in proportion to the full respective preferential amounts to which they are entitled. No Preference Share will confer any rights to participate in the surplus assets of Halifax other than those set out in this paragraph 2.3.

2.4 Redemption

2.4.1 Subject to paragraph 2.4.8 and to the provisions of the Companies Act and all other laws and regulations applying to Halifax, Halifax may, at its option, redeem any of the Preference Shares on the first Dividend Payment Date which falls after the twenty-fifth anniversary of the date of issue of the Preference Shares (being the Vesting Date which is expected to be 19 April 1999) or any fifth anniversary thereafter. In the event that fewer than all of the outstanding Preference Shares are to be redeemed, the Preference Shares to be redeemed will be selected by Halifax by lot in the presence of its auditors on such basis as the directors consider appropriate at the time.

2 Description of the Preference Shares

- 2.4.2** The amount payable on redemption of any Preference Shares in accordance with paragraph 2.4.1 (the “**Redemption Price**”) will be the amount of £1 per Preference Share to be redeemed and an amount equal to the accrued but unpaid Preference Dividend on that Preference Share in respect of the period from the Dividend Payment Date last preceding the date fixed for its redemption (the “**Redemption Date**”) to the Redemption Date.
- 2.4.3** If Preference Shares are to be redeemed, a notice of redemption (a “**Redemption Notice**”) will be mailed to each holder of Preference Shares to be redeemed, not less than 30 days nor more than 60 days prior to the Redemption Date. Each Redemption Notice will specify (i) the Redemption Date, (ii) the number of Preference Shares to be redeemed, (iii) the Redemption Price (specifying the amount of the accrued but unpaid Preference Dividend to be included in the Redemption Price), (iv) in the case of Preference Shares held in certificated form, the place or places where holders may surrender share certificates in respect of such Preference Shares and obtain payment of the Redemption Price and (v) in the case of Preference Shares held in uncertificated form, details of the issuer-instruction to be sent to CRESTCo Limited by Halifax requesting the deletion of the entries in CREST relating to the holdings of the Preference Shares concerned. No defect in the Redemption Notice or in its mailing will affect the validity of the redemption proceedings.
- 2.4.4** Payments in respect of the amount due on redemption of a Preference Share will be made by sterling cheque drawn on a bank in London or upon the request of the holder or joint holders not later than the date specified for the purpose in the Redemption Notice by transfer to a sterling account maintained by the payee with a bank in London or such other method as the directors may specify in the Redemption Notice. In the case of certificated shares, such payment will be against presentation and surrender of the relative certificate at the place or one of the places specified in the Redemption Notice and, in the case of Preference Shares held in uncertificated form, on receipt by Halifax of confirmation by CRESTCo Limited of the deletion of the relevant entries in CREST. If, in the case of Preference Shares held in certificated form, any share certificate so surrendered includes any Preference Shares not to be redeemed on the Redemption Date, Halifax will issue to the holder (or the first-named of joint holders), free of charge, a fresh certificate in respect of such Preference Shares within 14 days of redemption. All payments in respect of the redemption amount will in all respects be subject to any applicable fiscal or other laws.
- 2.4.5** As from the Redemption Date, the Preference Dividend will cease to accrue on the Preference Shares except on any Preference Share in respect of which payment of the Redemption Price due on the Redemption Date is improperly withheld or refused, in which case the Preference Dividend will be deemed to have continued and will accordingly continue to accrue at the Agreed Rate from the Redemption Date to the date of payment of such redemption amount. Such Preference Share will not be treated as having been redeemed until the Redemption Price, together with the accrued Preference Dividend, has been paid.
- 2.4.6** If the due date for payment of the Redemption Price is not a Business Day, payment of such amount will be made on the next succeeding day which is a Business Day (without any interest or other payment in respect of such delay).
- 2.4.7** A receipt given by the holder for the time being of any Preference Share (or in the case of joint holders by the first-named joint holder) in respect of the amount payable on redemption of such Preference Share will constitute an absolute discharge to Halifax.
- 2.4.8** No redemption of any Preference Shares may be made by Halifax without the prior consent of the Financial Services Authority (for so long as Halifax is required to obtain such consent) and subject to such conditions as the Financial Services Authority may impose at the time of any consent.

2.5 Voting

- 2.5.1** Subject to paragraph 2.5.2, holders of the Preference Shares will only be entitled to receive notice of and to attend any general meeting of shareholders of Halifax and to speak to or vote upon any resolution proposed at such meeting if a resolution is proposed either varying or abrogating any of the special rights attached to the Preference Shares or for, or in relation to, the winding up of Halifax (and then in each such case only to speak to and vote upon any such resolution).

2 Description of the Preference Shares

2.5.2 If the Preference Dividend has not been declared and paid in full on the Dividend Payment Date immediately preceding the date of notice of any general meeting of Halifax or additional Preference Shares have not been allotted and issued in accordance with paragraph 2.2.10, holders of the Preference Shares will be entitled to speak to or vote upon all resolutions proposed at such general meeting and, in these circumstances only, the special rights of the holders of the Preference Shares so to vote will continue until Halifax has resumed the payment in full of the Preference Dividend.

2.5.3 On a show of hands, every holder of Preference Shares who is entitled to vote or any proxy (other than the chairman of the meeting in his or her capacity as proxy) or a corporate representative for that holder, in each case who is present in person, will have one vote. On a poll, each holder of Preference Shares who is entitled to vote and who is present in person, by corporate representative or by proxy, will have one vote for every Preference Share of which he or she is the holder.

2.6 Purchase of own shares; reduction of share capital

2.6.1 If the Preference Dividend stated to be payable on the most recent Dividend Payment Date is not declared and paid in full, or if a sum is not set aside to provide for such payment in full, or if additional Preference Shares have not been allotted and issued in accordance with paragraph 2.2.10, no dividend may be declared on any other class of shares which may be issued by Halifax (including Ordinary Shares) which are expressed to rank equally with or behind the Preference Shares as regards participation in profits, and no sum may be set aside for its payment.

2.6.2 If the Preference Dividend stated to be payable on the most recent Dividend Payment Date is not declared and paid in full, or if a sum is not set aside to provide for such payment in full, or if additional Preference Shares have not been allotted and issued in accordance with paragraph 2.2.10, Halifax may not redeem, reduce, purchase or otherwise acquire in any other way any other class of shares which may be issued by Halifax (including Ordinary Shares) which are expressed to rank equally with or behind the Preference Shares as regards participation in assets and may not set aside any sum nor establish any sinking fund for its redemption, reduction, purchase or other such acquisition.

2.6.3 Similar rights to those described in paragraphs 2.6.1 and 2.6.2 above may attach to any other class of shares which may be issued by Halifax that are expressed to rank equally with the Preference Shares as regards participation in profits or assets.

2.6.4 Subject to the provisions of the Companies Act, all other laws and regulations applying to Halifax and the rights conferred on any other class of shares of Halifax and with the prior consent of the Financial Services Authority (for so long as Halifax is required to obtain such consent), Halifax may at any time and from time to time (subject to the payment in full of the Preference Dividend on the immediately preceding Dividend Payment Date) purchase any Preference Shares in issue in the open market or by tender (which will be available to all holders of Preference Shares alike) upon such terms and conditions as the directors of Halifax may determine.

2.7 Untraced shareholders

2.7.1 The amended Articles will provide that Halifax may sell any Preference Shares on behalf of a holder of Preference Shares at the best price reasonably obtainable if:

- (i) during a specified period of 12 years in which the Preference Shares have been in issue, at least three Preference Dividends have become payable;
- (ii) no Preference Dividend has been claimed at any time during the 12 year period;
- (iii) no communication is received from the holder at any time during that 12 year period or the three month period referred to in paragraph 2.7.1(iv);
- (iv) Halifax has given notice, by advertisements in one leading national newspaper and in at least one newspaper appearing in the area which includes the registered address of the holder, of its intention to sell the Preference Shares and three months have elapsed since the date of the advertisements or the last of them if they are published on different dates; and
- (v) Halifax has notified the London Stock Exchange that it intends to sell the Preference Shares concerned.

2 Description of the Preference Shares

2.7.2 Similar provisions to those set out in paragraph 2.7.1 will apply in relation to Preference Shares which have not been claimed by the person entitled to them by virtue of the Transfer, but which have been issued to, or to a nominee for, the Trustee, save that:

- (i) the specified period after which Halifax can advertise its intention to sell the unclaimed Preference Shares will be a period of three years from the Vesting Date, not 12 years; and
- (ii) there is no requirement for any Preference Dividend to have become payable during the specified period, merely a requirement that no person must have given notice to Halifax or the Trustee (or any nominee for the Trustee) during the specified period that he or she is entitled to claim the Preference Shares.

2.7.3 Following the disposal by Halifax of any Preference Shares (other than unclaimed Preference Shares issued to, or to a nominee for, the Trustee), Halifax will remain indebted (subject to the forfeiture provisions referred to below) to the former holder of such Preference Shares for the net proceeds of sale until such net proceeds are claimed by the former holder of, or person entitled by transmission to, the Preference Shares. If no valid claim for the net proceeds is received by Halifax during the period which ends six years after the date on which the shares were sold, the net proceeds will be forfeited and belong to Halifax.

2.7.4 Following the disposal by Halifax of any unclaimed Preference Shares issued to, or to a nominee for, the Trustee, Halifax will remain indebted (subject to the forfeiture provisions referred to below) to the person entitled to them for the net proceeds of sale and any dividends paid on the unclaimed Preference Shares before their sale for a period of nine years from the date on which the shares were sold. If no valid claim for the net proceeds is received by Halifax during that period, the net proceeds and any dividends paid on the unclaimed Preference Shares before their sale will be forfeited and belong to Halifax.

2.8 Variation of rights and further issues

2.8.1 Subject to paragraph 2.8.4, the special rights attached to the Preference Shares may not be varied or abrogated except with the written consent of the holders of three-quarters in nominal value of, or with the sanction of an extraordinary resolution passed at a separate meeting of holders of, the Preference Shares.

2.8.2 The special rights attached to the Preference Shares will be deemed to be varied or abrogated if:

- (i) the directors seek to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the profits or assets of Halifax (other than on redemption or purchase by Halifax of such shares) in priority to the Preference Shares;
- (ii) all or any part of the distributable reserves of Halifax are capitalised, if, following such capitalisation, Halifax's distributable reserves, when aggregated with the distributable reserves of all its subsidiaries, would amount in aggregate to less than ten times the total annual amount of any dividends payable in respect of all preference shares of Halifax in issue at the time of capitalisation provided that this will not prevent Halifax from capitalising distributable reserves for the purposes of allotting and issuing new Ordinary Shares in lieu of a cash dividend or allotting and issuing additional Preference Shares to holders of Preference Shares in accordance with paragraph 2.2.10;
- (iii) any other class of shares of Halifax that are expressed to rank as regards participation in the profits or assets of Halifax in some or all respects equally with the Preference Shares or any securities convertible into any such shares (together "**New Securities**") are created or issued if the Preference Dividend payable on the Dividend Payment Date immediately preceding such creation or issue has not been paid in full or if additional Preference Shares have not been allotted and issued in accordance with paragraph 2.2.10; or
- (iv) any resolution is passed for the reduction of the amount of capital paid up on the Preference Shares.

2.8.3 Subject to paragraph 2.8.2(iii), the special rights attached to the Preference Shares will not be deemed to be varied or abrogated by the creation or issue of any New Securities. Any New Securities may, without

2 Description of the Preference Shares

their creation or issue being deemed to vary the special rights attached to the Preference Shares then in issue, either carry rights identical in all respects with the Preference Shares or rights differing from them in any respect, including, but not limited to, rights as to dividends, premium on a return of capital, redemption, conversion, denomination and currency of issue.

- 2.8.4** If a matter arises which would amount to a variation or abrogation of the special rights attached to the Preference Shares and the rights attached to one or more other series of preference shares, the rights attached to the Preference Shares and the rights attached to the preference shares of that or those other series (together **"Relevant Shares"**) may be varied or abrogated by the agreement in writing of the holders of at least three-quarters in nominal value of all the Relevant Shares or with the approval of an extraordinary resolution passed at a separate meeting of the holders of the Relevant Shares, if the effect of that variation or abrogation on all the Relevant Shares is, in the opinion of the directors, substantially the same.

2.9 Notices and other documents

Any notice or other document required to be given by Halifax to holders of the Preference Shares will be sufficiently given if posted to the holders of the Preference Shares in accordance with the amended Articles. Holders who do not have a registered address or an address for correspondence in the United Kingdom will not be entitled to receive any notices or other documents from Halifax unless otherwise specified in the special rights attached to the Preference Shares.

Holders of the Preference Shares with a registered address or address for correspondence in the United Kingdom will have the right to be sent a copy of Halifax's Annual Report and Accounts (or summary financial statement) and, to the extent that they are sent to the holders of Ordinary Shares, Interim Financial Statements, together with notice of any general meeting of shareholders of Halifax at which such holder is entitled to attend and vote.

2.10 Registrar

Computershare Services PLC of The Pavilions, Bridgwater Road, Bristol BS99 7DS will act as registrar for the Preference Shares.

3 Rights attaching to the Ordinary Shares

3 Rights attaching to the Ordinary Shares

The following is a summary of certain rights attaching to the Ordinary Shares. The full rights attaching to the Ordinary Shares are set out in the Articles (and will be set out in the amended Articles), copies of which are available for inspection (see paragraph 10.8). The rights attaching to the Preference Shares are summarised in section 2 above. A special resolution will be put to Ordinary Shareholders of Halifax at an extraordinary general meeting of Halifax convened for 18 November 1998 proposing certain amendments to the Articles. If the special resolution is passed at the extraordinary general meeting, the Articles will be amended, amongst other things, to enable Halifax to issue preference shares (including the Preference Shares) and to enable Halifax to sell any Preference Shares which have been issued to the Trustee at the time of the Transfer because they have not been claimed within the time specified in the amended Articles by those members of BMBS shown as entitled to claim them in the records of BMBS. The full text of the special resolution detailing the proposed changes to the Articles is set out in paragraph 10.2.5 of this document.

3.1 Ordinary Shares

The principal rights attaching to the Ordinary Shares are set out below.

3.1.1 Dividends

- (i) Subject to the Companies Act, the holders of Ordinary Shares may by ordinary resolution declare dividends but no such dividend can exceed the amount recommended by the directors. If the directors consider that the distributable profits of the Company justify such payments, they can pay a final dividend (subject to shareholder approval) and/or interim dividends. No dividend can be paid otherwise than out of profits available for distribution under the Companies Act and all other laws and regulations applying to the Company (the “legislation”).
- (ii) The directors may (but, after the annual general meeting in 2001 or, if earlier, 4 December 2001, only with the authority of an ordinary resolution passed by the shareholders) offer holders of Ordinary Shares in respect of any dividend the right to elect to receive Ordinary Shares by way of scrip dividend instead of some or all of their cash dividend.
- (iii) Any dividend which has not been claimed for 12 years after the passing of the resolution for payment of that dividend will be forfeited and will belong to the Company.

3.1.2 Voting rights

- (i) Subject to any special rights or restrictions which are given to any class of shares by, or in accordance with, the Articles, when a shareholder is entitled to attend a general meeting and vote, he has only one vote on a show of hands. His proxy (other than the chairman of the meeting in his capacity as a proxy) is entitled to vote on a show of hands. If there is a poll, a shareholder or his proxy who is entitled to be present and to vote has one vote for every share he holds.
- (ii) Subject to the Articles, the shareholders can only attend or vote, either in person or by proxy, at general meetings of the Company if they have paid to the Company all calls, and all other sums, relating to their shares which are due at the time of the meeting.
- (iii) Unless the directors decide otherwise, a shareholder is not entitled to attend or vote, either in person or by proxy, at a general meeting if he fails, for a period of 14 days, to supply the Company with the information required by a notice which has been properly served on that shareholder under section 212 of the Companies Act, or, if any other person who appears to be interested in Ordinary Shares held by such shareholder is given, and fails to reply to, such a notice served on that person within 14 days.

3.1.3 Variation of share capital

- (i) Holders of Ordinary Shares may, by passing an ordinary resolution, do any of the following:
 - (a) increase the Company's share capital, consolidate or consolidate and then divide all or any of the Company's shares;
 - (b) cancel any shares which have not been taken up; or

3 Rights attaching to the Ordinary Shares

- (c) divide some or all of its shares into shares of a smaller nominal amount.
- (ii) The shareholders may, by passing a special resolution, reduce the Company's share capital, any capital redemption reserve or share premium account.

3.1.4 *Variation of rights of shares*

- (i) If the Company's share capital is split into different classes of shares, and if the legislation allows this, the special rights which are attached to any of these classes can be varied or rescinded if this is approved by an extraordinary resolution passed at a separate meeting of the holders of the relevant class of shares.
- (ii) The special rights may be so varied or rescinded either while the Company is a going concern or during, or in contemplation of, a winding up.
- (iii) The necessary quorum for such a meeting (except an adjourned meeting) is at least two people who hold (or act as proxies for) at least one third of the total nominal value of the existing shares of the class and anybody who is present in person or by proxy may demand a poll.

3.1.5 *Purchase of own shares*

The Company can buy back any class of shares subject to the requirements of the legislation and the rights of holders of any class of shares.

3.1.6 *Transfer of shares*

- (i) Subject to the Articles, any shareholder can transfer some or all of his shares to another person provided that the transfer of a share in certificated form is in writing and either in the standard form or in such other form as is approved by the directors. Transfers of shares in uncertificated form must be made by means of a relevant system and must comply with the 1995 Regulations.
- (ii) The person making a transfer will be treated as continuing to be the shareholder until the name of the person to whom the share is being transferred is put on the register for that share.
- (iii) The directors may, without having to give any reasons, refuse to register a transfer of any shares which are not fully paid up, provided that, if any of those shares have been admitted to the Official List, the directors cannot refuse to register a transfer if this would stop dealings in the shares from taking place on an open and proper basis.
- (iv) A share transfer form for a share in certificated form must be signed, or made effective in some other way, by the person making the transfer and, if the share is not a fully paid up share, by the person to whom the share is being transferred.
- (v) For a share in certificated form the share transfer form must be delivered to the office where the register is kept and must:
 - (a) have with it the share certificate, or such other evidence as the directors may require to prove the entitlement of the person requesting the transfer;
 - (b) be for only one class of share; and
 - (c) not be in favour of more than four joint holders.
- (vi) Subject to the 1995 Regulations, the directors may refuse to register a transfer of the Company's shares on behalf of a person with a 0.25 per cent. interest in Ordinary Shares in relation to which the shareholder or, if different, that person has failed to supply information about his interests in the Ordinary Shares, as required in a section 212 notice properly served by the Company, unless, amongst other things, the transfer is:
 - (a) to an offeror or in acceptance of a takeover offer;
 - (b) a *bona fide* sale of the whole of the beneficial ownership of the shares to an unconnected third party; or
 - (c) such that the shareholder is not in default as regards supplying the information.

3 Rights attaching to the Ordinary Shares

- (vii) If the directors decide not to register the transfer of a share, they must notify the person to whom the shares were to be transferred no later than two months after the Company receives the transfer or the relevant Operator (as defined in the 1995 Regulations) instruction.
- (viii) The directors can suspend the registration of transfer by closing the register at such times and/or such periods as the directors may determine (except that the register cannot be closed without the consent of the Operator in respect of shares which are participating securities under the 1995 Regulations) provided that the register is not closed for more than 30 days a year.

3.1.7 *Distribution of assets on liquidation*

If the Company is wound up, the liquidator can, with the authority of an extraordinary resolution passed by the shareholders:

- (i) divide among the shareholders the whole or any part of the assets of the Company (whether they consist of property of the same kind or not) and, for that purpose, set such value as he considers fair upon any property and decide how such division is carried out between the shareholders; and
- (ii) transfer any part of the assets to trustees upon such trusts for the benefit of the shareholders as the liquidator decides;

but no shareholder will be compelled to accept any shares or other property which carries a liability.

3.1.8 *Untraced shareholders*

Halifax may sell any shares on behalf of a shareholder in Halifax if:

- (i) during a period of 12 years at least three dividends have been paid and no dividend during that period has been claimed;
- (ii) Halifax has given notice on or after expiry of the 12 year period by advertisements in a leading national newspaper and in at least one newspaper appearing in the area which includes the address held by Halifax for serving notices relating to the shares;
- (iii) Halifax has not heard from the shareholder or any person entitled to the shares by law during the 12 year period and for three months after the last advertisement is published; and
- (iv) Halifax has notified the London Stock Exchange that it intends to sell the shares concerned.

4 Issue of Preference Shares

4 Issue of Preference Shares

4.1 Size of issue

Application has been made to the London Stock Exchange for up to 225,000,000 Preference Shares to be admitted to the Official List in connection with the Transfer.

4.2 Allocation of Preference Shares

As part of the BMBS Distribution Scheme, Preference Shares are proposed to be issued to:

- 4.2.1** certain investing members of BMBS who do not satisfy the eligibility criteria for a cash distribution but who were investing members on 31 December 1997, are eligible to vote on the resolutions to approve the Transfer and satisfy certain other criteria under the terms of the BMBS Distribution Scheme;
- 4.2.2** certain borrowers of BMBS who had a mortgage with BMBS or one of its subsidiaries on 31 December 1997 and who satisfy certain other criteria under the terms of the BMBS Distribution Scheme;
- 4.2.3** certain investing members and borrowing members of BMBS who hold accounts with BMBS on trust for others who do not find it reasonably practicable to hold the accounts themselves because of ill health, old age or physical or mental incapacity or disability and who do not satisfy the eligibility criteria for a cash distribution in respect of such accounts. Such members will receive a separate entitlement to Preference Shares in respect of those account(s) in addition to any entitlement such members may have to receive a cash distribution or Preference Shares in another capacity; and
- 4.2.4** certain other persons in place of a deceased person who would have been entitled to receive a distribution of Preference Shares if the deceased person had survived until the Vesting Date.

4.3 Share dealing arrangements

A share dealing facility will be established by HSDL to provide for the sale of Preference Shares on the London Stock Exchange at prevailing market prices. This facility will be available free of charge for ten Business Days with effect from the Vesting Date to those with a registered address in the United Kingdom entitled to receive Preference Shares under the BMBS Distribution Scheme.

4.4 Announcement of dividend rate

It is intended that the fixed rate of the Preference Dividend will be announced on the Regulatory News Service of the London Stock Exchange as soon as practicable after it has been determined and will be published in a national newspaper on the following day.

5 Terms and Conditions of the Bonds

5 Terms and Conditions of the Bonds

The following are the Terms and Conditions of the Bonds in, or substantially in, the form (subject to completion and other than the notes and paragraphs in italics) which will be endorsed on the certificates for the Bonds (the "Terms and Conditions"):

"The £50,000,000 9% per cent. Perpetual Subordinated Bonds (the "**Bonds**") of Halifax plc (the "**Issuer**") are constituted by a trust deed dated [Note 1] (the "**Trust Deed**") between (1) the Issuer and (2) The Law Debenture Trust Corporation p.l.c. as trustee (the "**Trustee**", which expression shall include its successors under the Trust Deed). The Trustee acts as trustee for the Holders (as defined below) of the Bonds in accordance with the provisions of the Trust Deed. The Bondholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions contained in: (i) the Trust Deed; (ii) the Principal Registrar's Agreement (as defined below); and (iii) a supplemental registrar's agreement dated [Note 2] (the "**Supplemental Registrar's Agreement**") between the Issuer, Independent Registrars Group Limited as registrar (the "**Registrar**", which expression shall include its successors under the Registrar's Agreement (as defined below)) and the Trustee supplemental to a registrar's agreement dated 2 June 1997 (the "**Principal Registrar's Agreement**" and, together with the Supplemental Registrar's Agreement, the "**Registrar's Agreement**") between the same parties. Copies of the Trust Deed and the Registrar's Agreement are available for inspection by Bondholders during normal business hours at the registered office for the time being of the Trustee (being at the date of the Trust Deed at Princes House, 95 Gresham Street, London EC2V 7LY) and at the specified office of the Registrar.

The date on which the Trust Deed takes effect is referred to in these Terms and Conditions as the "**Vesting Date**".

Neither the Trust Deed nor the Bonds contain any negative pledge covenant by the Issuer or any events of default other than those set out in Condition 7 (which do not include, inter alia, a cross default provision).

The obligations of the Issuer in respect of payments of principal and interest on the Bonds are conditional upon the Issuer being solvent both at the time of payment by the Issuer and immediately thereafter. Neither these Terms and Conditions nor the Trust Deed provide any remedy for non-payment of interest in respect of the Bonds so long as no dividend has been paid or declared in respect of any class of share capital of the Issuer in the immediately preceding six calendar months. In the event of a winding up of the Issuer, the right to claim for interest (including Arrears of Interest (as defined below)) may be limited by applicable insolvency laws.

1 Form, Denomination and Transfers

- (a) The Bonds are in registered form in principal amounts of £1,000 or integral multiples of £1,000 ("**authorised denominations**") without interest coupons.

The Bonds are issued in certificated and uncertificated form in accordance with the Uncertificated Securities Regulations 1995 (as from time to time amended or replaced) (the "**Regulations**") and may be changed from certificated form to uncertificated form and from uncertificated form to certificated form (in either case in accordance with and subject as provided in the Regulations). No temporary documents of title have been or will be issued. Where Bonds are issued in or changed into uncertificated form, the Issuer shall provide to any holder of such Bonds in uncertificated form a copy of these Terms and Conditions on request by him or on such other basis as the Trustee may reasonably require, but so that joint holders of such Bonds shall be entitled to receive one copy only of these Terms and Conditions in respect of the Bonds held jointly by them, which copy shall be delivered to that one of the joint holders in respect of that holding (the "**representative joint holder**") whose name stands first in the register of Bonds (the "**Register**") which the Issuer shall procure to be kept by the Registrar. Holders of Bonds in certificated form shall be entitled to receive one bond certificate (a "**Bond Certificate**") in respect of a holding, such Bond Certificate evidencing registration on the Register. Words and expressions defined in the Regulations shall have the same meanings in these Terms and Conditions.

For the avoidance of doubt, these Terms and Conditions shall be and remain applicable to Bonds in uncertificated form (and accordingly the Issuer shall continue to comply with these Terms and Conditions in accordance with these provisions).

After a change of Bonds from uncertificated form to certificated form, the Issuer may request or require, or may procure that the Registrar or any other person acting on behalf of the Registrar requests or requires, the cancellation or deletion of any computer based entries in the relevant system concerned

5 Terms and Conditions of the Bonds

that relate to the relevant Bonds *mutatis mutandis* in accordance with the procedure referred to in Condition 4(e).

- (b) Legal title to the Bonds passes upon registration in the Register, provided that, in the case of Bonds in uncertificated form, the registration has been effected in accordance with the Regulations.

The person in whose name a Bond is registered (a “Holder” or a “Bondholder”) shall be deemed to be, and shall be treated as, its absolute owner for the purpose of receiving payment of, or payment or delivery on account of, the Bond (notwithstanding, in the case of a Bond in certificated form, any writing on the relevant Bond Certificate or notice of ownership) and for all other purposes whether or not such Bond is overdue.

- (c) Bonds in certificated form may, subject to the terms of the Registrar’s Agreement and to paragraph (g) of this Condition 1, be transferred in whole or in part in an authorised denomination by lodging the relevant Bond Certificate (with the relative form of application for transfer endorsed thereon duly executed and duly stamped where applicable) at the specified office of the Registrar. No transfer of a Bond shall be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

- (d) The Issuer shall procure that the Registrar will, within seven business days (not including any day during which neither the Issuer nor the Registrar is required to register the transfer of any Bond pursuant to paragraph (g) of this Condition 1) of any duly made application for the transfer of a Bond in certificated form or a part of a Bond in certificated form in an authorised denomination, deliver a Bond Certificate in the relevant denomination to the transferee (and, in the case of a transfer of part only of a Bond represented by a Bond Certificate, deliver a Bond Certificate comprising the untransferred balance to the transferor) at the specified office of the Registrar or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary uninsured mail, at the expense of the transferee or, as the case may be, the transferor) mail the Bond Certificate to such address, other than an address in the United States, as the transferee or, as the case may be, the transferor may request.

In these Terms and Conditions, “business day” means a day (other than a Saturday or Sunday) on which banks in London are open for business.

- (e) Transfers of Bonds in uncertificated form shall be effected by means of a relevant system in the manner provided for in, and subject to, the Regulations and the facilities and requirements of the relevant system concerned. Holdings in certificated form and uncertificated form of the same Holder or joint Holders will be treated as separate holdings.

- (f) Any transfer of the whole or part of a Bond in accordance with paragraph (c) of this Condition 1 shall be effected without charge by the Issuer and subject to: (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges payable in connection therewith; (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application; and (iii) such reasonable regulations as the Issuer may from time to time agree with the Trustee and the Registrar.

Any such transfer referred to in paragraph (e) of this Condition 1 will be effected without charge by the Issuer. Holders of Bonds in uncertificated form may, however, be required to pay any transfer or other charges levied by any relevant system and any taxes, duties or other governmental charges that may be imposed in relation to the registration or transfer.

- (g) Neither the Issuer nor the Registrar shall be required to register the transfer of any Bond during the period of seven business days ending on and including any Record Date (as defined in Condition 5) in respect of the Bonds provided that, in the case of Bonds in uncertificated form, the consent of the Operator (as defined in the Regulations) of the relevant system to such suspension of registration has been obtained.

2 Status and Subordination

- (a) The Bonds are unsecured, subordinated obligations of the Issuer, conditional as provided in paragraphs (b) and (c) of this Condition 2 and rank *pari passu* without any preference among themselves and *pari*

5 Terms and Conditions of the Bonds

passu in point of subordination with its £75,000,000 13% per cent. Perpetual Subordinated Bonds, its £100,000,000 12 per cent. Perpetual Subordinated Bonds and its £100,000,000 8% per cent. Perpetual Subordinated Bonds (in each case, together with any further issues which shall be consolidated and form a single series therewith) but junior in point of subordination to its £30,000,000 11% per cent. Subordinated Bonds 1999, its £30,000,000 Subordinated Floating Rate Notes 2005, its £15,000,000 Subordinated Floating Rate Notes Due 2005, its £75,000,000 9.125 per cent. Subordinated Notes Due 2006, its £400,000,000 8% per cent. Subordinated Bonds 2006, its £75,000,000 Floating Rate Subordinated Notes 2009, its £200,000,000 Step-up Callable Floating Rate Subordinated Notes 2012, its £250,000,000 11 per cent. Subordinated Bonds 2014, its £150,000,000 10% per cent. Subordinated Bonds Due 2018 and its £500,000,000 9% per cent. Subordinated Bonds 2021 (in each case, together with any further issues which shall be consolidated and form a single series therewith).

- (b) The rights of the Bondholders are subordinated to the claims of Senior Creditors (as defined below) and, accordingly, payments of principal and interest (including the PIBS Interest Payment, as defined in Condition 3(b)) are conditional upon the Issuer being solvent at the time for payment by the Issuer, and no principal or interest (including the PIBS Interest Payment) shall be payable in respect of the Bonds except to the extent that the Issuer could make such payment and still be solvent immediately thereafter. For the purposes of this Condition 2(b) and Condition 4(c), the Issuer shall be solvent if: (i) it is able to pay its debts as they fall due; and (ii) its Assets (as defined below) exceed its Liabilities (as defined below) other than its Liabilities to persons who are not Senior Creditors. A report as to the solvency of the Issuer by two directors of the Issuer or, in certain circumstances as provided in the Trust Deed, the auditors of the Issuer or, if the Issuer is in winding up, its liquidator shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the Bondholders and all other interested parties as correct and sufficient evidence thereof. In the case of a purchase of any Bonds beneficially by or for the account of any member of the Group (as defined in the Trust Deed), other than the Issuer, pursuant to Condition 4(c) a report as to the solvency of such member of the Group by two directors of such member of the Group shall, in the absence of manifest error, be treated and accepted by the Issuer, such member of the Group, the Trustee, the Bondholders and all other interested parties as correct and sufficient evidence thereof.
- (c) If, at any time an order is made or an effective resolution is passed for the winding up in England of the Issuer (except in the case of a solvent winding up solely for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a Successor in Business (as defined in the Trust Deed) the terms of which reconstruction, amalgamation or substitution: (i) have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Bondholders; and (ii) do not provide that the Bonds shall thereby become repayable), there shall be payable on each Bond (in lieu of any other payment), but subject as provided in this Condition 2, such amount (if any) as would have been payable to the Holder thereof if, on the day immediately prior to the commencement of the winding up of the Issuer and thereafter, such Bondholder were the holder of a preference share in the capital of the Issuer of a class having a preferential right to a return of assets in the winding up over the holders of all other issued shares, including any preference shares, for the time being in the capital of the Issuer on the assumption that such preference shareholders were entitled (to the exclusion of any other rights or privileges) to receive on a return of capital in such winding up an amount equal to the principal amount of such Bond, together with Arrears of Interest (as defined in Condition 3(d)), if any, and any interest (other than Arrears of Interest) which has accrued up to (but excluding) the date of repayment (as provided in the Trust Deed) in respect of such Bond.
- (d) For the purposes of these Terms and Conditions: "Senior Creditors" means depositors and other creditors of the Issuer (other than creditors (if any) in respect of claims which are expressed to, or so as to, rank *pari passu* with or junior to the claims of the Bondholders or creditors in respect of claims with which the Bonds are expressed to rank *pari passu* (whether only in the event of a winding up of the Issuer or otherwise)); "Assets" means the unconsolidated gross assets of the Issuer; and "Liabilities" means the unconsolidated gross liabilities of the Issuer, all as shown by the latest published audited balance sheet of the Issuer, but adjusted for contingent assets and contingent liabilities and for subsequent events, all in such manner as the certifying directors of the Issuer, the auditors or the liquidator (as the case may be) may determine.

5 Terms and Conditions of the Bonds

- (e) Subject to applicable law, no Bondholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Bonds and each Bondholder shall, by virtue of being the Holder of any Bond, be deemed to have waived all such rights of set-off, compensation or retention.

It should be noted that if the Issuer would not otherwise be solvent, the amount of principal and of sums which would otherwise be payable as interest in respect of the Bonds will be available to meet the losses of the Issuer.

3 Interest

- (a) The Bonds bear interest from and including the Vesting Date at the rate of 9% per cent. per annum payable, subject as provided in these Terms and Conditions, semi-annually in equal instalments in arrear on each Interest Payment Date (as defined below), except that the first such payment, which shall be made on the first Interest Payment Date following the Vesting Date (the “**First Interest Payment Date**”), shall be in respect of the period from and including the Vesting Date to but excluding the First Interest Payment Date and shall amount to £[an amount to be determined in accordance with Note 3] (subject to any deduction pursuant to Condition 6) in respect of each £1,000 principal amount of Bonds. When interest is required to be calculated for a period of less than one year (other than a full semi-annual Interest Period (as defined below)), it shall be calculated on the basis of the actual number of days elapsed and a year of 365 days and rounding the resultant figure to the nearest penny (half a penny being rounded upward).
- (b) The Issuer shall, subject as provided in these Terms and Conditions, pay an additional amount to each Bondholder on the First Interest Payment Date of £[an amount to be determined in accordance with Note 4] (subject to any deduction pursuant to Condition 6) in respect of each £1,000 principal amount of Bonds held by such Bondholder (the “**PIBS Interest Payment**”). The PIBS Interest Payment shall be in respect of interest accrued on the £50,000,000 9% per cent. Permanent Interest Bearing Shares of Birmingham Midshires Building Society, in replacement for which the Bonds have been issued, for the period from and including the interest payment date in respect thereof which immediately precedes the Vesting Date to but excluding the Vesting Date.
- (c) Subject as provided in these Terms and Conditions, the aggregate amount payable by the Issuer to each Bondholder pursuant to paragraphs (a) and (b) of this Condition 3 on the First Interest Payment Date shall be £[an amount to be determined in accordance with Note 5] (subject to any deduction pursuant to Condition 6) in respect of each £1,000 principal amount of Bonds held by such Bondholder. Interest Payments (including the PIBS Interest Payment) will be made in accordance with and subject to the provisions of Condition 5. Interest accruing on each Bond shall cease to accrue from the date of its redemption unless, upon due presentation, payment of principal is improperly withheld or refused or is not made by reason of Condition 2(b), in which event interest shall continue to accrue thereon as provided in the Trust Deed.
- (d) Interest in respect of the Bonds (including the PIBS Interest Payment but excluding Arrears of Interest) shall (subject to Condition 2(b)) be payable on each Compulsory Interest Payment Date (as defined below) in respect of the Interest Period (as defined below) ending on the day immediately preceding such date. On any Optional Interest Payment Date (as defined below) there may (subject to Condition 2(b)) be paid (if the Issuer so elects and gives notice of such election to the Bondholders in accordance with Condition 12) the interest (including the PIBS Interest Payment) in respect of the Bonds accrued in the Interest Period ending on the day immediately preceding such date, but the Issuer shall not have any obligation to make such payment other than (subject to Condition 2(b)) where such election is made and any failure to pay (other than as aforesaid) shall not constitute a default by the Issuer for any purpose. Any interest (including the PIBS Interest Payment) in respect of the Bonds not paid on any Interest Payment Date, together with any other interest in respect thereof not paid on any other Interest Payment Date, shall, so long as the same remains unpaid, constitute “**Arrears of Interest**”. Arrears of Interest may, at the option of the Issuer, but subject to Condition 2(b), be paid in whole or in part at any time upon the expiry of not less than seven days’ written notice to such effect given to the Trustee, and to the Bondholders in accordance with Condition 12, but all Arrears of Interest in respect of all Bonds for the time being outstanding (as defined in the Trust Deed) shall (subject to Condition 2(b)) become due in full on whichever is the earliest of: (i) the date on which a dividend is next paid on any

5 Terms and Conditions of the Bonds

class of share capital of the Issuer; (ii) the date fixed for any redemption pursuant to Condition 4(b); or (iii) the commencement of a winding up of the Issuer (except in any such case, a solvent winding up solely for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a Successor in Business, the terms of which reconstruction, amalgamation or substitution (x) have previously been approved in writing by the Trustee or by an Extraordinary Resolution of Bondholders and (y) do not provide that the Bonds shall thereby become repayable). If notice is given by the Issuer of its intention to pay the whole or any part of any Arrears of Interest in respect of the Bonds, the Issuer shall be obliged (subject to Condition 2(b)) to do so upon the expiry of such notice. Where Arrears of Interest are paid in part, each part payment shall be in respect of the full amount of the Arrears of Interest accrued due to the relevant Interest Payment Date or consecutive Interest Payment Dates furthest from the date of payment. Arrears of Interest shall not themselves bear interest. The Issuer shall give not less than 30 days' notice prior to any Interest Payment Date to the Bondholders in accordance with Condition 12: (i) if such Interest Payment Date will be an Optional Interest Payment Date; and (ii) whether the Issuer elects to pay the interest due on such Optional Interest Payment Date.

As used in these Terms and Conditions:

"Compulsory Interest Payment Date" means any Interest Payment Date if in the six calendar months immediately preceding such Interest Payment Date, the Issuer has declared or paid any dividend on any class of its share capital;

"Interest Payment Date" means 1 March and 1 September in each year;

"Interest Period" means the period from and including any one Interest Payment Date (or, in the case of the first Interest Period, the Vesting Date) up to but excluding the next Interest Payment Date (or, in the case of the first Interest Period, the First Interest Payment Date); and

"Optional Interest Payment Date" means any Interest Payment Date other than a Compulsory Interest Payment Date.

All references in these Terms and Conditions to interest shall, unless the context otherwise requires, include Arrears of Interest.

4 Redemption and Purchase

(a) Limitation on redemption

The Bonds are undated and, accordingly, have no final maturity date and may not be redeemed except in accordance with the following provisions of this Condition 4 or Condition 7. Any redemption or purchase of Bonds is subject to the prior consent of the Financial Services Authority (so long as the Issuer is required by the Financial Services Authority to obtain such consent).

(b) Redemption for taxation reasons

If the Issuer satisfies the Trustee, immediately prior to the giving of the notice referred to below, that on the next Interest Payment Date the payment of interest in respect of the Bonds (including, if applicable, the PIBS Interest Payment) would be treated as a 'distribution' within the meaning of the Income and Corporation Taxes Act 1988 (as amended, re-enacted or replaced), the Issuer may at its option (subject to Condition 2(b)), having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 12, redeem all, but not some only, of the Bonds at any time at their principal amount and shall also pay all Arrears of Interest (if any) and all interest (other than Arrears of Interest) accrued up to (but excluding) the date of redemption.

(c) Purchase

The Issuer or any other member of the Group may to the extent that immediately after such purchase the Issuer or such other member of the Group, as the case may be, will be solvent, at any time purchase beneficially, or procure others to purchase beneficially for its account, Bonds at any price in the open market or by tender (available to all Bondholders alike) or by private treaty. Bonds purchased or otherwise acquired by the Issuer or any other member of the Group may be held, reissued or resold or, at the discretion of the acquirer, surrendered to the Registrar for cancellation.

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(d) Cancellation

All Bonds which are redeemed or purchased or otherwise acquired as aforesaid and surrendered to the Registrar for cancellation, shall forthwith be cancelled and may not be reissued or resold.

(e) Mechanics for redemption of Bonds in uncertificated form

- (i) The provisions of this paragraph (i) of this Condition 4(e) shall apply in relation to any Bonds that are to be redeemed which are in uncertificated form on the due date for their redemption (the “Redemption Date”). Subject as provided in paragraph (ii) of this Condition 4(e), the Issuer shall send or procure that a sponsoring system-participant sends on its behalf an issuer-instruction to the Operator of the relevant system concerned requesting or requiring the cancellation or deletion of the appropriate computer-based entries in the relevant system concerned that relate to the Bonds to be redeemed (being or including entries that cause or could cause the Operator to generate an Operator-instruction to the Issuer or to a sponsoring system-participant acting on its behalf to register a transfer of the Bonds). If necessary to obtain the same, the Issuer or a sponsoring system-participant on its behalf shall seek, by means of the relevant system concerned (or by such other means as the Issuer shall see fit, subject always to such other means being possible, having regard to the facilities and requirements of the relevant system concerned), confirmation of such cancellation or deletion and, on receipt of such confirmation in a form satisfactory to it, the Issuer shall pay, or procure to be paid, to the Holder of the relevant Bonds the amount due in respect of the redemption of such Bonds. Such cancellation or deletion shall be without prejudice to the rights of the relevant Holder in respect of payments of the amount due in respect of the redemption of the relevant Bonds, which shall continue and shall not be affected by such cancellation or deletion and until payment is made in full in respect of such redemption the relevant Bonds shall be treated as outstanding for all purposes of these Terms and Conditions and the Trust Deed.
- (ii) In relation to any Bonds that are to be redeemed and that, on the Redemption Date, are (or, in the absence of this paragraph (ii) of this Condition 4(e), would or may be) in uncertificated form, the Issuer shall be entitled (subject to approval by the Trustee) to determine and/or alter the procedure for effecting the redemption in such manner as it shall, in its absolute discretion, see fit, subject always to the facilities and requirements of the relevant system concerned. In particular (but without limiting the generality of the foregoing):
 - (A) the issuer-instruction referred to in paragraph (i) of this Condition 4(e) may be given in such form as the Issuer may from time to time determine and may have such effect, and/or cause the Operator to take such action, in relation to the relevant system and the Bonds, as the Issuer may from time to time determine (consistent always with the facilities and requirements of the relevant system concerned and the redemption, on the Redemption Date, of the Bonds); and
 - (B) if, at any relevant time prior to the Redemption Date, the Issuer or any sponsoring system-participant acting on behalf of the Issuer is unable, for any reason, to send or receive properly authenticated dematerialised instructions, or alternatively if the Issuer so determines for any other reason, the Issuer may, so far as it is able, having regard to the facilities and requirements of the relevant system concerned, require or request the Operator of the relevant system concerned to take the action referred to in paragraph (i) of this Condition 4(e) (subject always as provided in sub-paragraph (A) above) by some means other than by means of an issuer-instruction, or alternatively the Issuer may (by notice in writing to the Holder concerned, which notice may be included in the notice of redemption concerned) require the Holder of the Bonds that are then in uncertificated form to change the form of such Bonds from uncertificated to certificated form prior to the Redemption Date and the costs of such change shall be borne by the Issuer.

As used in this Condition 4(e), the terms “sponsoring system-participant”, “issuer-instruction”, “Operator”, “relevant system”, “Operator-instruction” and “properly authenticated dematerialised instructions” have the meanings ascribed to them in the Regulations.

5 Terms and Conditions of the Bonds

5 Payments

- (a) Payments of principal on the Bonds or accrued interest (including Arrears of Interest) which is payable other than on an Interest Payment Date shall be made to the persons shown in the Register at the close of business on the date (the “Record Date”) being the fifteenth business day prior to the relevant payment date.

Payments of interest (including the PIBS Interest Payment and all Arrears of Interest) due on an Interest Payment Date shall be made to the persons shown in the Register at the close of business on the Record Date.

Each such payment (subject to Condition 2(b) and, in relation to a Bond in uncertificated form, the provisions contained in the Trust Deed relating to the authorisation of the Issuer by the Holder of such Bond to make payment to such Holder) shall be made by sterling cheque drawn on a branch of a bank in the United Kingdom and mailed not later than the business day preceding the due date for payment (at the risk and, if mailed at the request of the Bondholder otherwise than by ordinary uninsured mail, expense of the Bondholder) to the Holder or to the representative joint holder of the relevant Bond at his registered address or by means involving electronic instructions or electronic transfer or in accordance with mandate instructions acceptable to the Registrar. In no event shall interest payments be mailed to an address in the United States. Payments shall be subject in all cases to any applicable fiscal and other laws and regulations.

Without prejudice to the generality of the foregoing, the Issuer reserves the right to require a Bondholder to provide such certification or information as may be required to enable the Issuer to comply with the requirements of the United States federal income tax laws.

- (b) Details of the initial Registrar and its initial specified office are set out below. The Issuer reserves the right, subject to the approval of the Trustee (such approval not to be unreasonably withheld), to vary or terminate the appointment of the Registrar and appoint another Registrar at any time, provided that it shall at all times maintain a Registrar with a specified office in the United Kingdom. Notice of any such termination or appointment and of any changes in the specified office of the Registrar shall be given to the Bondholders promptly by the Issuer in accordance with Condition 12.

6 Taxation

All payments of principal and/or interest (including the PIBS Interest Payment) in respect of Bonds shall be made subject to deduction of any United Kingdom tax required to be withheld at source and the Issuer shall not be required to pay any additional amount in respect of withholding.

7 Events of Default and Enforcement

- (a) If default is made in the payment of any principal in respect of the Bonds for a period of 14 days or more after the due date for the same, or in the payment of interest (including the PIBS Interest Payment) for a period of 14 days or more after a Compulsory Interest Payment Date or any other date on which the payment of interest (including the PIBS Interest Payment) is due, the Trustee may, subject as provided below, at its discretion and without further notice, institute proceedings for the winding up of the Issuer in England (but not elsewhere) and/or prove in any winding up of the Issuer (whether in England or elsewhere), but may take no other action in respect of such default. For the purposes of this Condition 7(a), a payment shall be deemed to be due even if the condition set out in Condition 2(b) is not satisfied with respect to the Issuer.

- (b) Without prejudice to paragraph (a) of this Condition 7, if the Issuer breaches any of its obligations under the Trust Deed or the Bonds (other than any obligation in respect of the payment of principal or interest on the Bonds) then the Trustee may, subject as provided below, at its discretion and without further notice, bring such proceedings as it may think fit to enforce the obligation in question provided that the Issuer shall not, as a result of the bringing of any such proceedings, be obliged to pay: (i) any sum representing or measured by reference to principal or interest on the Bonds sooner than the same would otherwise have been payable by it; or (ii) any damages (save in respect of the Trustee’s fees and expenses incurred by it in its personal capacity).

The restrictions on the payment of damages have the effect of limiting the remedies available to the Trustee and the Bondholders in the event of a breach of certain covenants (other than payment covenants) by the Issuer.

5 Terms and Conditions of the Bonds

- (c) The Trustee shall not be bound to take the action referred to in paragraph (a) or (b) of this Condition 7 to enforce the obligations of the Issuer in respect of the Bonds or any other proceedings pursuant to, or in connection with, the Trust Deed or the Bonds unless: (i) it is so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by Bondholders holding at least one-quarter in principal amount of the Bonds then outstanding; and (ii) it is indemnified to its satisfaction.
- (d) No Bondholder shall be entitled to institute proceedings directly against the Issuer or prove in the winding up of the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure is continuing in which event any Bondholder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise) himself institute such proceedings and/or prove in the winding up of the Issuer to the same extent and in the same jurisdiction (but not further or otherwise) that the Trustee would have been entitled to do so in respect of the Bonds.

No remedy against the Issuer, other than as referred to in this Condition 7, shall be available to the Trustee or the Bondholders, whether for the recovery of amounts owing in respect of the Bonds or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Bonds or under the Trust Deed.

The Issuer has undertaken in the Trust Deed to pay United Kingdom stamp and other duties or taxes (if any) on or in connection with the execution of the Trust Deed and United Kingdom stamp and other duties or taxes (if any) on the original issue and constitution of the Bonds (provided such stamp and other duties or taxes result from laws applicable on the Vesting Date) and stamp or other duties or taxes payable in the United Kingdom (but not elsewhere) solely by virtue of, and in connection with, any permissible proceedings under the Trust Deed or the Bonds but shall not be otherwise responsible for stamp or other duties or taxes otherwise imposed and, in particular, but without prejudice to the generality of the foregoing, for any penalties arising on account of late payment where due by the Trustee or any Bondholder at the relevant time.

8 Prescription

Claims against the Issuer for the payment of principal and interest (including the PIBS Interest Payment) shall be prescribed unless made within 12 years (in the case of principal) and six years (in the case of interest (including the PIBS Interest Payment)) from the Relevant Date.

As used in this Condition 8, the “**Relevant Date**” in respect of any payment means the date on which such payment first becomes due or (if the full amount of the monies payable has not been duly received by the Registrar or the Trustee on or prior to such date) the date on which, the full amount of such monies having been so received, notice to that effect is given to the Bondholders in accordance with Condition 12.

9 Indemnification of the Trustee and Exercise of Functions

- (a) The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or any other member of the Group without accounting for any profit resulting therefrom (including to act as trustee for the holders of any other securities issued by the Issuer).
- (b) In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, without limitation, any proposed modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Bondholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

5 Terms and Conditions of the Bonds

10 Meetings of Bondholders, Modification, Waiver and Substitution of Principal Debtor

- (a) The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of these Terms and Conditions or the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee at any time or by the Issuer upon a requisition in writing signed by Bondholders holding not less than one-tenth in principal amount of the Bonds for the time being outstanding. The quorum at any such meeting convened to consider a resolution proposed as an Extraordinary Resolution is one or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds for the time being outstanding so held or represented, except that at any meeting the business of which includes the modification of certain of these Terms and Conditions (including modifying any date for payment of interest (including the PIBS Interest Payment) in respect of the Bonds, reducing or cancelling the amount of principal or interest (including Arrears of Interest) or the rate of interest payable in respect of the Bonds, altering the currency of payment of the Bonds or modifying the majority required to pass an Extraordinary Resolution) or certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution duly passed at any meeting of the Bondholders shall be binding on all the Bondholders, whether or not they are present at the meeting.

The Trust Deed provides for a resolution in writing signed by or on behalf of the Holder or Holders of not less than 90 per cent. of the Bonds for the time being outstanding to be as effective and binding as if it were an Extraordinary Resolution duly passed at a meeting of the Bondholders.

- (b) The Trustee may agree, without the consent of the Bondholders, to any modification of these Terms and Conditions or of the provisions of the Trust Deed which, in its opinion, is not materially prejudicial to the interests of the Bondholders or to any modification of the Bonds or the Trust Deed which, in its opinion, is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.
- (c) The Trustee may also waive or authorise, without the consent of the Bondholders, any breach or proposed breach of these Terms and Conditions or the provisions of the Trust Deed which, in its opinion, is not materially prejudicial to the interests of the Bondholders.
- (d) Subject as provided in the Trust Deed (including, but not limited to, the prior consent of the Financial Services Authority and any other necessary governmental or regulatory consents), the Trustee may, if so requested by the Issuer, agree, without the consent of the Bondholders, to the substitution of: (i) a Successor in Business of the Issuer; (ii) a holding company of the Issuer or of any such Successor in Business; or (iii) a subsidiary (as defined in the Trust Deed) of the Issuer or of any such Successor in Business or of any such holding company in place of the Issuer as principal debtor under the Trust Deed and the Bonds provided that (y) in the case of the substitution of any company which is a subsidiary of the Issuer or of such Successor in Business or of such holding company, the obligations of such subsidiary in respect of the Trust Deed and the Bonds shall be guaranteed by the Issuer or such Successor in Business or such holding company and (z) in the case of the substitution of any company which is the holding company of the Issuer or any such Successor in Business, the obligations of such holding company in respect of the Trust Deed and the Bonds shall be guaranteed by the Issuer or such Successor in Business, such guarantee in any case to be in such form as the Trustee may require and subordinated on a basis considered by the Trustee to be equivalent to that in respect of the Issuer's obligations in respect of the Bonds.
- (e) In the case of a substitution pursuant to paragraph (d) of this Condition 10, the Trustee may in its absolute discretion agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed and/or the Registrar's Agreement and to such other amendments to the Trust Deed and such other conditions as the Trustee may require provided that such change, amendment or condition would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution and change shall be binding on the Bondholders

5 Terms and Conditions of the Bonds

and shall be notified to them by the Issuer in accordance with Condition 12 as soon as practicable thereafter.

- (f) Any modification referred to in paragraph (b) of this Condition 10 shall be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Bondholders by the Issuer in accordance with Condition 12 as soon as practicable thereafter. No modification of these Terms and Conditions which may affect or alter in any manner the classification of the Bonds for capital adequacy purposes shall be agreed by the Issuer without the prior written consent of the Financial Services Authority.

11 Replacement of Bonds

Should any Bond Certificate be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar (or such other place of which notice has been given to the Bondholders in accordance with Condition 12) upon payment by the claimant of the expenses incurred in connection with its replacement and on such terms as to evidence, security and indemnity as the Issuer may reasonably require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

12 Notices

Notices to Bondholders shall be posted to them at their respective addresses in the Register and shall be deemed to have been given on the fourth weekday after the date of posting.

13 Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either (a) ranking *pari passu* in all respects (or in all respects except for the first payment of interest on them) and so that such further securities shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of their issue. References in these Terms and Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition 13 and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

14 Governing Law

The Trust Deed and the Bonds are governed by, and shall be construed in accordance with, English law.

The initial Registrar is Independent Registrars Group Limited and its initial specified office is PO Box 163, Southwark Building, Barrington Road, Altrincham, Cheshire WA14 1HA."

NOTES

- 1 The Trust Deed will be dated no later than the Vesting Date.
- 2 The Supplemental Registrar's Agreement will be dated no later than the Vesting Date.
- 3 This amount will be calculated on the basis of the actual number of days elapsed from and including the Vesting Date to but excluding the First Interest Payment Date in respect of the Bonds and a year of 365 days and will be inserted into the Terms and Conditions prior to the issue of the Bonds.
- 4 This amount will be calculated for the period from and including the interest payment date in respect of the PIBS immediately preceding the Vesting Date to but excluding the Vesting Date in accordance with their terms and will be inserted into the Terms and Conditions prior to the issue of the Bonds.
- 5 This amount, being the aggregate of the amounts payable pursuant to Conditions 3(a) and 3(b) on the First Interest Payment Date, will be inserted into the Terms and Conditions prior to the issue of the Bonds.

6 The Halifax Group

6 The Halifax Group

6.1 Introduction

Halifax is the successor company to which Halifax Building Society transferred its business in June 1997 pursuant to section 97 of the Act. Halifax's full name is Halifax plc. Its registered office is at Trinity Road, Halifax, West Yorkshire HX1 2RG and its head office is located at the same address.

6.2 History

Halifax Building Society was founded in 1853 as the Halifax Permanent Benefit Building and Investment Society. In 1928, it merged with Halifax Equitable Building Society to form Halifax Building Society. At the time of the merger, these societies were the United Kingdom's two largest building societies by total assets. Subsequent to the merger, Halifax Building Society had almost five times the assets of the next largest society and maintained its position as one of the largest United Kingdom mortgage and liquid savings businesses until 2 June 1997 when its business transferred to Halifax. The Halifax Group has maintained this position ever since.

On 25 November 1994, Halifax Building Society announced its proposed merger with the Leeds Permanent Building Society and the intention to convert from a building society to a public limited company authorised under the Banking Act 1987 with its shares listed on the London Stock Exchange. On the merger becoming effective on 1 August 1995, Halifax Building Society further strengthened its position as one of the United Kingdom's largest mortgage and liquid savings businesses.

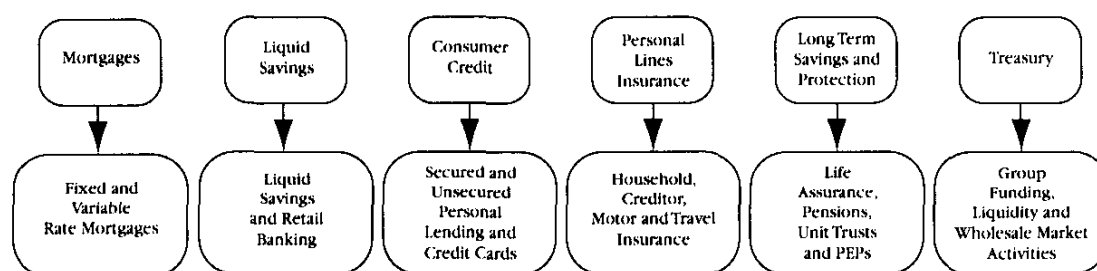
On 31 December 1996, Halifax Building Society acquired the business of Clerical, Medical and General Life Assurance Society. This acquisition was a key step in the implementation of Halifax's strategy to develop further its long term savings and protection business.

The transfer of the business of Halifax Building Society to Halifax became effective on 2 June 1997 upon the Bank of England's authorisation of Halifax under the Banking Act 1987 and its Ordinary Shares being admitted to the Official List. Prior to the transfer, Halifax was a subsidiary of Halifax Building Society and carried on the business of commercial lending. Its name was changed from Halifax Syndicated Loans Limited to Halifax plc when it was re-registered as a public limited company on 4 December 1996 in preparation for the transfer to it of the business of Halifax Building Society. Upon completion of the transfer, Halifax Building Society ceased to exist.

6.3 The business

The Halifax Group is a leading provider of personal financial services in the United Kingdom, primarily involved in activities relating to financial services, banking and insurance. In the six months ended 30 June 1998, the Halifax Group achieved profit on ordinary activities before tax of £843 million. At that date, the Halifax Group had total assets of £134.0 billion and net assets of £7.1 billion.

The Halifax Group's products and services can be categorised into six key business sectors.



Further details of the Halifax Group's operations in these business sectors are set out below.

6.3.1 *Mortgages, liquid savings and retail banking*

The mortgage, liquid savings and retail banking businesses report as retail operations and accounted for approximately 78 per cent. of total business sector profits for the six months ended 30 June 1998. Profit before tax for the six months ended 30 June 1998 grew by almost six per cent. to approximately £660 million compared to approximately £623 million for the corresponding period ended 30 June 1997.

6 The Halifax Group

(i) Mortgages

The Halifax Group's activity in the United Kingdom mortgage market is dominated by residential mortgage lending. At 30 June 1998, Halifax was the United Kingdom's largest residential mortgage lender with outstanding residential mortgage balances of some £82 billion, representing an estimated 19 per cent. share of all outstanding United Kingdom residential mortgage balances⁽¹⁾. The Halifax Group offers a wide range of mortgage products including fixed rate and variable rate mortgages, together with a number of repayment options including endowment, repayment, pension and PEP mortgages.

The residential mortgage market can be divided into two sectors: the home buying sector and the re-mortgage sector. Traditionally, Halifax has focused on the home buying sector rather than the re-mortgage sector. However, this contributed to a reduction in the Halifax Group's share of the lending market in the first quarter of 1998 and to a net secured lending outflow of £299 million (including secured personal loans and commercial lending secured by a charge on residential property) in the first half of 1998. In recognition of the increased growth in the re-mortgage sector, Halifax has started to offer its range of mortgage products to those wishing to re-mortgage their homes. In addition, Halifax has introduced a number of other initiatives, such as a more extensive product range and the development of mortgages sold by telephone. These initiatives have contributed to significant business levels. At 30 June 1998, the pipeline of outstanding mortgage offers was some £2.5 billion, as compared to some £1.4 billion at 31 December 1997 and some £2.0 billion at 30 June 1997.

The Halifax Group has separate businesses which operate as centralised lenders and has also acquired the staff mortgage books of a number of United Kingdom entities in recent years. These businesses are grouped under Halifax Loans Limited, which is used for acquiring and managing mortgage books. The centralised lending businesses are intended to be managed by a divisional board of Halifax which will include certain of the current directors of BMBS following the Transfer.

Halifax has an arrears policy which ensures careful management of mortgage customers facing repayment difficulties and follows the Statement of Practice on Arrears and Possessions published by the Council of Mortgage Lenders. At 30 June 1998, the total number of loans where payments were 12 months or more in arrears represented 0.29 per cent. of total loans, broadly in line with the Council of Mortgage Lenders' average of 0.33 per cent..

(ii) Liquid savings

At 30 June 1998, the Halifax Group had retail savings balances (including balances in Halifax Current Accounts and Cardcash accounts) amounting to some £75 billion in just under 19 million accounts. Halifax provides a range of retail savings accounts through a number of distribution channels including its branch network, Halifax Direct and ATMs. Other retail savings accounts include TESSAs and fixed rate products.

At 30 June 1998, Halifax's corporate business operation administered over one million savings scheme accounts for approximately 584,000 employees of over 400 United Kingdom companies.

Halifax also offers its customers a range of offshore deposit accounts through Halifax International (Jersey) Limited and Halifax International (Isle of Man) Limited.

(iii) Retail banking

Retail banking includes the Halifax Current Account and Cardcash. The Halifax Current Account was introduced in 1989. In the 12 months to 30 June 1998, Halifax achieved an estimated eight per cent. of all new cheque book accounts opened and a six per cent. share⁽²⁾ of the "new to banking" market in the United Kingdom, giving it a market share at 30 June 1998 of four per cent.⁽²⁾. The total number of current accounts at 30 June 1998 was approximately 3.6 million, including some 2.0 million cheque book accounts and some 1.6 million Cardcash accounts.

6.3.2 Consumer credit

Consumer credit includes secured and unsecured personal loans and credit cards. Consumer credit contributed some £22 million to the pre-tax profits of the Halifax Group for the six months ended 30 June 1998.

(1) Derived from the outstanding residential mortgage balances of the Halifax Group and Bank of England: Monetary and Financial Statistics.

(2) Extracted from NOP Financial Research Survey (FRS).

6 The Halifax Group

At 30 June 1998, the Halifax Group had some 341,000 unsecured personal loan accounts with outstanding balances of approximately £952 million and some 68,000 secured personal loans with outstanding balances of approximately £396 million.

The Halifax Group currently offers three credit cards, Halifax Visa Card, Halifax Visa Charity Card and the recently introduced Halifax Gold Card, which carries the Mastercard logo. During the six months ended 30 June 1998, the number of Halifax Visa cards in issue showed an increase of ten per cent. to some 1.0 million cards, with balances growing to some £470 million at 30 June 1998.

6.3.3 Personal lines insurance

Personal lines insurance encompasses household (buildings and contents), creditor (mortgage and loan repayment), motor and travel insurance risks. The directors believe that the Halifax Group is one of the United Kingdom's leading intermediaries in the arrangement of buildings and contents insurance. The Halifax Group does not underwrite the personal lines insurance for which it acts as an intermediary, but receives commission income on the policies which it arranges. For the six months ended 30 June 1998, profit before tax attributable to this business sector was £75 million compared with £76 million for the corresponding period in 1997. This reflected increased investment to enable the management of buildings and contents insurance to be undertaken in-house, thereby giving Halifax increased control over its customer relationships.

At 30 June 1998, the Halifax Group had some 2.2 million personal lines insurance policies in issue. Sales of new policies during the six months ended 30 June 1998 showed a six per cent. growth over sales in the corresponding period in 1997.

6.3.4 Long term savings and protection

As well as certain liquid savings products which may be suitable for longer term savers, the Halifax Group provides products for longer term savers such as life assurance, pensions, unit trusts and PEPs. The Halifax Group also provides protection products such as life insurance and critical illness policies. In addition, the Halifax Group will offer ISAs once these are introduced.

The long term savings and protection business sector comprises Halifax Financial Services Limited and Clerical Medical. *Halifax Financial Services Limited distributes the products of Halifax Life Limited and Halifax Unit Trust Management Limited through the branch network, estate agencies and, at 30 June 1998, some 660 personal financial advisers. Halifax also provides customers with independent financial advice through its subsidiary, Halifax Independent Financial Advisers Limited ("HIFAL"), which, at 30 June 1998, employed more than 130 independent financial advisers. Clerical Medical distributes its products largely through independent financial advisers.*

The Halifax Group had funds under management of £24.6 billion at 30 June 1998 compared with £19.5 billion at 30 June 1997. This increase was due to stock market growth and the success of Clerical Medical's fund management team in gaining new investment mandates.

6.3.5 Treasury

Treasury has two main functions. It supports the Halifax Group by managing liquidity, raising wholesale funds and managing interest rate and currency risks. It also contributes to the profitability of the Halifax Group through a range of financing and investment activities in the wholesale markets. Profit before tax for the six months ended 30 June 1998 was £43 million compared to £41 million for the corresponding period in 1997.

In the medium term, treasury will seek to extend its range of activities and increase its contribution to the profits of the Halifax Group. The aim is to create a full service bank treasury and capital markets division by further developing existing expertise in such areas as the money, interest rate and capital markets.

6.4 Distribution

Halifax has a number of distribution channels in the United Kingdom, the most important of which are described below.

6 The Halifax Group

6.4.1 Branches

At 30 June 1998, Halifax had over 850 branches, which are spread across the United Kingdom, and 27 business centres. Branches remain the primary outlets for the Halifax Group's lending, savings and banking services and provide a base for personal financial advisers who are authorised to sell Halifax's life assurance, pensions, PEPs and unit trusts, whilst business centres handle administration for branches, agencies and intermediary relationships.

Halifax has recently commenced all day Saturday opening and Sunday opening in a limited number of branches.

6.4.2 Automated teller machines

At 30 June 1998, Halifax had approximately 2,000 ATMs and Halifax's customers also had access to around 15,600 additional ATMs through reciprocal arrangements with other financial institutions.

6.4.3 Agents and intermediaries

At 30 June 1998, the branch network was supplemented by some 980 agency offices (including over 245 agencies located in the branches of Halifax Estate Agencies Limited ("HEAL")). The agency network offers a range of Halifax services and is a service provider and generator of business for the Halifax Group, thereby providing cost effective customer service in areas where full branch facilities would be uneconomical. The agencies undertake transactions on behalf of the Halifax Group, for which the Halifax Group pays commission.

In addition, the Halifax Group sources mortgage business through the independent intermediary sector. During the six months ended 30 June 1998, intermediaries introduced some 45 per cent. of the Halifax Group's mortgage business.

6.4.4 Halifax Direct

Halifax Direct is the principal telephone service operation of Halifax. The call centre, which operates 24 hours a day every day of the year, offers a range of services including current account transactions, credit card enquiries, direct savings account transactions and mortgage applications. In June 1998, Halifax Direct was handling, on average, some 50,000 telephone calls a day.

6.4.5 Estate agency

At 30 June 1998, Halifax had a network of 625 estate agency outlets operated by HEAL, which, as well as selling around 40,000 properties, originated Halifax mortgages of some £532 million which completed during the six months ended 30 June 1998.

6.5 Other activities of the Halifax Group

6.5.1 Halifax share dealing

Halifax Share Dealing Limited ("HSDL") was established in June 1997 to support the conversion process of Halifax Building Society. It initially provided an execution only dealing service in Ordinary Shares but expanded its service during September 1998 to deal in the shares of most United Kingdom companies listed on the London Stock Exchange. This expanded service offers easily accessible share dealing to existing and new customers at competitive rates. HSDL uses the latest technology in order to provide a high level of customer service and maintain an efficient operating base. Both telephone based and postal services are provided.

HSDL contributed £2.3 million to Halifax Group profit before tax for the six months ended 30 June 1998 and processed over three million customer trades in its first year to 31 May 1998.

6.5.2 Other activities

Halifax has a wholly-owned Spanish subsidiary, Banco Halifax Hispania S.A. ("BHH"), which commenced trading in 1993 and currently has four branches. BHH focuses on retail deposit taking and mortgage lending. At 30 June 1998, BHH had total assets, denominated in pesetas, equating to £58.8 million (based on an exchange rate of 256 pesetas/£1 prevailing at that date).

Halifax has two wholly-owned Guernsey based subsidiaries, one of which underwrites a portion of Halifax's mortgage indemnity insurance and the other of which underwrites its negative equity guarantee product. These subsidiaries provide Halifax with greater flexibility to manage its risk.

6 The Halifax Group

6.6 Current trading and financial prospects of the Halifax Group

If the members of BMBS approve the Transfer and the other conditions of the Transfer are fulfilled or waived, the business of BMBS will be transferred to Halifax on the Vesting Date. The acquisition of the business of BMBS by Halifax will strengthen the Halifax Group's competitive position, giving the enlarged group a pro-forma combined share at 30 June 1998 of all United Kingdom residential mortgages outstanding of some 20 per cent.⁽³⁾

Halifax has consistently sought to achieve a balance between market share and profitability and continues to pursue what the directors believe to be a measured approach towards the pricing of the Halifax Group's products, relative to the returns required.

The trading environment in the mortgage market for the first half of 1998 was significantly different from that seen in 1997. Whilst the gross lending market in the first half of 1998 showed an increase of around 13 per cent. compared to 1997, net lending was broadly flat. This difference was attributable to growth in the re-mortgage market which was driven by a push for growth in market share in an oversupplied market. Halifax's estimates suggest that during the second quarter of 1998 the re-mortgage sector accounted for approximately 23 per cent. of new lending in the market⁽⁴⁾.

Halifax's review of quarterly trends in its share of net mortgage lending in the six months ended 30 June 1998 indicated an improvement during the second quarter and the directors expect this improvement to continue into the second half of the year. Recent initiatives have contributed to significant levels of new lending by the Halifax Group. At 30 June 1998, the Halifax Group's pipeline of outstanding mortgage offers was some £2.5 billion, compared to some £2.0 billion at 30 June 1997.

Halifax remains strongly committed to remaining one of the United Kingdom's leading providers of liquid savings products. This will continue to be demonstrated by the development of the savings range to meet the changing needs of savers and by rewarding savers with competitive returns, whilst also meeting the Halifax Group's funding requirements at an acceptable cost.

The Halifax Group also has significant interests in long term savings and protection products. Within this area, Clerical Medical's sales in the first half of 1998 were well ahead compared to the equivalent period in 1997. The trends established in 1997 continued, notably increased sales of individual pension products and the continued success of with-profits bonds. Looking to the future, the Halifax Group's success in the PEP market through Halifax Financial Services Limited, together with its position as the market leader in the provision of TESSAs in terms of number of accounts held⁽⁵⁾, give the directors confidence that the Halifax Group will be successful in the provision of ISAs when these are introduced.

(3) Derived from the outstanding residential mortgage balances of the Halifax Group and the BMBS Group and Bank of England: Monetary and Financial Statistics.

(4) Derived from Housing Finance (the Quarterly Economics Journal of the Council of Mortgage Lenders).

(5) Extracted from NOP Financial Research Survey (FRS).

7 Management

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7.1 Directors and prospective director of Halifax

The names of the directors of Halifax, their functions in Halifax and their principal outside activities (if any) of significance to Halifax are as follows:

Director's name	Function in Halifax	Principal outside activities (if any) of significance to Halifax
Hugh Jon Foulds	Chairman	Fauchier Partners Ltd (Chairman) COFIP SA (President) Pan-Holding SA (Luxembourg) (Director) Société Agricole de la Moricière (Director) Sophron Partners Limited (Chairman)
John Lockhart Wood	Vice Chairman	Bibby Line Group Ltd (Director) Harrowden Developments Limited (Director)
Jeffrey Michael Blackburn	Group Chief Executive	Chartered Institute of Bankers (President)
Roger Fawcett Boyes	Group Finance Director	None
James Robert Crosby	Financial Services and Insurance Director	None
Michael Henry Ellis	Banking and Savings Director	None
Grenville John Folwell	Deputy Chief Executive	Public Private Partnerships Programme Ltd (Director) Broadfold Hall Limited (Director) Institute of Public Finance Limited (Vice Chairman)
John Arthur Lee	Group Personnel and Services Director	Halifax Pensions Nominees Limited (Director) Brathay Hall Trust (Director) Project Challenge Limited (Director) Common Purpose Charitable Trust (Director) Common Purpose UK (Director)
John Richard Miller	Housing and Technology Director	None
The Lord Chadlington	Non-executive Director	International Public Relations plc (Chairman)
Roy John Chapman	Non-executive Director	Eurotunnel plc (Director) Eurotunnel SA (Director) France Manche SA (Director) The Channel Tunnel Group Ltd (Director) AEAT Pension Trustees Ltd (Chairman) Possfund Custodian Trustee Ltd (Chairman) Possfund Nominees Ltd (Chairman) Possfund (MAM) Nominees Ltd (Chairman) Post Office Pensions Trustees Limited (Chairman) POPS MAM Nominees Ltd (Chairman) POPS Custodian Trustee Ltd (Chairman) POPS Nominees Ltd (Chairman) Westminster Forum Limited (Director) Halifax Pensions Nominees Limited (Chairman)
Anthony Laurie Coleby	Non-executive Director	Anglo Irish Bank Corporation plc (Director) Corpus Christi Development plc (Director) Italian International Bank plc (Director)
Nigel Lawrence Colne CBE	Non-executive Director	Woolworths South Africa (Director) Charnos PLC (Director) PizzaExpress plc (Director) Stylo plc (Director)
Duncan George Robin Ferguson	Non-executive Director	Bacon and Woodrow (Senior partner) Hellenobretanniki Life Insurance Company SA (Director)

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Director's name	Function in Halifax	Principal outside activities (if any) of significance to Halifax
John Anderson Kay	Non-executive Director	Foreign & Colonial Special Utilities Investment Trust plc (Director) Undervalued Assets Trust plc (Director) Value & Income Trust plc (Director) London Economics (Holdings) Ltd (Chairman) London Economics Ltd (Chairman) UAT Dealings Ltd (Director) Pilot Investment Trust plc (Director)
Prudence Margaret Leith OBE	Non-executive Director	Whitbread plc (Director) LK Properties Ltd (Director) UK Skills Ltd (Director) Royal Society for the Encouragement of Arts, Manufactures and Commerce (Deputy Chairman) Tomorrow's Company Ltd (Director) Kingshurst CTC Enterprises Ltd (Chairman)
Philip Graham Rogerson	Non-executive Director	Aggreko plc (Deputy Chairman) Pipeline Integrity International Group Ltd (Chairman) LIMIT plc (Director) Changing Faces (Charity) (Trustee) Viridian Group plc (Deputy Chairman) Wates City of London Properties plc (Director)
Peter Louis Michael Sherwood	Non-executive Director	ASW Holdings plc (Director) Bristol Chamber of Commerce and Initiative (Director) City of Bristol Broadcasting Company Ltd (Director) EBC Group plc (Deputy Chairman) Harbourside Centre Limited (Chairman) The First Ireland Investment Company Ltd (Director) The Harbourside Foundation Ltd (Director) United Bristol Healthcare NHS Trust (Director) At Bristol Ltd (Deputy Chairman)

The business address of each of the above is Trinity Road, Halifax, West Yorkshire HX1 2RG.

John Percival Leighfield CBE is to be appointed a non-executive director of Halifax on the Vesting Date. His principal outside activities of significance to Halifax are directorships of TMA Ventures Ltd, RM plc, IMPACT Programme Limited and Synstar International Limited. The business address of Mr. Leighfield is Pendeford Business Park, Wobaston Road, Wolverhampton WV9 5HZ. With effect from the Vesting Date, the business address of Mr. Leighfield will be Trinity Road, Halifax, West Yorkshire HX1 2RG.

On 31 December 1998, Mr. Blackburn will step down as Group Chief Executive and will be succeeded by Mr. Crosby. Mr. Blackburn will become a Vice Chairman of Halifax and remain a director until 31 December 1999.

7.2 Directors' remuneration

7.2.1 The aggregate of the remuneration paid and benefits in kind granted to the directors by any member of the Group in respect of the year ended 31 December 1997 was £2,674,000 including amounts paid under bonus schemes, benefits from car schemes, loans and health insurance arrangements.

7.2.2 The total emoluments receivable by the directors will not be varied in consequence of the Transfer.

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7.3 Directors' share interests

At 23 October 1998, the latest practicable date prior to the publication of this document, the interests of the directors in the share capital of Halifax (a) which are required to be notified by each director to the Company pursuant to section 324 or section 328 of the Companies Act or (b) are required to be entered in the register referred to in section 325 of the Companies Act or (c) are interests of a connected person of a director which would, if the connected person were a director, be required to be disclosed under (a) or (b), and the existence of which is known, or which could, with reasonable diligence, be ascertained, by that director, were as follows:

Director's name	Ordinary Shares	Rights under Sharesave Scheme	Long Term Executive Bonus Scheme conditional awards
Hugh Jon Foulds	1,181	—	—
John Lockhart Wood	1,672	—	—
Jeffrey Michael Blackburn	8,003	2,974	55,774
Roger Fawcett Boyes	7,348	3,362	31,496
James Robert Crosby	408	2,974	28,871
Michael Henry Ellis	4,994	2,974	26,246
Grenville John Folwell	2,834	1,681	31,496
John Arthur Lee	2,276	3,362	26,246
John Richard Miller	3,386	2,974	28,871
The Lord Chadlington	10,281	—	—
Roy John Chapman	1,203	—	—
Anthony Laurie Coleby	205	—	—
Nigel Lawrence Colne	1,716	—	—
Duncan George Robin Ferguson	976	—	—
John Anderson Kay	208	—	—
Prudence Margaret Leith	1,036	—	—
Philip Graham Rogerson	201	—	—
Peter Louis Michael Sherwood	—	—	—

Ordinary Shares which are conditionally awarded to an executive director under the Halifax plc Long Term Executive Bonus Scheme may be transferred to the director after three years, depending on the extent to which a performance condition has been satisfied. Further details of the Long Term Executive Bonus Scheme are set out in paragraphs 7.4.5 and 10.9.1 below.

Messrs Blackburn, Boyes, Crosby, Ellis, Folwell, Lee and Miller participated in the 1998 operation of the Halifax plc Short Term Executive Bonus Scheme. Depending on the extent to which a performance condition is satisfied during 1998, each director can receive a conditional award of Ordinary Shares having a value (as at the year end) equal to between 7.5 per cent. and 30 per cent. of his salary (as at the year end). The Ordinary Shares will, in normal circumstances, be transferred to the director after three years. Further details of the Short Term Executive Bonus Scheme are set out in paragraphs 7.4.4 and 10.9.1 below.

In addition, at 23 October 1998, the latest practicable date prior to the publication of this document, the executive directors were (together with other employees) discretionary beneficiaries under the Halifax plc Qualifying Employee Share Ownership Trust and, as such, were each treated at that date as being interested in the 14,557,485 Ordinary Shares held by the trustee of that trust. The shares held in the trust may be used to satisfy the exercise of rights granted under the Halifax plc Sharesave Scheme 1997.

All interests disclosed above are beneficial.

Save as disclosed above, none of the directors nor the prospective director of Halifax (nor any person connected with them) has a beneficial or non-beneficial interest in the share capital of Halifax. None of the directors nor the prospective director of Halifax (nor any person connected with them) holds an interest in any other securities of Halifax.

7.4 Share and bonus schemes

Halifax has established the Halifax plc Sharesave Scheme 1997 which is an Inland Revenue approved Save-As-You-Earn share scheme in relation to Ordinary Shares (the "**Sharesave Scheme**"), the Halifax plc Employee Share Trust 1997 (which is an Inland Revenue approved profit sharing scheme) (the "**Employee Share Trust**"), and the Halifax plc Executive Bonus Scheme, comprising the Halifax plc Short Term Executive Bonus Scheme (the "**Short Term Bonus Scheme**") and the Halifax plc Long Term Executive Bonus Scheme (the "**Long Term Bonus Scheme**"). The principal features of these schemes are summarised below.

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If the Transfer proceeds, employees of BMBS and its subsidiaries (including executive directors and other officers of BMBS) will be invited to participate in the Sharesave Scheme on the first invitation date after the Transfer. It is currently intended that executives of BMBS and its subsidiaries should continue to participate in their existing executive bonus arrangements following the Transfer as currently operated.

7.4.1 Sharesave Scheme

(i) Eligibility

All employees and executive directors of Halifax and participating subsidiaries who have worked for a qualifying period determined by the directors (which cannot be more than five years) and any other employees and executive directors nominated by the directors are eligible to participate in the Sharesave Scheme.

(ii) Timing

Invitations to join the Sharesave Scheme are normally only made within the period of 42 days from the day after the announcement of Halifax's results for any period. Rights to acquire Ordinary Shares under the Sharesave Scheme cannot be granted after the tenth anniversary of the adoption of the Sharesave Scheme.

(iii) Savings contract and right to acquire Ordinary Shares

An employee joining the Sharesave Scheme must enter into a savings contract with a nominated savings carrier, under which he or she makes monthly or weekly savings for a specified period, as permitted under the relevant legislation (currently three, five or seven years). Total monthly savings contributions (under all savings contracts) must not exceed the amount decided by the directors of Halifax, within the limit imposed by the relevant legislation (currently £250 per month). At the end of the specified period, the employee will receive a tax free bonus based on the amount of his or her monthly contribution and the length of the specified period. In connection with the savings contract, the employee is granted a right to acquire Ordinary Shares. The employee does not have to pay for the grant of the right.

(iv) Acquisition price

Under the Sharesave Scheme, participants are granted a right to acquire Ordinary Shares at the end of the specified period at a price which is not less than 80 per cent. of the market value of an Ordinary Share on the date of invitation (or some other date agreed with the Inland Revenue) or, if greater and if Ordinary Shares are to be subscribed, at a price equal to the nominal value. Market value means the middle market quotation of an Ordinary Share (derived from the Official List) on the preceding business day or, if the directors of Halifax determine, the average middle market quotation over the three preceding business days or any other value agreed with the Inland Revenue.

(v) Scheme limits

The number of Ordinary Shares over which employees can be granted rights to subscribe under the Sharesave Scheme will not at any time exceed:

- (a) that number which, when added to the total number of Ordinary Shares issued or over which employees have been granted rights to subscribe in the ten years prior to the date of grant under all employee share schemes operated by Halifax, equals ten per cent. of the Ordinary Share capital in issue immediately before the date of grant; or
- (b) that number which, when added to the total number of Ordinary Shares issued or over which employees have been granted rights to subscribe in the five years prior to the date of grant under all employee share schemes adopted by Halifax, equals five per cent. of the Ordinary Share capital in issue immediately before the date of grant.

For the purposes of these limits, no account will be taken of any Ordinary Shares where the right to acquire the Ordinary Shares has been released or lapsed or of any Ordinary Shares issued or over which employees were granted rights to subscribe under the operation of the Employee Share Trust or the Sharesave Scheme at the time the business of Halifax Building Society was acquired by Halifax.

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(vi) Variations in Ordinary Share capital

Rights to acquire Ordinary Shares under the Sharesave Scheme may be adjusted following variations in the Ordinary Share capital of Halifax, including a capitalisation or rights issue or subdivision or consolidation of share capital.

(vii) Acquisition of Ordinary Shares

Rights to acquire Ordinary Shares under the Sharesave Scheme are normally only exercisable if the holder is still employed by Halifax or another participating company and within six months after the bonus is payable under the savings contract. If the right is not exercised within this six month period, it will lapse. However, in certain circumstances (such as a participant ceasing to be an employee due to injury, disability, redundancy or retirement or following a change of control of the employing company or in the event of a takeover or winding up of Halifax) rights to acquire Ordinary Shares may be exercised early. If a right is exercised early in one of these circumstances, the participant may only use the savings made under his or her savings contract and any interest at that time to acquire Ordinary Shares. A right to acquire Ordinary Shares under the Sharesave Scheme is not transferable and may only be exercised by the person to whom it is granted or his or her personal representative(s).

Ordinary Shares which are issued under the Sharesave Scheme will rank equally with the Ordinary Shares in issue at that time. Application will be made to the London Stock Exchange for the listing of such Ordinary Shares.

To the extent permitted by law, Halifax or a subsidiary may fund the trustee of any trust to enable it to acquire Ordinary Shares for the purposes of the Sharesave Scheme. Halifax has established the Halifax plc Qualifying Employee Share Ownership Trust, which is a discretionary trust for the benefit of employees of the Halifax Group. The shares held in the trust may be used to satisfy the exercise of rights granted under the Sharesave Scheme.

(viii) Exchange of rights to acquire Ordinary Shares

In the event of a change of control of Halifax, participants in the Sharesave Scheme may, in certain circumstances, exchange their rights to acquire Ordinary Shares for rights to acquire shares in the acquiring company.

(ix) Amendments to the Sharesave Scheme

The rules of the Sharesave Scheme relating to eligibility, scheme limits, maximum monthly savings contributions, the acquisition price, rights attaching to shares and rights of participants in the event of a variation of capital may generally not be amended to the advantage of present or future participants without shareholder approval. Otherwise, the directors of Halifax can amend the Sharesave Scheme. If the Sharesave Scheme is to retain its approved status, any amendment will need to be notified to the Inland Revenue as soon as practicable and will be subject to prior approval by the Inland Revenue.

(x) Termination of the Sharesave Scheme

The directors of Halifax may, at any time, terminate the Sharesave Scheme. If this happens, no further rights to acquire Ordinary Shares will be granted but the provisions of the Sharesave Scheme will continue in relation to rights already granted.

7.4.2 Employee Share Trust

(i) Eligibility

All employees and executive directors of Halifax and participating subsidiaries who have worked for a qualifying period determined by the directors (which cannot be more than five years) and any other employees and executive directors nominated by the directors are eligible to participate in the Employee Share Trust.

(ii) Timing

Invitations to join the Employee Share Trust are made at the discretion of the directors and can normally only be made within the period of 42 days from the day after the announcement of Halifax's results for a financial year.

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(iii) Acquisition of Ordinary Shares by the trustee

Once applications have been received from employees, the relevant number of Ordinary Shares will be acquired by the trustee of the Employee Share Trust and allocated to participants. The trustee may acquire Ordinary Shares by way of gift, purchase or subscription. If Ordinary Shares are subscribed, the subscription price of a share will be the average middle market quotation of a share (derived from the Official List of the London Stock Exchange) over the three business days before subscription or, if greater, the nominal value at the date of subscription. Any Ordinary Shares which are subscribed will rank equally with the Ordinary Shares in issue at that time. Application will be made to the London Stock Exchange for the listing of such Ordinary Shares.

(iv) Individual limits on participation

The maximum value of Ordinary Shares which can be allocated to any participant under the Employee Share Trust in any tax year may not exceed the amount permitted, from time to time, under the relevant legislation. This is currently a maximum of ten per cent. of salary up to a maximum of £8,000 or an amount not related to salary up to £3,000. An employee can only be allocated shares under one Halifax Group Inland Revenue approved profit sharing scheme in any one tax year.

(v) Trust limits

The number of new Ordinary Shares which can be issued under the Employee Share Trust will not at any time exceed:

- (a) that number which, when added to the total number of Ordinary Shares issued or over which employees have been granted rights to subscribe in the ten years prior to the date of issue under all employee share schemes operated by Halifax, equals ten per cent. of the Ordinary Shares in issue immediately before the date of issue; or
- (b) that number which, when added to the total number of Ordinary Shares issued under the Employee Share Trust in the year prior to the date of issue, equals one per cent. of the Ordinary Shares in issue immediately before the date of issue.

For the purposes of these limits, no account will be taken of any Ordinary Shares where the right to acquire the Ordinary Shares has been released or lapsed, or of any Ordinary Shares issued or over which employees were granted rights to subscribe under the operation of the Employee Share Trust or the Sharesave Scheme at the time of conversion.

(vi) Share transfers to participants

Ordinary Shares allocated to participants will be held by the trustee of the Employee Share Trust for a minimum period of two years. After that period, participants can request the transfer or sale of their Ordinary Shares, but subject to an income tax charge. After three years, Ordinary Shares will be released to participants, without any income tax charge. Ordinary Shares can, subject to an income tax charge, be released from the trust early in certain circumstances, for example death, reaching the age of 60 or leaving employment by reason of injury, disability or redundancy.

(vii) Rights of participants

While a participant's Ordinary Shares are held by the trustee, the participant will be the beneficial owner of the Ordinary Shares and will be entitled to receive any dividends and, through the trustee, to vote, participate in rights and capitalisation issues and elect to receive scrip dividends in substantially the same way as other shareholders.

(viii) Amendments to the Employee Share Trust

The rules of the Employee Share Trust relating to eligibility, trust and individual limits, the basis on which shares are allocated, rights attaching to shares and rights of participants in the event of a variation of capital may, generally, not be amended to the advantage of present or future participants without shareholder approval. Otherwise, the directors can, with the trustee's approval, amend the Employee Share Trust. If the trust is to retain its approved status, any amendment will need to be notified to the Inland Revenue as soon as practicable and will be subject to prior approval by the Inland Revenue.

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(ix) Termination of the Employee Share Trust

Halifax in general meeting or the directors may, at any time, terminate the Employee Share Trust. If this happens, no further Ordinary Shares will be allocated but the provisions of the Employee Share Trust will continue in relation to Ordinary Shares already allocated.

7.4.3 Executive Bonus Scheme

The Halifax plc Executive Bonus Scheme comprises the Short Term Bonus Scheme and the Long Term Bonus Scheme.

Under the Short Term Bonus Scheme, a selected executive director or employee can receive an annual bonus (based on a percentage of his or her salary), dependent on the extent to which a performance condition is satisfied. The percentage of salary and the performance condition is set by the Remuneration, Senior Appointments and Nominations Committee (the “Committee”) each time the Short Term Bonus Scheme is operated. Part of any bonus will be paid in cash immediately and the remainder will be satisfied in the form of a conditional award of bonus shares which will normally be retained for three years.

Under the Long Term Bonus Scheme, a participant receives a conditional award of performance shares. The number of performance shares in his or her award will be equivalent to: (i) the number of bonus shares he or she is awarded under the Short Term Bonus Scheme; and/or (ii) a percentage of his or her salary. The performance shares may be transferred to the participant, after three years, dependent on the extent to which a performance condition has been satisfied. The number of performance shares and the performance condition is set by the Committee each time the Long Term Bonus Scheme is operated.

The rules of the Short Term Bonus Scheme and the Long Term Bonus Scheme are summarised in paragraphs 7.4.4 and 7.4.5 below.

7.4.4 Short Term Bonus Scheme

(i) Administration and eligibility

The Committee is responsible for the operation and administration of the Short Term Bonus Scheme. The Committee may select for participation any employee or executive director of the Halifax Group. The Short Term Bonus Scheme is used primarily for executives. The Committee notifies each employee and executive director selected of the terms of participation. Employees and executive directors may decline to participate in the Short Term Bonus Scheme.

(ii) The annual bonus and bonus shares

The payment of annual bonuses depends on the extent to which a performance condition (the “annual performance condition”) is satisfied. The annual performance condition and the percentage of salary payable for achievement of all or part of the annual performance condition is determined by the Committee each time the Short Term Bonus Scheme is operated. Following determination of the financial year’s results, the Committee ascertains the extent to which the annual performance condition has been satisfied and notifies each participant of this and of the total amount of his or her bonus. The Committee determines how the total amount of bonus is to be apportioned between a bonus payable in cash (subject to appropriate tax and other deductions) and a conditional award of Ordinary Shares (the “bonus shares”). The bonus shares will be held by the trustee of an employee trust to be established by Halifax to operate in conjunction with the Short Term Bonus Scheme.

(iii) Entitlement to the annual bonus

● Cessation of employment

If a participant ceases to be an executive director or employee of the Halifax Group before the determination of the annual bonus in certain circumstances (such as ill-health, retirement or redundancy) or if a participant dies, then he or she (or his or her estate) will become entitled to payment of a cash bonus and a conditional award of Ordinary Shares, calculated on a basis determined by the Committee, which can be either immediate entitlement taking into account the extent to which the annual performance condition has been satisfied to the date of cessation, or entitlement at the end of the period calculated in the usual way and then pro-rated to reflect the period since the beginning of the financial year. If a participant ceases to be an executive director or employee for any other reason, he or

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she will not be entitled to an annual bonus either as a cash bonus or a conditional award of Ordinary Shares, unless the Committee at its discretion decides otherwise.

- **Corporate reorganisations**

In the event of a change of control or a corporate reorganisation of Halifax before the determination of the annual bonus, bonuses will become immediately payable, as cash bonuses, calculated as though the annual performance condition had been satisfied at the target level and then pro-rated to reflect the period since the beginning of the financial year. The actual annual performance condition will not be taken into account, unless the Committee decides otherwise. The Committee will, unless it decides otherwise, make an additional cash payment to participants calculated by reference to their annual bonuses.

(iv) Vesting of bonus shares

- **The lock up period**

A participant will have a conditional right to receive the bonus shares at the end of a period determined by the Committee (the “**lock up period**”). The lock up period will end at the same time as the equivalent lock up period in the Long Term Bonus Scheme.

- **Transfer of bonus shares**

Following the end of the lock up period, the Committee will arrange for the bonus shares comprised in a conditional award to be transferred to the participant either immediately or at a later date, as the participant decides, up to the seventh anniversary of the date of the relevant conditional award of Ordinary Shares. Transfers of bonus shares will be automatic if the participant leaves employment or if there is a change of control or a corporate reorganisation of Halifax. All transfers of bonus shares will be made after appropriate tax and other deductions.

(v) Events during the lock up period

- **Cessation of employment**

If a participant ceases to be a director or employee of the Halifax Group during the lock up period in certain circumstances (such as ill-health, retirement or redundancy) or if a participant dies, then he or she (or his or her estate) will retain the conditional award and will receive bonus shares at the end of the lock up period. If a participant ceases to be a director or employee for any other reason, his conditional award of bonus shares will lapse, unless the Committee at its discretion decides otherwise.

- **Corporate reorganisations**

In the event of a change of control or a corporate reorganisation of Halifax, participants' conditional awards of bonus shares will vest early. The Committee may decide that, instead of shares, participants will receive an equivalent cash amount.

(vi) Participants' rights before acquiring the bonus shares

A participant will not be entitled to any rights relating to the bonus shares comprised in his or her conditional award before they are transferred to him or her. However, at the time of transfer of the bonus shares, a participant will also receive additional Ordinary Shares equivalent in value to the amount of dividends he or she would have received during the lock up period (and, if relevant, before the transfer of bonus shares) (on the basis of reinvestment of dividends in Ordinary Shares) had he or she been entitled to dividends in respect of the bonus shares.

(vii) Variation in share capital

In the event of a rights issue, capitalisation issue, or other event affecting Halifax's Ordinary Share capital, the Committee may adjust the number of bonus shares subject to a conditional award, as it considers appropriate.

(viii) Limits

In any ten year period: (a) not more than ten per cent. of the issued Ordinary Shares for the time being may in aggregate be issued under the Short Term Bonus Scheme and any other employee share scheme adopted by Halifax, and (b) not more than five per cent. of the issued Ordinary Shares for the time being may in aggregate

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be issued under the Short Term Bonus Scheme and any other executive share scheme adopted by Halifax. In addition, there are rationing limits so that no more than three per cent. of the issued Ordinary Shares for the time being may be issued under the Short Term Bonus Scheme or any other executive share scheme adopted by Halifax in any three year period. Not more than five per cent. of the issued Ordinary Shares for the time being may be issued under the Short Term Bonus Scheme or any other employee share scheme adopted by Halifax in any five year period. An alternative to these two rationing limits is that no more than three per cent. of the issued Ordinary Shares for the time being may be issued under the Short Term Bonus Scheme or any other employee share scheme adopted by Halifax in any three year period.

(ix) Amendments to the Short Term Bonus Scheme

The Committee may amend the Short Term Bonus Scheme, or the terms of any conditional award, in any respect.

(x) Termination of the Short Term Bonus Scheme

The Board may terminate the Short Term Bonus Scheme at any time but any termination will not affect subsisting rights. The scheme will, in any event, terminate on 20 May 2008.

(xi) The employee trust

The trust will be a discretionary trust for the benefit of all executive directors and employees of the Halifax Group. It will be able to acquire Ordinary Shares to enable shares to be provided to participants in the Short Term Bonus Scheme and the Long Term Bonus Scheme and through other employee share schemes operated by Halifax. The trustee will have power to acquire, hold or distribute Ordinary Shares or grant rights over Ordinary Shares. Ordinary Shares may be acquired by purchase in the market or by subscription.

7.4.5 Long Term Bonus Scheme

(i) Administration and eligibility

The Committee is responsible for the operation and administration of the Long Term Bonus Scheme in the same way as applies under the Short Term Bonus Scheme. Participants may include any individual who has participated in the Short Term Bonus Scheme. The Long Term Bonus Scheme will normally be operated within 42 days of the announcement of Halifax's results for any period, or in circumstances considered by the Committee to be exceptional.

(ii) Performance shares

Each time the Long Term Bonus Scheme is operated, a participant will receive a conditional award of Ordinary Shares ("performance shares"), as follows:

- a number of Ordinary Shares matching the number of Ordinary Shares in each participant's conditional award of bonus shares under the Short Term Bonus Scheme; and/or
- a number of Ordinary Shares based on a percentage of the participant's salary. The percentage of salary is determined by the Committee each time the Long Term Bonus Scheme is operated.

Performance shares may be held during the lock up period by the trustee of the employee trust to be established by Halifax to operate in conjunction with the Executive Bonus Scheme.

(iii) Performance condition and the lock up period

The extent to which conditional awards of performance shares vest at the end of the lock up period will depend on the satisfaction of the performance condition. The performance condition is determined by the Committee each time the Long Term Bonus Scheme is operated. The extent to which the performance condition has been satisfied is determined as soon as practicable after the lock up period ends. The lock up period is determined by the Committee in respect of each operation of the Long Term Bonus Scheme.

(iv) Vesting and transfer of performance shares

Having determined, following the end of the lock up period, the extent to which the performance condition has been satisfied, the Committee will arrange for the appropriate number of performance shares comprised in the conditional award to be transferred to the participant either as soon as practicable, or at a later date, as the participant decides, up to the seventh anniversary of the date of the relevant conditional award of Ordinary

7 Management

Shares. Transfers of performance shares will be automatic if the participant leaves employment or if there is a change of control or a corporate reorganisation of Halifax. All transfers of performance shares will be made after appropriate tax and other deductions.

(v) Events during the lock up period

- **Cessation of employment**

If a participant ceases to be a director or employee of the Halifax Group in certain circumstances (such as ill health, retirement or redundancy) or if a participant dies, he or she (or his or her estate) will retain any conditional award of performance shares made before leaving employment. If a participant is dismissed or ceases to be a director or employee for any other reason, any conditional awards of performance shares will lapse, unless the Committee decides otherwise. In these cases, the extent to which the performance condition has been satisfied will be determined in the usual way at the end of the lock up period.

- **Corporate reorganisations**

In the event of a change of control or a corporate reorganisation of Halifax, conditional awards of performance shares will vest early. The lock up period will end immediately and the number of performance shares to which a participant is entitled will be determined on the basis of the shortened period and as though the performance condition has been satisfied at a pre-determined level. The actual performance condition will not be taken into account unless the Committee decides otherwise. The Committee may also decide that instead of shares, the participants will receive an equivalent cash amount.

(vi) Participants' rights before acquiring the performance shares

The same provisions as those in the Short Term Bonus Scheme apply.

(vii) Variation in share capital

The same provisions as those in the Short Term Bonus Scheme apply.

(viii) Limits

- **Scheme limits**

The limits set out in paragraph 7.4.4(viii) above also apply to the Long Term Bonus Scheme.

- **Individual limit**

The maximum conditional award made in any financial year to an executive will be over performance shares having a market value, immediately before the start of the lock up period relating to the award made, equal to 100 per cent. of the relevant executive's annual salary at that time.

(ix) Amendments to the Long Term Bonus Scheme

The Committee may amend the Long Term Bonus Scheme, except that any amendment relating to the identity of participants, the limitations on their benefits, the number of Ordinary Shares which may be issued under the Long Term Bonus Scheme, the basis for determining a participant's entitlement to Ordinary Shares (other than provided for in accordance with the Rules) or the adjustment of the rights of participants in the event of a variation of share capital, may not be made to the advantage of participants without prior approval of the shareholders of Halifax in general meeting, except for certain minor amendments relating to tax and administrative matters.

(x) Termination of the Long Term Bonus Scheme

The Board may terminate the Long Term Bonus Scheme at any time but any termination will not affect subsisting rights. The scheme will, in any event, terminate on 20 May 2008.

7.5 Interests of and transactions with directors

Save for the mortgage accounts referred to below, there are no outstanding loans granted by any member of the Halifax Group to any director nor any guarantees provided by any member of the Halifax Group for the benefit of any director, although certain directors may have Visa or Mastercard credit cards issued by Halifax on which there may be balances outstanding. Each of Messrs Boyes, Crosby, Ellis, Folwell and Lee has a mortgage account

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with the Halifax Group. The total amount outstanding in respect of these mortgage accounts at 23 October 1998, the latest practicable date prior to the publication of this document, was £289,544.

None of the directors has an interest in any transactions which are or were unusual in their nature or conditions or significant to the business of the Halifax Group and which were effected by Halifax during the current or immediately preceding financial year or during an earlier financial year and remain in any respect outstanding or unperformed.

8 United Kingdom taxation

8 United Kingdom taxation

These comments are intended only as a general guide to certain aspects of current United Kingdom law and Inland Revenue practice as at the date of this document. They relate only to the position of holders who are the beneficial owners of their shares or bonds; in particular they do not address the position of certain classes of taxpayer, such as dealers in securities. A person who is in any doubt about his tax position or who is subject to tax in a jurisdiction other than the United Kingdom should take independent professional advice.

8.1 Dividends on the Preference Shares

There is no withholding tax on dividends, but, when paying a dividend, Halifax must, under current law, account to the Inland Revenue for advance corporation tax ("ACT") in respect of the dividend. The rate of ACT is equal to one-quarter of the amount of the dividend paid. ACT will be abolished for dividends paid on or after 6 April 1999. This section only applies to dividends paid on or after that date.

A holder of Preference Shares who is resident for tax purposes in the United Kingdom will be entitled to a tax credit where Halifax pays a dividend on the Preference Shares. In relation to dividends paid on or after 6 April 1999, the credit will be of an amount equal to one-ninth of the dividend. An individual will be subject to tax on the total of the dividend received and the tax credit, but the tax credit will be treated as discharging his or her liability to income tax at the lower or the basic rate. In relation to dividends paid on or after 6 April 1999, there will be no payment of the tax credit or any part of it to an individual whose liability to income tax on the dividend and the related tax credit is less than the tax credit. An individual who is subject to tax at the higher rate may have further tax to pay equal to one-quarter of the dividend.

Other categories of United Kingdom shareholder entitled to reclaim a tax credit in respect of dividends paid before 6 April 1999 will generally no longer be able to do so in respect of dividends paid on or after that date.

A holder of Preference Shares which is a company resident in the United Kingdom (other than a financial trader) will not normally be liable to tax on a dividend paid by Halifax. Such holders of Preference Shares will not, generally, be entitled to payments of any tax credit with respect to dividends.

8.2 Interest on the Bonds

Payments of interest on the Bonds will be made under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.) by Halifax, unless Halifax has previously been directed by the Inland Revenue, in relation to a particular holder of Bonds, to make payment free of deduction or subject to a reduced deduction under the provisions of an applicable double taxation treaty. Such directions will be issued only on prior application to the relevant tax authorities by the holder in question.

Individuals and trustees resident, or ordinarily resident, for tax purposes in the United Kingdom, or who carry on a trade in the United Kingdom through a branch or agency to which the Bonds are attributable, may be subject to tax under the "accrued income scheme" on a transfer of Bonds in respect of interest which has accrued since the preceding interest payment date.

8.3 Taxation of capital gains – Preference Shares

The Preference Shares constitute an asset for the purposes of United Kingdom tax on chargeable gains ("CGT"). A person within the scope of CGT, because he is resident or ordinarily resident in the United Kingdom or has a branch or agency in the United Kingdom to which the shares are attributable, may, depending on individual circumstances, be liable to CGT on any disposal or deemed disposal of Preference Shares in Halifax. Special rules introduced in the Finance Act 1998 may apply to disposals by individuals at a time when they are temporarily not resident or ordinarily resident in the United Kingdom, with the result that they might subsequently be liable to CGT on such disposals.

8.4 Taxation of returns – Bonds

Holders of Bonds within the charge to United Kingdom corporation tax will be subject to tax in respect of profits and gains arising on the Bonds (including interest), broadly in accordance with their accounting treatment.

For other holders of Bonds, who are resident or ordinarily resident in the United Kingdom for tax purposes or who have a branch or agency in the United Kingdom to which the bonds are attributable, the Bonds will be

8 United Kingdom taxation

qualifying corporate bonds so that gains and losses on their disposal will be ignored in computing a holder's liability to CGT. Such holders of Bonds will be subject to income tax in respect of interest (including pursuant to the "accrued income scheme" referred to in 8.2 above) in the normal way. Any tax deducted at source from interest paid in respect of the Bonds will be available as a credit against their liability to tax.

8.5 Stamp duty and stamp duty reserve tax ("SDRT")

An instrument of transfer on sale of Preference Shares will generally be liable to *ad valorem* stamp duty (which is generally paid by the purchaser), at the rate of 50 pence for every £100 or part of £100 of the consideration paid. An unconditional agreement to transfer such shares will be liable to SDRT (which is generally the responsibility of the purchaser), at the rate of 0.5 per cent. of the consideration paid, but such liability will be cancelled if the agreement is completed by a duly stamped transfer within six years of the agreement having become unconditional. Special rules apply in respect of the provision of depository receipts or clearance service facilities.

The sale of the Bonds will not give rise to a charge to stamp duty or SDRT.

8.6 Inheritance tax

The Preference Shares and the Bonds are assets situated in the United Kingdom for the purposes of inheritance tax. A gift of such assets or the death of a holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to inheritance tax, even if the holder is neither domiciled in the United Kingdom nor deemed to be domiciled there. For these purposes, a transfer of assets at less than full market value may be treated as a gift. Special rules apply to trusts which own assets situated in the United Kingdom and to gifts where the donor retains an interest or reserves a benefit.

9 Financial information relating to Halifax

9 Financial information relating to Halifax

Set out below is consolidated financial information relating to Halifax Building Society for the year ended 31 January 1996 and for the 11 months ended 31 December 1996. Also set out below is the consolidated financial information relating to Halifax for the 11 months ended 31 December 1996 (being a restatement of the corresponding information relating to Halifax Building Society in accordance with the special provisions of the Companies Act relating specifically to banking groups), for the year ended 31 December 1997 and for the six months ended 30 June 1998. This information has been extracted without material adjustment from the following sources:

- (i) the audited consolidated financial statements of Halifax Building Society for the year ended 31 January 1996 and for the 11 months ended 31 December 1996;
- (ii) the audited consolidated financial statements of Halifax for the year ended 31 December 1997; and
- (iii) the audited consolidated financial statements of Halifax for the six months ended 30 June 1998.

The business of Halifax Building Society was transferred to Halifax on 2 June 1997. The first financial statements for Halifax, as successor company to Halifax Building Society, were prepared for the year ended 31 December 1997. The financial statements included audited consolidated financial statements of Halifax Building Society for the 11 months ended 31 December 1996 which were restated in accordance with the special provisions of the Companies Act relating specifically to banking groups.

The consolidated financial information relating to Halifax Building Society does not comprise full accounts within the meaning of Sections 72 to 75 of the Act. Full consolidated financial statements for Halifax Building Society for the year ended 31 January 1996 and the 11 months ended 31 December 1996, on which the auditors gave unqualified audit reports, have been delivered to the Registrar of Friendly Societies.

The consolidated financial information relating to Halifax does not constitute full accounts within the meaning of Section 240 of the Companies Act. Full consolidated financial statements for Halifax for the year ended 31 December 1997 (which include the audited restated consolidated financial statements of Halifax Building Society for the 11 months ended 31 December 1996), on which the auditors gave an unqualified audit report and which did not contain a statement under either section 237(2) or (3) of the Companies Act, have been delivered to the Registrar of Companies for England and Wales.

The consolidated financial statements of Halifax for the six months ended 30 June 1998 have been audited and the auditors have given an unqualified audit report. These consolidated financial statements have not been delivered to the Registrar of Companies.

9 Financial information relating to Halifax

9.1 Historical consolidated financial record of Halifax Building Society for the year ended 31 January 1996 and the 11 months ended 31 December 1996

9.1.1 Group income and expenditure account

	Notes	11 months ended 31 December 1996 £m	Year ended 31 January 1996 £m
Interest receivable	4	5,940.1	6,461.6
Interest payable	5	3,989.4	4,599.3
Net interest receivable		1,950.7	1,862.3
Income from associated undertakings		–	1.5
Other income and charges	6	527.1	427.4
		2,477.8	2,291.2
Administrative expenses			
Exceptional – merger and integration costs	7	208.9	112.5
Exceptional – conversion costs	7	152.9	–
Ongoing	8	1,040.8	968.9
		1,402.6	1,081.4
		1,075.2	1,209.8
Provisions for bad and doubtful debts	12	106.3	86.1
Provisions for contingent liabilities and commitments	27	24.7	22.3
Operating profit		944.2	1,101.4
Provision for loss on disposal of fixed assets	19	51.5	–
Profit on ordinary activities before tax		892.7	1,101.4
Tax on profit on ordinary activities	13	353.2	378.8
Profit for the financial period	30	539.5	722.6

The figures for the year ended 31 January 1996 and for the 11 months ended 31 December 1996 incorporate the results of the business formerly undertaken by Leeds Permanent Building Society and its subsidiaries from 1 August 1995, the date of the transfer of engagements to Halifax Building Society (note 2).

It is not possible to identify separately the contribution to interest receivable and profit on ordinary activities before tax which is attributable to the business formerly undertaken by Leeds Permanent Building Society and its subsidiaries due to the extensive integration of operations which has occurred since the transfer of engagements.

9.1.2 Group statement of total recognised gains and losses

		11 months ended 31 December 1996 £m	Year ended 31 January 1996 £m
Profit for the financial period		539.5	722.6
Foreign currency translation differences on subsidiary undertaking		(6.5)	3.7
Total recognised gains and losses relating to the period		533.0	726.3

9.1.3 Note of historical cost profits and losses

	Notes	11 months ended 31 December 1996 £m	Year ended 31 January 1996 £m
Reported profit on ordinary activities before tax		892.7	1,101.4
Movement in value of long term assurance business	22	(30.9)	(9.3)
Historical cost profit on ordinary activities before tax		861.8	1,092.1
Historical cost profit for the financial period		518.8	715.3

9 Financial information relating to Halifax

9.1.4 Group balance sheet

	Notes	As at 31 December 1996 £m	As at 31 January 1996 £m
Assets			
Liquid assets	14	18,241.6	17,563.1
Commercial assets	15		
Advances secured on residential property		79,182.1	77,238.7
Other advances secured on land		1,402.0	1,194.5
Other commercial assets	16,17,18	2,024.0	1,055.1
		<u>82,608.1</u>	<u>79,488.3</u>
Tangible fixed assets	19	889.4	834.4
Other assets	20	219.5	140.3
Prepayments and accrued income	21	325.8	477.9
		<u>102,284.4</u>	<u>98,504.0</u>
Long term assurance assets attributable to policyholders	22	13,254.7	150.5
Total Assets		<u>115,539.1</u>	<u>98,654.5</u>
Liabilities			
Shares, deposits and loans			
Retail funds and deposits	23	77,093.1	74,913.5
Non-retail funds and deposits	24	15,049.0	15,259.2
		<u>92,142.1</u>	<u>90,172.7</u>
Other liabilities	25	767.1	773.8
Accruals and deferred income	26	741.1	364.3
Provisions for liabilities and charges	27	485.4	183.9
Subordinated liabilities	28	1,268.2	500.0
Subscribed capital	29	275.0	275.0
		<u>95,678.9</u>	<u>92,269.7</u>
Reserves			
General reserves	30	6,605.5	6,234.3
		<u>102,284.4</u>	<u>98,504.0</u>
Long term assurance liabilities attributable to policyholders	22	13,254.7	150.5
Total Liabilities		<u>115,539.1</u>	<u>98,654.5</u>
Memorandum Items			
Commitments	34	322.8	286.0

9 Financial information relating to Halifax

9.1.5 Group statement of source and application of funds

	11 months ended 31 December 1996 £m	Year ended 31 January 1996 £m
SOURCE OF FUNDS		
Increase in free capital (below)	1,107.0	1,793.7
Advances and loans repaid by borrowers	8,800.4	7,123.8
Net receipts from retail funds and deposits	2,179.6	5,797.4
Retail funds and deposits acquired on transfer of engagements	–	15,402.7
Non-retail funds and deposits acquired on transfer of engagements	–	3,653.0
Other items	866.1	271.7
Total Source of Funds	12,953.1	34,042.3
APPLICATION OF FUNDS		
Increase in liquid assets	678.5	1,944.2
Liquid assets acquired on transfer of engagements	–	3,305.5
Advances and loans made to borrowers	10,879.9	10,018.8
Advances and loans acquired on transfer of engagements	–	16,965.2
Net repayments from non-retail funds and deposits	210.2	1,134.4
Increase in other commercial assets	1,004.6	321.4
Other items	179.9	352.8
Total Application of Funds	12,953.1	34,042.3
INCREASE IN FREE CAPITAL		
Source of Funds		
Profit for the financial period	539.5	722.6
Adjustment for items not involving the movement of funds		
Depreciation and other amounts written off tangible fixed assets	154.8	91.5
(Profit)/loss on disposal of tangible fixed assets	(9.0)	0.5
Excess contribution written off on transfer of long term assurance business	(146.0)	–
Goodwill written off on acquisitions	(15.8)	(79.8)
Increase in general provisions for bad and doubtful debts	22.6	1.7
Funds Generated from Operations	546.1	736.5
Funds from Other Sources		
Disposal of tangible fixed assets	24.6	9.3
Free capital acquired on transfer of engagements	–	1,382.8
Issue of subordinated liabilities	768.2	–
Application of Funds		
Purchase of tangible fixed assets	(225.4)	(171.3)
Foreign currency translation	(6.5)	3.7
Repayment of subordinated liabilities	–	(160.0)
Incremental costs relating to transfer of engagements	–	(7.3)
Increase in Free Capital	1,107.0	1,793.7

Free capital comprises the general reserves plus subscribed capital plus subordinated liabilities and general provisions for bad and doubtful debts less tangible fixed assets.

The movement in specific provisions for bad and doubtful debts is shown as a source of funds within 'Other items' above.

Note 2 to the Accounts summarises the net assets acquired on the transfer of engagements of Leeds Permanent Building Society and its subsidiaries. Note 3 to the Accounts summarises the net assets transferred from Clerical, Medical and General Life Assurance Society and its subsidiaries.

	11 months ended 31 December 1996 £m	Year ended 31 January 1996 £m
SUMMARY OF EFFECT OF ACQUISITION OF SUBSIDIARIES		
Net assets acquired		
Advances and loans	334.5	1,550.3
Net other liabilities	(338.6)	(1,556.9)
Goodwill	15.8	79.8
	11.7	73.2
Satisfied by		
Consideration paid	11.7	73.2
	11.7	73.2

The companies included above are Bracehold Ltd and its subsidiaries for the 11 months ended 31 December 1996 and BNP Mortgages (Holdings) Ltd and its subsidiaries and Halifax Credit Card Ltd for the year ended 31 January 1996 (note 17).

9 Financial information relating to Halifax

9.1.6 Notes to the accounts

1 Accounting Policies

Basis of Preparation of Accounts

The Accounts are drawn up under the historical cost convention (as modified by the valuation of long term assurance business) and in accordance with applicable accounting standards and the Building Societies (Accounts and Related Provisions) Regulations 1992.

Basis of Consolidation

The Group Accounts include the audited results of the Society, its subsidiaries and the appropriate share of profits and losses of its associated undertakings. The Accounts of all subsidiaries have been made up to 31 December 1996 and 31 January 1996, with the following exceptions: Halifax Life Ltd whose last accounts were made up to 31 July 1995, has been consolidated using management accounts for the 11 months to 31 December 1996; for the year ended 31 January 1996 Banco Halifax Hispania SA made up accounts to 31 December 1995 and Halifax Life Ltd, a subsidiary of Halifax Financial Services (Holdings) Ltd, prepared management accounts to 31 January 1996 which were used for consolidation for the year ended 31 January 1996. Investments in subsidiaries and associated undertakings are stated at either cost or directors' valuation.

Transfer of Engagements

The assets and liabilities acquired on transfers of engagements from other building societies are incorporated at their fair value to the Group with effect from the date of transfer.

Mortgage Incentive Schemes

All costs associated with mortgage incentive schemes are charged in full against interest receivable on secured advances in the year in which the expense is incurred.

Provisions for Losses on Loans and Advances

Provisions are made to reduce the carrying value of loans and advances to the amount which the Directors consider is likely to be ultimately received. The charge to the income and expenditure account reflects the movement in the level of provisions made together with amounts written off in the year. General provisions are made to cover losses on loans and advances impaired at the balance sheet date which, although not yet specifically identified, are known from experience to exist in the portfolio of loans and advances.

Advances Secured on Residential Property

Specific provision is made where the property is in possession and/or where the account is in arrear. In calculating the provision in the latter instance, an assessment is made of the likelihood of the property being taken into possession based on relevant past experience and current market conditions. Where the property is in possession, credit is suspended in respect of interest deemed to be irrecoverable.

Other Advances Secured on Land

Following an appraisal of loans and advances at the balance sheet date, provisions for losses are made in respect of those loans and advances identified as impaired. Credit is suspended in respect of interest on certain accounts in arrear where there is a likelihood of the interest being irrecoverable. Where there is no realistic prospect of recovery, appropriate amounts are written off and interest ceases to be credited.

Other Commercial Assets – Unsecured Loans

Provisions for losses are made in respect of unsecured loans identified as impaired at the balance sheet date.

Taxation

Corporation tax is provided on the profit on ordinary activities as adjusted for taxation purposes. Provision is made for deferred taxation using the liability method at the current rate of tax for all material timing differences where it is considered that a liability will crystallise in the foreseeable future.

Liquid Assets

Securities held with the intention of use on a continuing basis are classified as financial fixed assets and shown at cost adjusted to exclude accrued interest at the date of purchase. A similar adjustment is also made on realisation. Where the adjusted purchase price differs from par value, the premium or discount is amortised over the period to maturity. Other liquid assets are stated at the lower of cost and net realisable value. Mortgage finance rights are held for liquidity management purposes and are included under liquid assets.

Securities sold subject to repurchase are included within liquid assets where the Group retains the risks and rewards of ownership. Funds received under the arrangement are included within non-retail funds and deposits. The difference between the sale and repurchase price is charged to interest payable over the life of the transaction.

Long Term Assurance Business

The value of the long term assurance business, within "Other commercial assets", comprises the surplus retained in the long term assurance assets and liabilities attributable to policyholders together with a prudent estimate of the net present value of in-force business. The change in this value, grossed up at the effective rate of taxation, is included within "Other income and charges".

9 Financial information relating to Halifax

Transferred Long Term Assurance Business

The excess of the contribution made over the fair value of the assets transferred from life insurers at the date of transfer is deducted from the Group general reserves in the year of transfer.

Tangible Fixed Assets and Depreciation

The cost of all additions and major alterations to office premises, plant, equipment, fixtures, fittings and vehicles is capitalised.

The cost of tangible fixed assets is written off over their estimated expected useful lives in equal annual instalments, which are taken as:

Buildings

Freehold properties	100 years
Leasehold properties (100 or more years unexpired)	100 years
Leasehold properties (less than 100 years unexpired)	Unexpired period of lease

Premises, plant and equipment and major alterations to existing properties 5-10 years

Equipment, fixtures, fittings and vehicles 4-6 years

Provision is made for the diminution in value of any fixed asset where that reduction is expected to be permanent. The resulting net book value of the asset is written off over its remaining expected economic life.

Assets in the course of construction are transferred to the relevant fixed asset classification when the assets are brought into use and are depreciated in accordance with the usual Group accounting policies.

Non-Retail Funds and Subordinated Liabilities

Premiums and discounts together with commissions and other costs incurred in the issuing of fixed and floating rate notes and subordinated liabilities are accounted for as an adjustment to the amount of the liability and amortised over the relevant period to maturity.

Captive Insurance Fund

The Group insures a proportion of the risk on its residential loans and advances through its captive insurance subsidiary, Halifax Mortgage Re Ltd (the "captive"). The captive maintains a fund for settlement of claims in respect of certain losses arising from the Group's residential loan book. This captive insurance fund is included in the Group balance sheet reflecting the arms-length basis on which the fund has been established.

The recognition of income and expenditure in respect of premiums received by the Group is deferred.

After due allowance for all claims payable in respect of each underwriting year, the surplus or deficit arising from that year's fund is included in the Group income and expenditure account.

Premiums paid to the captive are charged in the Society's income and expenditure account in fees and commissions payable.

Goodwill

The excess of the fair value of purchase consideration over the fair value of net tangible assets at the date of acquisition of subsidiary undertakings is deducted from the Group general reserves in the year of acquisition.

Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the appropriate rates of exchange prevailing at the year end date and exchange differences are dealt with in the income and expenditure account.

In the Group Accounts the results of overseas subsidiaries are translated using the closing rate. Exchange differences arising on the retranslation of the opening net investment in the subsidiaries at the closing rate are taken directly to general reserves.

Derivative Financial Instruments

All interest, exchange rate and market price related contracts are classified at the balance sheet date as hedging contracts. All hedging contracts are valued and income or exposure recognised on an equivalent basis to the assets, liabilities or positions that are being hedged.

Retirement Benefits

The cost of providing retirement pensions and related benefits is charged to the income and expenditure account over the periods which benefit from the employees' services.

The full provision basis has been used in accounting for the deferred tax implications of pensions and other post-retirement benefits.

9 Financial information relating to Halifax

2 Transfer of Engagements

The following net assets were acquired on the transfer of engagements of Leeds Permanent Building Society and its subsidiaries on 1 August 1995.

	£m
Liquid assets	3,305.5
Advances and loans	16,965.2
Other commercial assets	302.6
Tangible fixed assets	251.6
Other assets	18.1
Prepayments and accrued income	107.2
Net assets relating to long term assurance business	10.9
Retail funds and deposits	(15,402.7)
Non-retail funds and deposits	(3,653.0)
Other liabilities	(203.1)
Accruals and deferred income	(53.4)
Provisions for liabilities and charges	(18.5)
Long term assurance reserve	(10.9)
	<hr/> 1,619.5
General reserves	1,294.5
Subscribed capital	75.0
Subordinated liabilities	250.0
	<hr/> 1,619.5

The balances above are derived from the final audited accounts of Leeds Permanent Building Society and its subsidiaries as at 31 July 1995. In accordance with the acquisition method of accounting set out in FRS 7, "Fair Values in Acquisition Accounting", a review of the fair values of these assets and liabilities to Halifax Building Society has been undertaken. No fair value adjustments have been made to the balances acquired, as there were no material differences between the value as disclosed by the accounts of Leeds Permanent Building Society and the fair value to Halifax Building Society, and there were no material differences in the accounting policies adopted by the two societies.

The consolidated income and expenditure account for Leeds Permanent Building Society for the period from 1 October 1994 to 31 July 1995 is summarised below:

	£m
Interest receivable	1,338.5
Operating profit	244.9
Merger expenses	12.8
Profit on ordinary activities before tax	232.1
Tax on profit on ordinary activities	83.2
Profit for the financial period	<hr/> 148.9

Leeds Permanent Building Society and its subsidiaries had no recognised gains or losses in the period ended 31 July 1995, other than the profits disclosed above.

3 Transfer of Long Term Assurance Business

On 31 December 1996, the long term assurance business of Clerical, Medical and General Life Assurance Society was transferred to Clerical Medical Investment Group Ltd under Schedule 2C of the Insurance Companies Act 1982. The estimated contribution to be made by Halifax Building Society to its wholly owned subsidiary Clerical Medical Investment Group Ltd in connection with this transfer is £780m. This represents £637m for the aggregate of one ninth of future traditional with profits business bonuses and the embedded value of the remaining insurance business and £143m for certain business and miscellaneous assets. An adjustment to the estimated contribution will be made on completion of the valuation of the business transferred.

The following table sets out the fair value of the total assets transferred:

	Book value at acquisition £m	Revaluations £m	Accounting policies £m	Fair value to the Group £m
Policyholders' net assets	12,931	—	—	12,931
Value of in-force policies	637	(17)	—	620
Other assets	38	(26)	8	20
Policyholders' liabilities	(12,931)	—	—	(12,931)
Net assets transferred	<hr/> 675	<hr/> (43)	<hr/> 8	<hr/> 640
Contribution, including attributable costs				(786)
Excess contribution transferred to general reserves (note 30)				<hr/> (146)

9 Financial information relating to Halifax

The revaluation of the book value of in-force policies reflects the use of bases and assumptions adopted by the Group in the calculation of the fair value rather than those used in the calculation of the contribution. The fair value of other assets is at underlying net asset value rather than at the value ascribed to them for the purposes of calculating the contribution. The accounting policies adjustment relates to the deferral of acquisition costs incurred on the sale of unit trusts which is a Group accounting policy.

4 Interest Receivable

	11 months ended 31 December 1996 £m	Year ended 31 January 1996 £m
On secured advances	4,806.8	5,386.7
On other lending		
To associated bodies	–	1.1
Other	144.8	106.8
On debt securities		
Interest and other income	647.6	566.7
Net profits	26.4	8.5
On other liquid assets		
Interest	357.7	416.8
Net profits	0.2	–
Net expense on financial instruments	(43.6)	(25.0)
Other interest receivable	0.2	–
	<u>5,940.1</u>	<u>6,461.6</u>

5 Interest Payable

	11 months ended 31 December 1996 £m	Year ended 31 January 1996 £m
On retail funds and deposits	3,069.4	3,615.2
On non-retail funds and deposits	928.6	1,024.6
Net income on financial instruments	(8.7)	(40.6)
Other interest payable	0.1	0.1
	<u>3,989.4</u>	<u>4,599.3</u>

Interest payable on non-retail funds and deposits includes the following:

Interest payable on subordinated liabilities	84.0	47.9
Interest payable on subscribed capital	28.3	25.9

6 Other Income and Charges

	11 months ended 31 December 1996 £m	Year ended 31 January 1996 £m
Fees and commissions receivable	540.2	464.2
Fees and commissions payable	(73.6)	(74.3)
Increase in value of long term assurance business (note 22)	30.9	9.3
Other operating income	30.4	28.9
Other operating charges	(0.8)	(0.7)
	<u>527.1</u>	<u>427.4</u>

9 Financial information relating to Halifax

7 Exceptional Administrative Expenses

	11 months ended 31 December 1996 £m	Year ended 31 January 1996 £m
Exceptional administrative expenses comprise:		
Merger and integration costs – reorganisation costs provision (note 27)	208.9	80.0
– other	—	32.5
	<u>208.9</u>	<u>112.5</u>
Conversion costs provision (note 27)	152.9	—
	<u>361.8</u>	<u>112.5</u>

The 'merger and integration costs – reorganisation costs provision' relates to the costs of reorganising, restructuring and integrating the businesses following the transfer of engagements of Leeds Permanent Building Society. The conversion costs provision comprises all costs arising from the Society's programme of conversion to become a public limited company.

In accordance with FRS 7, the incremental costs relating to the transfer of engagements arising in the year ended 31 January 1996 of £7.3m have been treated as part of the cost of acquisition and therefore charged directly to general reserves (note 30).

8 Ongoing Administrative Expenses

	11 months ended 31 December 1996 £m	Year ended 31 January 1996 £m
Staff costs:		
Wages and salaries	479.2	449.2
Social security costs	37.5	31.7
Other pension costs	15.4	7.8
Other post-retirement benefits	2.6	3.4
	<u>534.7</u>	<u>492.1</u>
Depreciation and other amounts written off tangible fixed assets	94.3	92.0
Rental of premises	59.4	58.6
Hire of equipment	15.2	11.1
Other expenses	337.2	315.1
	<u>1,040.8</u>	<u>968.9</u>

	11 months ended 31 December 1996 £m	Year ended 31 January 1996 £m
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Included in other expenses are the following charges:

Remuneration of auditors and their associates – for audit work	0.9	1.0
– for non-audit work	1.2	1.3

In respect of the 11 months ended 31 December 1996, in addition to the above remuneration of the auditors and their associates, additional remuneration was charged through exceptional administrative expenses (note 27) and an amount of £1.4m is included within attributable costs arising on the transfer of long term assurance business (notes 3 and 30).

In addition to the above remuneration of auditors for the year ended 31 January 1996, an amount of £0.7m is included within the incremental costs relating to the transfer of engagements (notes 7 and 30).

9 Financial information relating to Halifax

9 Staff Numbers and Costs

Number of persons

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

	11 months ended 31 December 1996		Year ended 31 January 1996	
	Full time	Part time	Full time	Part time
Principal office and administration centres	6,549	820	5,393	633
Branch offices	19,280	8,220	16,664	6,979
	<u>25,829</u>	<u>9,040</u>	<u>22,057</u>	<u>7,612</u>

10 Directors' Emoluments

	11 months ended 31 December 1996 £'000	Year ended 31 January 1996 £'000
Services as a Director	613	570
Services in connection with the management of the Group	1,358	1,309
	<u>1,971</u>	<u>1,879</u>

"Services as a Director" refers to payments to the Chairman and other Non-Executive Directors. These include payments in respect of services as Directors of subsidiaries of £9,349 (11 months ended 31 December 1996) and £13,159 (year ended 31 January 1996). No payments to former Directors were made in either the 11 months ended 31 December 1996 or the year ended 31 January 1996. The emoluments of the Chairman amounted to £229,264 (11 months ended 31 December 1996) and £225,233 (year ended 31 January 1996). No contributions were paid by the Society under any pension scheme in respect of the Chairman and other Non-Executive Directors in either the 11 months ended 31 December 1996 or the year ended 31 January 1996.

"Services in connection with the management of the Group" refers to the emoluments of Executive Directors and includes pension contributions of £39,932 (11 months ended 31 December 1996) and £39,195 (year ended 31 January 1996). The emoluments of the highest paid Director (the Chief Executive) amounted to £402,267 (11 months ended 31 December 1996) and £404,793 (year ended 31 January 1996). The emoluments include pension contributions of £6,450 (11 months ended 31 December 1996) and £6,133 (year ended 31 January 1996) and a bonus payment of £61,200 (11 months ended 31 December 1996) and £78,750 (year ended 31 January 1996).

The emoluments of all Directors including pension contributions, were:

	11 months ended 31 December 1996	Year ended 31 January 1996		11 months ended 31 December 1996	Year ended 31 January 1996
£5,001-£10,000	-	1	£110,001-£115,000	-	1
£10,001-£15,000	-	4	£135,001-£140,000	-	1
£15,001-£20,000	-	1	£185,001-£190,000	-	1
£20,001-£25,000	6	4	£195,001-£200,000	1	-
£25,001-£30,000	2	2	£210,001-£215,000	1	1
£30,001-£35,000	2	1	£225,001-£230,000	1	1
£35,001-£40,000	1	1	£235,001-£240,000	1	-
£45,001-£50,000	2	-	£250,001-£255,000	1	-
£50,001-£55,000	-	1	£255,001-£260,000	-	1
£55,001-£60,000	1	-	£400,001-£405,000	1	1

The above figures for Directors' emoluments include pension contributions but do not include any amounts in respect of unfunded pension arrangements provided for but not paid.

None of the Directors had an interest in shares in, or debentures of, any associated body of the Society at any time during the financial period.

11 Directors' Loans and Transactions involving Directors and Others

The aggregate amount outstanding on advances in the ordinary course of business from the Society to Directors or persons who are connected with Directors of the Society was £873,539 (as at 31 December 1996) and £1,130,287 (as at 31 January 1996) representing loans to 22 (as at 31 December 1996) and 24 (as at 31 January 1996) persons.

There were no significant contracts between the Society and Directors or persons connected with Directors of the Society during either the 11 months ended 31 December 1996 or the year ended 31 January 1996. However, a subsidiary of Shandwick plc, of which Mr P S Gummer is Chairman; Bacon & Woodrow, of which Mr D G R Ferguson is Senior Partner; and Town Centre Securities plc and Leon Property Company Ltd, of which Mr I A Ziff is Chairman, do provide services to the Group. Those services are provided on normal commercial terms.

The Society maintains a register under Section 68 of the Building Societies Act 1986 of loans to, transactions with and arrangements for Directors or persons connected with them. Particulars from the register are available for inspection by members at the Society's principal office in Halifax for 15 days ending with the day of the Annual General Meeting and also at that meeting.

9 Financial information relating to Halifax

12 Provisions for Losses on Loans and Advances and Suspended Interest

Provisions have been made as follows:	Residential property Specific £m	General £m	Other advances secured Specific £m	on land General £m	Unsecured loans Specific £m	General £m	Total £m
At 1 February 1995	279.6	70.0	6.8	6.0	37.9	1.8	402.1
Provisions acquired on transfer of engagements	97.4	8.3	13.7	—	5.0	6.6	131.0
Provisions arising on acquisitions	80.1	0.5	—	—	7.9	—	88.5
Amounts written off during the year	(149.0)	—	—	—	(7.1)	—	(156.1)
Charge for the year	72.6	(0.3)	(0.1)	—	20.7	1.5	94.4
Adjustments to provisions for bad and doubtful debts	(8.3)	—	—	—	—	—	(8.3)
At 31 January 1996	372.4	78.5	20.4	6.0	64.4	9.9	551.6
Provisions arising on acquisition of subsidiary undertakings	5.0	—	—	—	—	—	5.0
Amounts written off during the period	(130.9)	—	(3.2)	—	(12.9)	—	(147.0)
Charge for the period	44.2	22.1	(1.6)	0.5	52.4	—	117.6
Adjustments to provisions for bad and doubtful debts	(7.5)	—	—	—	(3.8)	—	(11.3)
At 31 December 1996	283.2	100.6	15.6	6.5	100.1	9.9	515.9

Interest has been suspended as follows:

	Residential property £m	Other advances secured on land £m	Total £m
At 1 February 1995	4.5	3.4	7.9
Provisions acquired on transfer of engagements	12.5	—	12.5
Amounts written off during the year	(20.0)	(1.5)	(21.5)
Charge for the year	18.9	1.6	20.5
At 31 January 1996	15.9	3.5	19.4
Amounts written off during the period	(21.4)	(0.7)	(22.1)
Charge for the period	9.6	1.7	11.3
At 31 December 1996	4.1	4.5	8.6

Total group provisions for losses on loans and advances and suspended interest at 31 December 1996 524.5

Total group provisions for losses on loans and advances and suspended interest at 31 January 1996 571.0

The net charge to the Group income and expenditure account of £106.3m (11 months ended 31 December 1996) and £86.1m (year ended 31 January 1996) comprises the Charge of £117.6m (11 months ended 31 December 1996) and £94.4m (year ended 31 January 1996) and Adjustments to provisions for bad and doubtful debts of £11.3m (11 months ended 31 December 1996) and £8.3m (year ended 31 January 1996).

13 Tax on Profit on Ordinary Activities

	11 months ended 31 December 1996 £m	Year ended 31 January 1996 £m
The charge for the period, based on a corporation tax rate of 33% (year ended 31 January 1996 33%) comprises:		
UK corporation tax on:		
Operating profit before exceptional items	429.4	396.8
Exceptional items	(19.8)	(3.6)
Taxation relating to change in value of long term assurance business (note 22)	10.2	2.0
Deferred taxation (note 20) relating to:		
Operating profit before exceptional items	11.3	8.5
Exceptional items	(67.8)	(25.4)
Provision for losses on disposal of fixed assets	(10.1)	—
Share of associated undertakings' taxation	—	0.5
	353.2	378.8

9 Financial information relating to Halifax

14 Liquid Assets

	As at 31 December 1996 £m	As at 31 January 1996 £m
Liquid assets comprise:		
Cash in hand and balances with the Bank of England	184.0	143.4
Treasury bills and other eligible bills		
Treasury bills and similar securities	374.5	2,520.8
Other eligible bills	951.0	252.7
Loans and advances to credit institutions	4,255.9	4,483.9
Debt securities		
Issued by public bodies	3,359.1	2,454.6
Issued by other borrowers	9,115.0	7,705.6
Other	2.1	2.1
	<u>18,241.6</u>	<u>17,563.1</u>
Repayable from the date of the balance sheet in the ordinary course of business as follows:		
Loans and advances to credit institutions		
Repayable on demand	2,035.2	714.6
In not more than three months	2,125.4	3,682.2
In more than three months but not more than one year	79.8	63.3
	<u>4,240.4</u>	<u>4,460.1</u>
Accrued interest	15.5	23.8
	<u>4,255.9</u>	<u>4,483.9</u>
Debt securities		
In not more than one year	7,971.4	6,983.3
In more than one year but not more than five years	3,590.7	2,086.0
In more than five years	758.9	890.4
	<u>12,321.0</u>	<u>9,959.7</u>
Accrued interest	153.1	200.5
	<u>12,474.1</u>	<u>10,160.2</u>
Analysis of debt securities:		
Transferable debt securities (excluding accrued interest)		
Listed on a recognised investment exchange	4,512.5	3,063.5
Listed on other exchanges	485.0	849.6
	<u>4,997.5</u>	<u>3,913.1</u>
Unlisted	7,323.5	6,046.6
	<u>12,321.0</u>	<u>9,959.7</u>
Market value of listed securities (excluding accrued interest)	4,989.9	3,954.1
Analysis of securities:		
Securities held as financial fixed assets at maturity value	13,560.0	12,688.5
Unamortised premium	105.7	87.0
Unamortised discount	(19.2)	(42.3)
Adjusted cost of securities held as financial fixed assets (excluding accrued interest)	<u>13,646.5</u>	<u>12,733.2</u>
Adjusted cost of securities held as financial fixed assets comprises:		
Treasury bills and similar securities and other eligible bills	1,325.5	2,773.5
Debt securities	12,474.1	10,160.2
	<u>13,799.6</u>	<u>12,933.7</u>
Less: accrued interest	153.1	200.5
	<u>13,646.5</u>	<u>12,733.2</u>

9 Financial information relating to Halifax

Included within Group liquid assets as at 31 December 1996 are securities with a market value of £1,087.7m (31 January 1996 £Nil) sold subject to agreement to repurchase.

	£m
Movements during the period under review of securities held as financial fixed assets are:	
Adjusted cost	
At 1 February 1995	7,915.9
Acquired on transfer of engagements	1,698.0
Additions	41,874.3
Disposals	(38,755.0)
At 31 January 1996	12,733.2
Additions	54,361.4
Disposals	(53,448.1)
At 31 December 1996	13,646.5

15 Commercial Assets Maturity Analysis

	As at 31 December 1996 £m	As at 31 January 1996 £m
Repayable on demand	121.8	67.9
In not more than three months	1,146.3	905.2
In more than three months but not more than one year	1,558.0	1,429.5
In more than one year but not more than five years	6,442.8	5,621.5
In more than five years	73,119.2	71,917.1
	82,388.1	79,941.2
Accrued interest	46.8	58.5
	82,434.9	79,999.7
Less: provisions and suspended interest (note 12)	524.5	571.0
	81,910.4	79,428.7
The commercial assets maturity analysis comprises:		
Advances secured on residential property	79,182.1	77,238.7
Other advances secured on land	1,402.0	1,194.5
Other commercial assets – unsecured loans	1,271.6	995.5
– secured loans	54.7	–
	81,910.4	79,428.7

The maturity of accounts which are in arrear is based on the period remaining to the original agreed maturity date.

The actual experience of repayments may differ from the above as many mortgage loans are repaid early.

16 Other Commercial Assets

	As at 31 December 1996 £m	As at 31 January 1996 £m
Unsecured loans	1,271.6	995.5
Secured loans	54.7	–
Residential properties held for development – work in progress	0.6	3.5
Investments in associated bodies (note 17)		
Shares	1.4	1.1
Value of long term assurance business	695.7	55.0
	2,024.0	1,055.1

9 Financial information relating to Halifax

17 Investments in Associated Bodies

	Investments in associated undertakings £m	Investments in other associated bodies £m	Total £m
Shares			
Cost at 1 February 1995	0.1	1.0	1.1
Acquired on transfer of engagements	–	0.1	0.1
Reclassification as a subsidiary undertaking (note 18)	(0.1)	–	(0.1)
Cost at 31 January 1996	–	1.1	1.1
Share of post-acquisition reserves			
At 1 February 1995	(0.6)	–	(0.6)
Share of profits for the financial year	1.0	–	1.0
Reclassification as a subsidiary undertaking (note 18)	(0.4)	–	(0.4)
At 31 January 1996	–	–	–
Net book value			
At 31 January 1996	–	1.1	1.1
At 31 January 1995	(0.5)	1.0	0.5
Loans			
Cost at 1 February 1995	95.0	–	95.0
Repayments received	(0.6)	–	(0.6)
Reclassification as a subsidiary undertaking (note 18)	(94.4)	–	(94.4)
Cost at 31 January 1996	–	–	–
Shares			
Cost at 1 February 1996	–	1.1	1.1
Additions	–	0.3	0.3
Cost at 31 December 1996	–	1.4	1.4
Net book value			
At 31 December 1996	–	1.4	1.4
At 31 January 1996	–	1.1	1.1

18 Summary of Effect of Acquisition of Subsidiary Undertakings

On 3 February 1995 Halifax Loans Ltd, a subsidiary of Halifax Building Society, acquired 100 per cent. of the allotted share capital of BNP Mortgages (Holdings) Ltd. Following the purchase, the acquired company changed its name to Halifax Mortgage Services (Holdings) Ltd on 15 February 1995.

On 31 March 1995 the Society acquired the remaining 50 per cent. of the allotted voting share capital of Halifax Credit Card Ltd plus the one non-voting 'C' share, making it a wholly owned subsidiary undertaking.

The purchase of Halifax Mortgage Services (Holdings) Ltd and its subsidiaries and Halifax Credit Card Ltd have been accounted for using the acquisition method of accounting under FRS 6.

On 18 April 1996, Halifax Loans Ltd, a subsidiary of Halifax Building Society, acquired 100 per cent. of the allotted share capital of Bracehold Ltd from Banque Paribas SA. The acquired company changed its name to HL Group (Holdings) Ltd on 13 May 1996.

The purchase of HL Group (Holdings) Ltd and its nine subsidiaries has been accounted for using the acquisition method of accounting under FRS 6.

The assets and liabilities acquired are summarised in the Group Statement of Source and Application of Funds. There were no fair value adjustments necessary in respect of these acquired balances as the adjustments were not considered to be material. The goodwill arising has been deducted from the Group general reserves (note 30).

No separate analysis has been provided of the post acquisition results of these acquisitions, in accordance with FRS 3, on the grounds of immateriality.

9 Financial information relating to Halifax

19 Tangible Fixed Assets

	Freehold £m	Land and buildings Long lease £m	Short lease £m	Equipment fixtures & fittings & vehicles £m	Plant and machinery £m	Payments on account and assets in course of construction £m	Total £m
Cost							
At 1 February 1995	440.1	26.3	138.1	365.6	14.4	13.2	997.7
Acquired on acquisition	–	–	–	0.9	–	–	0.9
Acquired on transfer of engagements	161.5	4.1	5.7	52.0	23.9	4.4	251.6
Additions	2.2	0.3	4.1	97.2	0.3	66.3	170.4
Disposals	(6.6)	(1.2)	(2.3)	(55.9)	(7.9)	–	(73.9)
Transfers	44.4	2.3	8.3	0.2	10.7	(65.9)	–
At 31 January 1996	641.6	31.8	153.9	460.0	41.4	18.0	1,346.7
Additions	3.0	0.2	3.7	137.1	1.1	68.6	213.7
Acquired on transfer of business	–	–	–	11.7	–	–	11.7
Disposals	(8.0)	(0.8)	(2.9)	(212.9)	(2.3)	–	(226.9)
Transfers	14.2	8.1	10.6	5.9	13.3	(52.1)	–
At 31 December 1996	650.8	39.3	165.3	401.8	53.5	34.5	1,345.2
Depreciation and diminution in value							
At 1 February 1995	159.4	9.6	81.0	232.8	2.1	–	484.9
Depreciation charged in year	13.9	0.8	9.1	59.3	3.6	–	86.7
Provision for diminution in value	2.5	0.1	2.2	–	–	–	4.8
Disposals	(3.5)	(1.5)	(2.8)	(51.7)	(4.6)	–	(64.1)
Transfers	0.4	–	(0.4)	–	–	–	–
At 31 January 1996	172.7	9.0	89.1	240.4	1.1	–	512.3
Depreciation charged in period	15.7	1.0	10.7	69.5	6.4	–	103.3
Provision for diminution in value	6.2	–	7.4	32.7	5.2	–	51.5
Disposals	(1.7)	(0.1)	(1.3)	(205.9)	(2.3)	–	(211.3)
Transfers	(0.7)	0.5	(0.2)	(4.0)	4.4	–	–
At 31 December 1996	192.2	10.4	105.7	132.7	14.8	–	455.8
Net book value							
At 31 December 1996	458.6	28.9	59.6	269.1	38.7	34.5	889.4
At 31 January 1996	468.9	22.8	64.8	219.6	40.3	18.0	834.4
At 31 January 1995	280.7	16.7	57.1	132.8	12.3	13.2	512.8

The provision for diminution in value of £51.5m is a provision for loss on disposal of fixed assets arising from the programme of reorganising, restructuring and integrating the businesses following the transfer of engagements of Leeds Permanent Building Society. The provision is disclosed on the face of the Income and Expenditure Account.

The net book value of land and buildings occupied by the Group for its own activities at 31 December 1996 amounted to £414.0m (31 January 1996 £462.9m).

20 Other Assets

	As at 31 December 1996 £m	As at 31 January 1996 £m
Other assets	138.6	126.0
Deferred taxation (due after more than one year)	80.9	14.3
	<u>219.5</u>	<u>140.3</u>
Deferred taxation	£m	£m
At 1 February 1996	14.3	10.9
Acquired on acquisition	–	5.0
Acquired on transfer of engagements	–	(18.5)
Movement in period	66.6	16.9
At 31 December 1996	<u>80.9</u>	<u>14.3</u>

9 Financial information relating to Halifax

The amount provided for deferred taxation and the amounts unprovided are set out below:

	Amount provided		Amount unprovided	
	As at 31 December 1996	As at 31 January 1996	As at 31 December 1996	As at 31 January 1996
Accrued interest	–	(17.8)	–	–
Capital allowances in advance of depreciation	(17.3)	(21.4)	–	–
Pension scheme surplus	(21.7)	(24.3)	–	–
Conversion costs	16.0	–	–	–
Reorganisation costs	76.8	25.0	–	–
Other timing differences	27.1	52.8	11.6	14.2
	<u>80.9</u>	<u>14.3</u>	<u>11.6</u>	<u>14.2</u>

21 Prepayments and Accrued Income

	As at 31 December 1996 £m	As at 31 January 1996 £m
Off balance sheet instruments	193.3	354.8
Pension fund prepayment	68.8	75.6
Other	63.7	47.5
	<u>325.8</u>	<u>477.9</u>

22 Long Term Assurance Business

The value of long term assurance business is actuarially assessed and comprises the surplus attributable to the Group, together with the net present value of in-force business. This method of calculating the net worth of the business to the Group is known as the embedded value approach. The principal economic assumptions behind the embedded value calculation are reviewed regularly and are currently as follows:

	%
Risk discount rate (net of tax) for traditional with profits business	10.0
Risk discount rate (net of tax) for other business	12.0
Return on equities (gross of tax)	9.0
Return on gilts (gross of tax)	7.0
Expense inflation	5.5

In-force business is defined as all live policies where the first premium has been paid. Recurrent single premium policies are treated as single premium policies, with the exception of Department of Social Security rebate policies, which are treated as regular premium policies. The Group is entitled to one ninth of the value of traditional with profits business bonuses declared in any particular year. The level of assumed future bonuses is calculated by projecting the portfolio of with profits business forward and applying reversionary and terminal bonus rates at such a level as to exhaust the level of projected surplus of assets attributable to with profit policyholders over liabilities. For all other business the entire surplus is attributable to the Group.

The income from long term assurance business which is included within "Other income and charges" in the Group income and expenditure account is calculated as follows:

	11 months ended 31 December 1996 £m	Year ended 31 January 1996 £m
Value of Group's interest in long term assurance business at 31 December 1996	695.7	55.0
Value of Group's interest in long term assurance business at 1 February 1996	(55.0)	(19.8)
Increase in value of long term assurance business	640.7	35.2
Transfer of long term assurance business of Clerical, Medical and General Life Assurance Society	(620.0)	–
Long term assurance business acquired as a result of the transfer of engagements	–	(18.6)
Net increase in value of long term assurance business	20.7	16.6
Deficit transferred to long term assurance business	–	(9.3)
Income after tax from long term assurance business	20.7	7.3
Taxation relating to long term assurance business (note 13)	10.2	2.0
Income before tax from long term assurance business (note 6)	<u>30.9</u>	<u>9.3</u>

The assets and liabilities attributable to policyholders are presented separately from those of other Group activities to reflect the different nature of the Group's interest in them.

9 Financial information relating to Halifax

The long term assurance assets attributable to policyholders comprise:

	As at 31 December 1996 £m	As at 31 January 1996 £m
Investments	13,189.7	186.7
Value of in-force policies	692.0	35.4
Net current assets/(liabilities)	68.7	(16.6)
	<u>13,950.4</u>	<u>205.5</u>
Long term assurance business attributable to the Group	(695.7)	(55.0)
Long term assurance assets attributable to policyholders	<u>13,254.7</u>	<u>150.5</u>
Long term assurance liabilities attributable to policyholders	<u>13,254.7</u>	<u>150.5</u>

23 Retail Funds and Deposits

	As at 31 December 1996 £m	As at 31 January 1996 £m
Shares	68,561.7	67,103.0
Deposits	6,330.6	5,607.8
	<u>74,892.3</u>	<u>72,710.8</u>
Accrued interest	2,200.8	2,202.7
	<u>77,093.1</u>	<u>74,913.5</u>
Repayable from the date of the balance sheet in the ordinary course of business as follows:		
Shares		
On demand	67,180.3	66,589.0
In not more than three months	389.4	159.6
In more than three months but not more than one year	984.5	183.6
In more than one year but not more than five years	7.5	170.8
	<u>68,561.7</u>	<u>67,103.0</u>
Accrued interest	2,085.8	2,091.5
	<u>70,647.5</u>	<u>69,194.5</u>
Deposits		
On demand	5,813.6	5,106.2
In not more than three months	337.6	284.5
In more than three months but not more than one year	153.9	210.0
In more than one year but not more than five years	25.5	7.1
	<u>6,330.6</u>	<u>5,607.8</u>
Accrued interest	115.0	111.2
	<u>6,445.6</u>	<u>5,719.0</u>
Total		
On demand	72,993.9	71,695.2
In not more than three months	727.0	444.1
In more than three months but not more than one year	1,138.4	393.6
In more than one year but not more than five years	33.0	177.9
	<u>74,892.3</u>	<u>72,710.8</u>
Accrued interest	2,200.8	2,202.7
	<u>77,093.1</u>	<u>74,913.5</u>

9 Financial information relating to Halifax

24 Non-retail Funds and Deposits

	As at 31 December 1996 £m	As at 31 January 1996 £m
Non-retail funds and deposits comprise:		
Amounts owed to credit institutions	1,743.5	601.4
Debt securities in issue		
Certificates of deposit	2,592.0	3,371.4
Negotiable bonds	24.2	23.5
Fixed and floating rate notes	6,339.9	7,165.8
Other deposits and loans		
Other	3,947.7	3,549.0
Shares	215.0	278.4
	14,862.3	14,989.5
Accrued interest	186.7	269.7
	15,049.0	15,259.2
<i>Repayable from the date of the balance sheet in the ordinary course of business as follows:</i>		
Amounts owed to credit institutions		
On demand	300.0	55.4
In not more than three months	1,159.1	166.1
In more than three months but not more than one year	58.0	83.4
In more than one year but not more than two years	59.9	61.0
In more than two years but not more than five years	166.5	119.5
In more than five years	—	116.0
	1,743.5	601.4
Accrued interest	9.2	7.6
	1,752.7	609.0
Debt securities		
On demand	249.3	8.5
In not more than three months	2,206.5	3,131.5
In more than three months but not more than one year	1,548.3	961.1
In more than one year but not more than two years	1,585.6	1,640.7
In more than two years but not more than five years	2,397.5	3,669.0
In more than five years	968.9	1,149.9
	8,956.1	10,560.7
Accrued interest	148.0	217.8
	9,104.1	10,778.5
Other deposits and loans		
On demand	1,447.6	1,298.1
In not more than three months	2,383.7	1,919.6
In more than three months but not more than one year	104.1	307.0
In more than one year but not more than two years	5.3	17.1
In more than two years but not more than five years	7.0	7.2
	3,947.7	3,549.0
Accrued interest	22.0	31.5
	3,969.7	3,580.5
Shares		
On demand	213.4	277.1
In not more than three months	1.0	0.4
In more than three months but not more than one year	0.6	0.9
	215.0	278.4
Accrued interest	7.5	12.8
	222.5	291.2
Total non-retail funds and deposits		
On demand	2,210.3	1,639.1
In not more than three months	5,750.3	5,217.6
In more than three months but not more than one year	1,711.0	1,352.4
In more than one year but not more than two years	1,650.8	1,718.8
In more than two years but not more than five years	2,571.0	3,795.7
In more than five years	968.9	1,265.9
	14,862.3	14,989.5
Accrued interest	186.7	269.7
	15,049.0	15,259.2

9 Financial information relating to Halifax

25 Other Liabilities

	As at 31 December 1996 £m	As at 31 January 1996 £m
Income tax	25.5	79.2
Corporation tax	453.3	487.5
Other taxation and social security	18.6	12.6
Other creditors	269.7	194.5
	<u>767.1</u>	<u>773.8</u>

26 Accruals and Deferred Income

	As at 31 December 1996 £m	As at 31 January 1996 £m
Off balance sheet instruments	390.3	151.1
Other	350.8	213.2
	<u>741.1</u>	<u>364.3</u>

27 Provisions for Liabilities and Charges

	Captive insurance fund £m	Other post- retirement benefits and unfunded pensions £m	Reorganisation costs provision £m	Conversion costs provision £m	Total £m
At 1 February 1995	49.3	10.0	–	–	59.3
Acquired on transfer of engagements	–	1.1	–	–	1.1
Charged in year	–	4.0	80.0	–	84.0
Income					
Premiums	36.1	–	–	–	36.1
Other	4.4	–	–	–	4.4
Claims	(1.0)	–	–	–	(1.0)
At 31 January 1996	88.8	15.1	80.0	–	183.9
Charged in period	24.7	3.4	208.9	152.9	389.9
Utilised in period	(2.2)	–	(47.7)	(36.9)	(86.8)
Other movements	(1.6)	–	–	–	(1.6)
At 31 December 1996	<u>109.7</u>	<u>18.5</u>	<u>241.2</u>	<u>116.0</u>	<u>485.4</u>

The Group deferred tax asset is shown within other assets (note 20).

Premium income, which is net of reinsurance premiums of £4.1m, includes £15.3m arising on the transfer of engagements and £2.6m included within other income and charges in the income and expenditure account.

Reorganisation costs relate to the costs of reorganising, restructuring and integrating the businesses following the transfer of engagements of Leeds Permanent Building Society. The conversion costs provision comprises all costs arising within the Society's programme of conversion to become a public limited company.

Included within the charge for the period is an amount for remuneration of the auditors and their associates of £1.6m relating to the reorganisation costs provision and £2.0m relating to the conversion costs provision. Both of these amounts relate to non-audit fees.

9 Financial information relating to Halifax

28 Subordinated Liabilities

	As at 31 December 1996 £m	As at 31 January 1996 £m
10½% Subordinated sterling bonds 1998	50.0	50.0
Variable rate subordinated sterling notes 2001	50.0	50.0
8½% Subordinated sterling bonds 2006	400.0	–
Floating rate subordinated sterling notes 2009	75.0	–
11% Subordinated sterling bonds 2014	250.0	250.0
10½% Subordinated sterling bonds 2018	150.0	150.0
9% Subordinated sterling bonds 2021	300.0	–
Less: unamortised discounts and issue costs	(6.8)	–
	<u>1,268.2</u>	<u>500.0</u>

On the transfer of engagements on 1 August 1995, Halifax Building Society assumed the existing subordinated liabilities of Leeds Permanent Building Society which amounted to £250.0m.

Interest on the bonds due 1998, 2006, 2014, 2018 and 2021 is payable annually in arrear. These bonds are redeemable on 21 April 1998, 10 July 2006, 17 January 2014, 16 February 2018 and 15 May 2021 respectively.

Interest on the variable rate notes dated 2001 is payable three months in arrear at a variable margin above the London Inter Bank Offered Rate. These notes are redeemable in five equal instalments on the interest payment date falling in September in each of the years from 1997 to 2001. Interest on the floating rate notes dated 2009 is payable three months in arrear at a margin over the London Inter Bank Offered Rate. These bonds are redeemable on 30 July 2009.

On a winding up of Halifax Building Society, the claims of the holders of subordinated debt are subordinated in right of payment to the claims of all depositors, all creditors and members holding shares in the Society, as regards the principal of their shares and interest due on them, other than members holding the Permanent Interest Bearing Shares referred to in note 29 below.

It was announced on 15 January 1997 that a further £200.0m 9% subordinated bonds due 2021 were to be issued, which will be fungible with the £300.0m already in issue as itemised above.

29 Subscribed Capital

	As at 31 December 1996 £m	As at 31 January 1996 £m
12% Sterling Permanent Interest Bearing Shares	100.0	100.0
8½% Sterling Permanent Interest Bearing Shares	100.0	100.0
13½% Sterling Permanent Interest Bearing Shares	75.0	75.0
	<u>275.0</u>	<u>275.0</u>

On the transfer of engagements of Leeds Permanent Building Society to the Society, the 13½ per cent. Sterling Permanent Interest Bearing Shares of the former Society were relisted without any alteration to their terms.

Interest on issues of Permanent Interest Bearing Shares, which have no specific maturity date, is payable semi-annually in arrear.

30 General Reserves

	£m	£m
At 1 February 1996	6,234.3	4,300.6
Reserves acquired on transfer of engagements	–	1,294.5
Incremental costs relating to transfer of engagements (note 7)	–	(7.3)
Profit for the financial period	539.5	722.6
Excess contribution on transfer of long term assurance business (note 3)	(146.0)	–
Goodwill on acquisition of subsidiaries (note 18)	(15.8)	(79.8)
Foreign currency translation differences on subsidiary undertaking	(6.5)	3.7
At 31 December 1996	<u>6,605.5</u>	<u>6,234.3</u>

The cumulative amount of goodwill resulting from acquisitions in the current and earlier financial years, which has been deducted from Group general reserves, is £303.4m (31 January 1996 £287.6m). This includes £30.2m in respect of acquisitions by Leeds Permanent Building Society in earlier financial years.

The cumulative amount of excess contribution on the transfer of long term assurance business in the current and earlier financial years, which has been deducted from Group general reserves, is £146.0m (31 January 1996 £Nil).

9 Financial information relating to Halifax

31 Non-sterling Assets and Liabilities

The aggregate amount of all assets and all liabilities included in the Group balance sheet denominated in a currency other than sterling was as follows:

	As at 31 December 1996 £m	As at 31 January 1996 £m
Assets	2,446	2,953
Liabilities	4,606	5,733

32 Guarantees and Other Financial Commitments

Proposed Conversion

On 24 February 1997, the eligible members of Halifax Building Society voted overwhelmingly in favour of Halifax Building Society converting to a public limited company. Subject to confirmation by the Building Societies Commission, authorisation by the Bank of England, and all other conditions being satisfied, the business of Halifax Building Society will transfer to Halifax plc, an existing subsidiary, during 1997. It is proposed that Halifax plc will be listed on the London Stock Exchange in June 1997.

As part of the transfer, Halifax plc will issue additional share capital and Halifax Building Society will subscribe in cash for this additional share capital at nominal value. The entire issued share capital will be distributed or allocated to qualifying members, certain qualifying successors, qualifying employees and qualifying pensioners of Halifax Building Society. Halifax Building Society's Board has estimated that the number of shares to be issued on conversion will be 2,675m with an aggregate nominal value of £535m (at a nominal value per share of 20p). The procedure and proposed timetable for the transfer is explained fully in the Transfer Document issued by Halifax Building Society in January 1997.

Building Societies Investor Protection Fund

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

Isle of Man Depositors Compensation Scheme

Halifax International (Isle of Man) Ltd, a subsidiary licensed under the Isle of Man Banking Act 1975 to 1986, has a contingent liability to the Isle of Man Depositors Compensation Scheme. Halifax International (Isle of Man) Ltd has assumed all actual, contingent and future liabilities in respect of this Scheme on behalf of Leeds Permanent Overseas Ltd which ceased to trade during 1994. No notification has been received of any potential claims under the Scheme at the date of signing the Accounts.

Building Societies Act 1986

Section 22 of the Building Societies Act 1986, which obliged Halifax Building Society to discharge the liabilities of its subsidiary undertakings and certain of its associated bodies, in so far as those bodies were unable to discharge the liabilities out of their own assets, was repealed with effect from 11 June 1996. As a consequence, Halifax Building Society has no statutory obligation to its subsidiary undertakings in respect of liabilities arising after this date. In response to this change in legislation and in order to maintain the same level of protection for offshore depositors, Halifax Building Society has given undertakings to discharge the liabilities of Halifax International (Isle of Man) Ltd and Halifax International (Jersey) Ltd in so far as they are unable to discharge the liabilities out of their own assets.

Pension Transfer Advice

A review of pension transfer advice given by the Group is currently being undertaken. An amount has been provided, representing the Group's best estimate of the probable liability.

9 Financial information relating to Halifax

Capital Commitments

Capital commitments, for which no provision has been made in the Accounts, were as follows:

	As at 31 December 1996 £m	As at 31 January 1996 £m
Contracted for	105.3	21.3
Authorised but not contracted for	84.6	58.2

Annual commitments under non-cancellable operating leases

	As at 31 December 1996		As at 31 January 1996	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases which expire:				
Within one year	2.3	0.1	2.1	0.2
Within two to five years inclusive	6.4	9.8	6.1	12.7
In more than five years	48.1	—	48.9	—
	56.8	9.9	57.1	12.9

33 Derivative Financial Instruments

The following table describes the main activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which may be used in managing such risks. The Group has adopted an overall approach to balance sheet risk management and as such risks may also be managed using on balance sheet instruments as well as derivative instruments.

Activity	Risk	Type of Derivative
Management of the investment of reserves and other non-interest bearing liabilities.	Reduced profitability due to falls in interest rates.	Receive fixed interest rate swaps. Purchase of interest rate floors.
Fixed rate mortgage lending.	Sensitivity to increases in interest rates.	Pay fixed interest rate swaps. Purchase interest rate caps.
Fixed rate savings products.	Sensitivity to falls in interest rates.	Receive fixed interest rate swaps.
Fixed rate funding.	Sensitivity to falls in interest rates.	Receive fixed interest rate swaps.
Fixed rate asset investments.	Sensitivity to increases in interest rates.	Pay fixed interest rate swaps.
Investment and funding in non Sterling currencies.	Sensitivity to changes in foreign exchange rates and interest rates.	Cross-currency interest rate swaps. Foreign exchange contracts.
Investment in assets/issuance with embedded options.	Sensitivity to change in underlying rate and rate volatility.	Interest rate swaps and caps/floors. Matched swaps with embedded options.

In certain circumstances combinations of basic derivatives may be used to hedge underlying positions which contain the same risk factors. In such cases the derivative combination used will match exactly the risk of the underlying asset or liability. Exposure to market risk on such contracts is therefore fully hedged.

9 Financial information relating to Halifax

The contract or underlying principal amounts of derivative financial instruments, together with their risk weighted amounts and replacement costs, were:

	As at 31 December 1996			As at 31 January 1996		
	Contract or underlying principal amount £m	Credit risk weighted amount £m	Net replacement cost £m	Contract or underlying principal amount £m	Credit risk weighted amount £m	Net replacement cost £m
Exchange rate contracts						
Cross currency swaps	3,187.7	95.0	78.0	3,036.8	188.7	284.7
Forward foreign exchange	1,225.4	8.1	28.2	2,429.2	10.3	27.3
	<u>4,413.1</u>	<u>103.1</u>	<u>106.2</u>	<u>5,466.0</u>	<u>199.0</u>	<u>312.0</u>
Interest rate contracts						
Interest rate swaps	7,155.5	71.2	128.4	9,734.5	42.9	104.7
Forward rate agreements	250.0	—	—	325.0	0.2	0.8
Caps and floors	514.6	0.3	0.8	666.3	0.8	2.5
Financial futures	100.0	—	—	200.0	—	—
	<u>8,020.1</u>	<u>71.5</u>	<u>129.2</u>	<u>10,925.8</u>	<u>43.9</u>	<u>108.0</u>

Substantially all of the Group's derivatives activity is contracted with financial institutions.

The risk weighted values have been calculated in accordance with the provisions of the EU Solvency Ratio Directive. Replacement cost is calculated by marking the value of contracts to market and aggregating those with a positive value.

34 Memorandum Items

	As at 31 December 1996 £m	As at 31 January 1996 £m
Commitments:		
Undrawn committed loan facilities		
Other advances secured on land	<u>322.8</u>	<u>286.0</u>

9 Financial information relating to Halifax

9.2 Historical consolidated financial record of Halifax for the 11 months ended 31 December 1996 and the year ended 31 December 1997

9.2.1 Consolidated profit and loss account

	Notes	Year ended 31 December 1997 £m	11 months ended 31 December 1996 £m
Interest receivable:			
Interest receivable and similar income arising from debt securities		984.8	674.0
Other interest receivable and similar income		6,553.1	5,266.1
Interest payable		(5,223.1)	(3,989.4)
Net interest income		2,314.8	1,950.7
Fees and commissions receivable		603.8	513.7
Fees and commissions payable		(86.0)	(73.6)
Other operating income	4	124.0	41.5
Operating income		2,956.6	2,432.3
Administrative expenses:			
Exceptional – merger and integration costs	5	–	208.9
Exceptional – conversion costs	5	18.1	152.9
Ongoing	6	1,049.8	901.0
		1,067.9	1,262.8
Depreciation and amortisation		156.0	94.3
Provisions for bad and doubtful debts	9	102.2	131.0
Operating profit		1,630.5	944.2
Provision for loss on disposal of fixed assets		–	51.5
Profit on ordinary activities before tax	10	1,630.5	892.7
Tax on profit on ordinary activities	11	539.7	353.2
Profit for the financial year/period attributable to the shareholders of Halifax plc		1,090.8	539.5
Dividends	13	440.9	–
Profit retained for the financial year/period	33	649.9	539.5
Earnings per ordinary share	14	43.5p	21.5p
Earnings per ordinary share excluding exceptional items	14	44.2p	34.1p

9.2.2 Consolidated statement of total recognised gains and losses

	Year ended 31 December 1997 £m	11 months ended 31 December 1996 £m
Profit for the financial year/period	1,090.8	539.5
Foreign currency translation differences on subsidiary undertaking	(4.4)	(6.5)
Total recognised gains and losses relating to the year/period	1,086.4	533.0

9.2.3 Note of consolidated historical cost profits and losses

There is no difference between the Group's results as disclosed in the consolidated profit and loss account and the results on an unmodified historical cost basis for the year under review and the comparative period.

9 Financial information relating to Halifax

9.2.4 Reconciliation of movements in shareholders' funds

	Year ended 31 December 1997 £m	11 months ended 31 December 1996 £m
Profit for the financial year/period	1,090.8	539.5
Dividends	(440.9)	–
	<u>649.9</u>	<u>539.5</u>
Foreign currency translation differences on subsidiary undertaking	(4.4)	(6.5)
Payment of statutory cash bonus	(14.9)	–
Excess contribution on transfer of long term assurance business	(20.7)	(146.0)
Goodwill written off	–	(15.8)
	<u>609.9</u>	<u>371.2</u>
Net addition to shareholders' funds	6,605.5	6,234.3
Opening shareholders' funds	<u>7,215.4</u>	<u>6,605.5</u>
Closing shareholders' funds		

9.2.5 Consolidated balance sheet

	Notes	As at 31 December 1997 £m	£m	As at 31 December 1996 £m	£m
Assets					
Cash and balances at central banks			486.0		184.0
Treasury bills and other eligible bills	15		1,520.2		1,325.5
Loans and advances to banks	16		9,419.4		4,886.3
Loans and advances to customers	17		83,367.0		81,756.0
Debt securities	18		17,273.1		12,321.0
Tangible fixed assets	21		957.2		889.4
Other assets	22		533.4		221.5
Prepayments and accrued income	23		859.5		541.2
Long term assurance business attributable to shareholders	24		743.5		695.7
			<u>115,159.3</u>		<u>102,820.6</u>
Long term assurance assets attributable to policyholders	24		15,940.5		13,254.7
Total assets			131,099.8		116,075.3
Liabilities					
Deposits by banks	25		5,370.5		2,389.4
Customer accounts	26		81,101.4		79,055.0
Debt securities in issue	27		14,042.2		8,956.1
Other liabilities	28		1,590.7		767.1
Accruals and deferred income	29		3,778.7		3,128.6
Provisions for liabilities and charges	30		154.7		375.7
Subordinated liabilities	31		1,905.7		1,543.2
Equity shareholders' funds:					
Called up share capital	32	503.9		0.1	
Share premium account	32	70.1		–	
Profit and loss account	33	6,641.4		6,605.4	
			<u>7,215.4</u>		<u>6,605.5</u>
			<u>115,159.3</u>		<u>102,820.6</u>
Long term assurance liabilities attributable to policyholders	24		15,940.5		13,254.7
Total Liabilities			131,099.8		116,075.3
Memorandum Items					
Commitments	35		2,630.5		2,198.2

9 Financial information relating to Halifax

9.2.6 Consolidated cash flow statement

		Year ended 31 December 1997 £m	11 months ended 31 December 1996 £m
	Notes		
Net cash inflow from operating activities (see below)		4,834.1	3,226.8
Returns on investments and servicing of finance	41	(148.9)	(43.9)
Taxation		(397.0)	(443.8)
Capital expenditure and financial investment	41	(5,265.8)	(1,268.6)
		(977.6)	1,470.5
Acquisitions and disposals	41	1.6	(798.0)
		(976.0)	672.5
Financing	41	335.1	775.0
(Decrease)/increase in cash		(640.9)	1,447.5
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit		1,630.5	944.2
(Increase)/decrease in prepayments and accrued income		(318.3)	219.5
Increase in accruals and deferred income		635.4	236.0
Provisions for bad and doubtful debts		102.2	131.0
Depreciation and amortisation		156.0	94.3
(Increase) in the value of long term assurance business		(72.1)	(20.7)
Interest on subordinated liabilities		163.6	99.8
Other non-cash movements		12.5	(6.8)
Net cash inflow from trading activities		2,309.8	1,697.3
(Increase) in treasury and other eligible bills		(97.7)	(178.0)
(Increase)/decrease in loans and advances to banks		(5,476.0)	1,540.3
(Increase) in loans and advances to customers		(1,717.6)	(2,271.7)
(Increase)/decrease in debt securities		(7.1)	344.2
(Increase) in other assets		(249.4)	(8.6)
Increase in deposits by banks		2,981.1	889.8
Increase in customer accounts		2,046.4	2,516.8
Increase/(decrease) in debt securities in issue		5,086.1	(1,604.6)
Increase in other liabilities		179.5	24.5
(Decrease)/increase in provisions for liabilities and charges		(221.0)	276.8
Net cash inflow from operating activities		4,834.1	3,226.8

9.2.7 Notes to the financial statements

1 Accounting Policies

Accounting Convention

The financial statements are drawn up under the historical cost convention in compliance with the special provisions of Part VII of the Companies Act 1985 applicable to banking groups and in accordance with applicable accounting standards, except for the adoption of merger accounting referred to below, and with the Statements of Recommended Accounting Practice issued by the British Bankers' Association and the Irish Bankers' Federation.

Basis of Presentation of Financial Statements

On 2 June 1997 the entire business of Halifax Building Society (the "Society"), including all property, rights, liabilities and goodwill, but excluding the Society's shares in Halifax plc (the "Company"), was transferred to the Company by virtue of the terms of the Transfer Agreement dated 20 December 1996, the Company was authorised by the Bank of England under the Banking Act 1987 and its shares were admitted to the Official List of the London Stock Exchange. This completed the process of conversion to a listed company. The Society's shares in the Company were then distributed or allocated to qualifying members, qualifying employees, qualifying pensioners and qualifying successors of the Society, and the Society was dissolved.

(a) Presentation of Financial Information

The transfer to the Company of the business of the Society has been accounted for in accordance with the principles of merger accounting, although the transfer did not satisfy all the conditions required (see 1b below). These financial statements have therefore been presented as if the Company had been the parent undertaking of the Group and carrying on the business of the Society throughout the current financial year and the previous period.

9 Financial information relating to Halifax

These financial statements are presented for the first time in accordance with the special provisions of the Companies Act 1985 laid down specifically for banking groups. Accordingly, the comparative figures have been restated from the format required by the Building Societies (Accounts and Related Provisions) Regulations 1992 utilised in the preparation of the Annual Accounts of the Society for the period to 31 December 1996. The restatement has resulted in increases of £645.9m in both loans and advances to banks and deposits by banks due to the separate categorisation of certain banking items which were in transit at the end of the period.

In addition to the above there has been a change in the presentation of certain expenses relating to the Group's long term assurance business. The effect of this change has been to reduce both other operating income and ongoing administrative expenses by £53.1m in 1997 (11 months ended 31 December 1996 £45.5m). There has been no impact on Group profit on ordinary activities before tax as a result of the above change. The treatment of the Group's captive insurance fund has also been amended, and as a result the opening balances on the provision relating to the captive insurance fund and the general loss provision have been restated, with no impact on Group profit on ordinary activities before tax. These changes bring the accounting treatment of these items into line with best practice in the banking sector.

Other than the changes to accounting presentation outlined above there have been no changes to the accounting policies previously applied by the Society in preparing its Annual Accounts for the period ended 31 December 1996.

(b) Merger Accounting

Schedule 4(A) to the Companies Act 1985 and Financial Reporting Standard No.6 "Acquisitions and Mergers" require acquisition accounting to be adopted where all the conditions laid down for merger accounting are not satisfied. The process of conversion of the Society to a public limited company does not satisfy all the conditions for merger accounting but there is an overriding requirement under section 227(6) of the Companies Act 1985 for financial statements to present a true and fair view of the reporting entity's results and financial position. In recognition of this requirement, merger accounting principles have been adopted.

The Directors consider that to record this transfer of business as an acquisition by the Company, with consequent adjustments to the fair values of the assets and liabilities transferred to the Company and the reflection of only post conversion results within these financial statements would not give a true and fair view of the Group's results and financial position. The principal issues supporting this conclusion are set out in the paragraph below.

Substantially all the shareholders of the Company at the time of conversion were members of the Society immediately prior to conversion and accordingly maintained an interest in the Halifax business both before and after its transfer. In addition, the method of conversion is prescribed by the Building Societies Act 1986 such that the successor company stands in the place of the former Society. To attribute fair values to the assets and liabilities transferred to the Company would not be meaningful in the context of these financial statements, as in substance the process of conversion represents a change in legal status rather than an acquisition of a business.

The Directors consider that it is not practicable to quantify the effect of this departure from the Companies Act 1985 requirements.

Basis of Consolidation

The Group financial statements include the audited results of the Company and its subsidiaries. The accounts of all principal subsidiaries have been made up to 31 December 1997. The assets and liabilities of the long term assurance business are presented separately from those of other businesses in order to reflect the different nature of the shareholders' interest therein.

Mortgage Incentive Schemes

All costs associated with mortgage incentive schemes are charged in full against interest receivable in the year in which the expense is incurred.

Provisions for Bad and Doubtful Debts

Provisions are made to reduce the carrying value of loans and advances to the amount which the Directors consider is likely to be received. Following an appraisal of loans and advances at the balance sheet date, specific provisions for losses are made in respect of those loans and advances individually identified as impaired. General provisions are made to cover losses on loans and advances impaired at the balance sheet date which, although not yet specifically identified, are known from experience to exist within the portfolio of loans and advances. The charge to the profit and loss account reflects the movement in the level of provisions made together with amounts written off in the year.

Taxation

Corporation tax is provided on the profit on ordinary activities as adjusted for taxation purposes. Provision is made for deferred taxation using the liability method at the current rate of tax for all material timing differences where it is considered that a liability will crystallise in the foreseeable future.

Securities

Securities held with the intention of use on a continuing basis are classified as fixed asset investment securities and shown at cost. Where the adjusted purchase price differs from par value, the premium or discount is amortised over the period to maturity. Provision is made for any permanent diminution in value.

Securities sold subject to repurchase agreements are retained within the balance sheet where the Group retains the risks and rewards of ownership. Funds received under these arrangements are included within deposits by banks or customer accounts. Conversely, securities acquired under commitments to resell are not recognised in the balance sheet, where all the risks and rewards do not pass to the Group. In this case, the purchase price is included within loans and advances to banks or loans and advances to customers.

9 Financial information relating to Halifax

Long Term Assurance Business

The value of the long term assurance business comprises the surplus retained in the long term assurance assets and liabilities attributable to policyholders together with a prudent estimate of the net present value of in-force business. The change in this value, grossed up at the effective rate of taxation, is included within other operating income.

Transferred Long Term Assurance Business

The excess of the contribution made over the fair value of the assets transferred from life insurers at the date of transfer is deducted from the Group profit and loss account reserves in the year of transfer.

Tangible Fixed Assets and Depreciation

The cost of all additions and major alterations to office premises, plant, equipment, fixtures, fittings and vehicles is capitalised.

The cost of tangible fixed assets is written off over their estimated expected useful lives in equal annual instalments, which are taken as:

Buildings	
Freehold properties	100 years
Leasehold properties (100 or more years unexpired)	100 years
Leasehold properties (less than 100 years unexpired)	Unexpired period of lease
Plant and equipment and major alterations to existing properties	5 – 10 years
Equipment, fixtures, fittings and vehicles	3 – 6 years

Provision is made for the diminution in value of any fixed asset where that reduction is expected to be permanent. The resulting net book value of the asset is written off over its remaining expected economic life.

Debt Securities in Issue and Subordinated Liabilities

Premiums and discounts together with commissions and other costs incurred in the issuing of fixed and floating rate notes and subordinated liabilities are accounted for as an adjustment to the amount of the liability and amortised over the relevant period to maturity.

Additional Mortgage Security

The recognition of income is deferred in respect of premiums received by the Group for additional mortgage security on high loan to value advances. After due allowance for the expected level of claims, the surplus or deficit arising is included in the consolidated profit and loss account.

Goodwill

The excess of the fair value of purchase consideration over the fair value of net assets at the date of acquisition of subsidiary undertakings is deducted from the Group profit and loss account reserves in the year of acquisition. On the disposal of subsidiary undertakings any related goodwill previously charged directly to reserves is written back and included in the calculation of the profit or loss on disposal.

Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the appropriate rates of exchange prevailing at the year end date and exchange differences are dealt with in the profit and loss account.

In the Group financial statements, the results of overseas subsidiaries are translated using the closing rate. Exchange differences arising on the retranslation of the opening net investment in the subsidiaries at the closing rate are taken directly to profit and loss account reserves.

Derivative Financial Instruments

Derivative financial instruments used in trading activities are included in the financial statements at market value. Profits and losses on instruments which are being used to hedge exposures are recognised in a manner that reflects the accounting treatment of the assets or liabilities being hedged.

Retirement Benefits

The cost of providing retirement pensions and related benefits is assessed in accordance with the advice of qualified actuaries and is charged to the profit and loss account over the periods which benefit from the employees' services.

The full provision basis has been used in accounting for the deferred tax implications of pensions and other post-retirement benefits.

9 Financial information relating to Halifax

2 Segmental Analysis – Business Sectors

The Halifax reports through five business sectors: Retail Operations (which includes Mortgages, Liquid Savings and Retail Banking), Consumer Credit, Personal Lines Insurance, Long Term Savings and Protection and Treasury.

The information contained within the following tables represents an analysis of the Group profit before tax and Group total assets by business sectors. Further information on the bases of these analyses is given in notes (a) to (c) below.

	Year ended 31 December 1997 £m	11 months ended 31 December 1996 £m
Retail Operations	1,297.7	998.4
Consumer Credit	41.8	36.9
Personal Lines Insurance	142.0	136.9
Long Term Savings and Protection	128.7	43.3
Treasury	77.3	83.7
Group Items	(38.9)	6.8
Profit before tax and exceptional items (note a)	1,648.6	1,306.0
Exceptional items (note b)		
– administrative expenses	(18.1)	(361.8)
– provision for loss on disposal of fixed assets	–	(51.5)
Profit on ordinary activities before tax	1,630.5	892.7
	As at 31 December 1997 Total assets (note c) £m	As at 31 December 1996 Total assets (note c) £m
Retail Operations	81,143.8	79,640.9
Consumer Credit	1,554.5	1,406.0
Personal Lines Insurance	–	–
Long Term Savings and Protection	884.8	864.2
Treasury	25,132.5	16,232.2
Group Items	6,443.7	4,677.3
	115,159.3	102,820.6

Notes

- In order to analyse net interest margin by business sector, internal funds transfer pricing is applied to the average funding or liquidity gap in each sector. Interest rates used for transfer pricing have been determined to eliminate interest rate risk, reducing the volatility of earnings in the business sectors. The level of central funding takes account of the capital notionally absorbed by each business sector, with reference to the Group's Bank of England regulatory requirements. Costs have been assigned to each sector based on resources consumed.
- Exceptional items, being integration and conversion costs, are the consequence of corporate decisions made at the centre, and have not therefore been allocated across business sectors.
- Interest bearing assets have been allocated to the relevant business sector and exclude long term assurance assets attributable to policyholders. Long term assurance business attributable to shareholders has been assigned to Long Term Savings and Protection. All other non-interest bearing assets are included in Group Items together with the Group's portfolio of Government securities.

No segmental analysis of turnover has been presented as the business of the Group is mainly that of banking and insurance. The only separable business segment as defined by the relevant accounting standard (SSAP 25) is Long Term Savings and Protection. The net assets attributable to the Long Term Savings and Protection business at 31 December 1997 were £326.2m (31 December 1996 £238.5m). The net assets of the remaining businesses were £6,889.2m (31 December 1996 £6,367.0m). It should be noted that the business is not managed on the basis of an allocation of net assets and it is not therefore appropriate to relate the segmental profits outlined above to these net assets.

3 Mortgage Incentives

All costs associated with mortgage incentive schemes are charged in full against interest receivable in the year in which the expense is incurred. The amount charged against interest receivable is £595m for the year ended 31 December 1997 (11 months ended 31 December 1996 £611m).

9 Financial information relating to Halifax

4 Other Operating Income

	Year ended 31 December 1997 £m	11 months ended 31 December 1996 £m
Increase in value of long term assurance business (note 24)	102.7	30.9
Other	21.3	10.6
	<u>124.0</u>	<u>41.5</u>

5 Exceptional Administrative Expenses

	Year ended 31 December 1997 £m	11 months ended 31 December 1996 £m
Exceptional administrative expenses comprise:		
Reorganisation costs	–	208.9
Conversion costs (note 30)	18.1	152.9
	<u>18.1</u>	<u>361.8</u>

The reorganisation costs relate to the costs of reorganising, restructuring and integrating the businesses following the transfer of engagements of Leeds Permanent Building Society on 1 August 1995. The conversion costs comprise costs arising from the programme of conversion to become a public limited company.

6 Ongoing Administrative Expenses

	Year ended 31 December 1997 £m	11 months ended 31 December 1996 £m
Staff costs:		
Wages and salaries	513.6	448.9
Social security costs	40.1	35.3
Other pension costs	16.1	14.5
Other post-retirement benefits	2.9	2.6
	<u>572.7</u>	<u>501.3</u>
Other administrative expenses	477.1	399.7
	<u>1,049.8</u>	<u>901.0</u>

These charges exclude those staff costs (set out below) which are taken account of in determining the increase in value of the long term assurance business (note 4). The numbers of staff to which the costs outlined below relate are identified separately in note 7.

	Year ended 31 December 1997 £m	11 months ended 31 December 1996 £m
Wages and salaries	85.4	30.3
Social security costs	7.9	2.2
Other pension costs	1.0	0.9
	<u>94.3</u>	<u>33.4</u>

7 Staff Numbers

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

	Full time		Part time	
	Year ended 31 December 1997	11 months ended 31 December 1996	Year ended 31 December 1997	11 months ended 31 December 1996
Principal office and administration centres	6,537	6,309	900	812
Branch offices	17,547	18,376	8,440	8,182
	<u>24,084</u>	<u>24,685</u>	<u>9,340</u>	<u>8,994</u>
Long term assurance business (note 6)	3,245	1,144	196	46
	<u>27,329</u>	<u>25,829</u>	<u>9,536</u>	<u>9,040</u>

9 Financial information relating to Halifax

8 Directors' Remuneration

Chairman

The remuneration of the Chairman is determined by the Board as a whole. From 1 January 1997 the Chairman's annual salary was increased to £265,000 pa (from £250,000 pa which had applied from 1 February 1996).

Chief Executive

The remuneration of the Chief Executive, being the highest paid Director, is made up as follows:

(i) Salary

Basic annual salary was increased on 1 May 1997 from £360,000 pa to £425,000 pa, the previous increase having been on 1 April 1996, from £315,000 pa to £360,000 pa.

(ii) Benefits

The value of benefits provided for the year ended 31 December 1997 was £13,258. These benefits comprise the provision of a car, private medical insurance and a staff rate mortgage.

(iii) Annual Bonus

The Annual Bonus was £93,500 for the year ended 31 December 1997. The Company has operated an annual performance related bonus scheme for Executive Directors and other senior Executives since 1992. Under the current scheme, an annual bonus of 15 per cent. of annual salary is payable for on target performance and a maximum bonus of 25 per cent. is payable if the highest performance targets are met. The targets are proposed by the Chief Executive and reviewed by the Remuneration, Senior Appointments and Nominations Committee. They are modified if required and approved by the full Board.

(iv) Medium Term Bonus

Under the terms of the Medium Term Bonus Scheme established with effect from February 1996, the Remuneration Committee has determined that the bonus payable for the 23 month period of the Scheme will be £308,479. The targets for the 23 months ended 31 December 1997 were based on the delivery of four key strategic milestones. These were the efficient and timely delivery of the conversion process, the implementation of efficiency programmes, the introduction of the new technology platform and the application of the new cost and capital allocation programme. Under the medium term scheme, a bonus of 30 per cent. per year of basic annual salary is payable for on target performance and a maximum bonus of 50 per cent. per year of basic annual salary is payable if the highest performance targets are met.

(v) Summary

The Chief Executive's remuneration in the year to 31 December 1997 is made up of three constituent elements, being his basic salary and benefits of £421,951, the Annual Bonus (earned over 12 months) of £93,500 and the bonus under the Medium Term Bonus Scheme (earned over a 23 month period) of £308,479. The aggregate of these amounts is £823,930.

In the 11 months ended 31 December 1996, the Chief Executive's remuneration was made up of only two of these elements, ie basic salary and benefits of £334,617 and the Annual Bonus of £61,200 giving an aggregate of £395,817.

As the Medium Term Bonus is earned over 23 months and also during that period the Company changed its year end date, the figures above are not directly comparable. Table 1 below has been prepared to enable year on year comparisons to be made.

Executive Directors

Details of the remuneration of the Executive Directors are summarised in Table 1 below.

Table 1 Year on year comparison:

	Year to 31 December 1997			Year to 31 December 1996		
	Salary, Benefits, Annual Bonus £000	Medium Term Bonus Accrual £000	Total £000	Salary, Benefits, Annual Bonus £000	Medium Term Bonus Accrual £000	Total £000
J M Blackburn, Chief Executive	515	161	676	430	147	577
R F Boyes, Group Finance Director	295	93	388	254	85	339
J R Crosby, Financial Services and Insurance Director	164	47	211	—	—	—
M H Ellis, Banking and Savings Director	147	45	192	—	—	—
G J Folwell, Deputy Chief Executive	298	93	391	259	85	344
J A Lee, Group Personnel and Services Director	248	77	325	210	70	280
J R Miller, Housing and Technology Director	271	84	355	227	77	304

See notes 1 and 2 for basis of preparation

Notes to Table 1

Note 1: Table 1 restates the emoluments such that the Medium Term Bonus is accrued evenly over the 23 months of the scheme.

9 Financial information relating to Halifax

Note 2: Due to a change of year end date, the statutory comparative period is the 11 month period to 31 December 1996. Figures for the 12 month period have been prepared and are included in Table 1 on the following basis ie total salary and benefits for the 12 months to 31 December 1996, plus the Annual Bonus for the 11 month period to 31 December 1996 plus one month's equivalent of the Annual Bonus applicable to the year ended 31 January 1996. The Medium Term Bonus is disclosed on the basis as set out in note 1.

Statutory Presentation

Table 2 below has been prepared in accordance with regulatory requirements in respect of Directors' emoluments.

The emoluments of the Directors of the Company in respect of the year ended 31 December 1997 are:

Table 2

	Notes	Salary £000	Benefits £000	Annual bonus £000	Fees and further remuneration £000	Total year ended 31 December 1997 £000	Total eleven month period ended 31 December 1996 £000	Total Medium Term Bonus (Note 4) £000
Chairman								
H J Foulds		265	—	—	—	265	229	—
Executive Directors								
J M Blackburn, Chief Executive		409	13	93	—	515	396	308
R F Boyes, Group Finance Director		230	12	53	—	295	232	178
J R Crosby, Financial Services and Insurance Director	1	128	7	29	—	164	—	47
M H Ellis, Banking and Savings Director	1	117	5	25	—	147	—	45
G J Folwell, Deputy Chief Executive		230	15	53	—	298	234	178
J A Lee, Group Personnel and Services Director		192	13	43	—	248	194	147
J R Miller, Housing and Technology Director		210	13	48	—	271	209	161
D R Taylor, Managing Director, HEAL	2	—	—	—	—	—	53	—
Non-Executive Directors								
Sir Timothy Kitson, Vice-Chairman	2	—	—	—	23	23	48	—
J L Wood, Vice-Chairman	3	—	—	—	77	77	47	—
Lord Chadlington		—	—	—	31	31	28	—
R J Chapman		—	—	—	31	31	28	—
A L Coleby		—	—	—	29	29	21	—
N L Colne		—	—	—	33	33	23	—
D E Cook		—	—	—	28	28	23	—
D G R Ferguson		—	—	—	25	25	22	—
R N Hodge		—	—	—	39	39	35	—
J A Kay		—	—	—	35	35	31	—
P M Leith		—	—	—	26	26	22	—
P G Rogerson		—	—	—	40	40	35	—
P L M Sherwood	1, 3	—	—	—	46	46	—	—
I A Ziff	2	—	—	—	8	8	21	—
Total		1,781	78	344	471	2,674	1,931	1,064

Notes to Table 2

Note 1: Messrs Crosby and Ellis were not Directors of Halifax Building Society. Therefore whilst they assumed directorship of Halifax plc prior to the transfer of business of Halifax Building Society to Halifax plc, as part of the process of conversion to listed company status, they were remunerated as senior Executives of Halifax Building Society for the period up to the conversion date of 2 June 1997. The above Table reflects their remuneration arising since 2 June 1997.

P L M Sherwood was appointed as a Director on 22 January 1997.

Note 2: Directors retired as follows: D R Taylor – 20 May 1996, Sir Timothy Kitson – 2 June 1997 and I A Ziff – 21 April 1997.

9 Financial information relating to Halifax

Note 3: The fees include payments in respect of services as directors of subsidiaries as follows: J L Wood £22,500 (£nil) and P L M Sherwood £22,800 (£nil).

Note 4: The terms of the Medium Term Bonus Scheme are set out in paragraph (iv) above. The amounts approved by the Remuneration Senior Appointments and Nominations Committee, for payment in March 1998, relate to a 23 month period and, with the exception of Messrs Crosby and Ellis, are set out in Table 2. The amounts in Table 2 in respect of Messrs Crosby and Ellis represent amounts attributable to the period post 2 June 1997. The amounts payable to them in respect of the 23 month period (which represents the full period of their membership of the scheme) are £155,833 and £147,156 for Messrs Crosby and Ellis respectively.

Similarly, the annual bonuses in Table 2 for Messrs Crosby and Ellis represent the amounts attributable to the period post 2 June 1997. The amounts payable to them in respect of the full year (which represents the full period of their membership of the scheme) are £48,400 and £44,000 for Messrs Crosby and Ellis respectively.

Note 5: The remuneration in the year ended 31 December 1997 is made up of three constituent elements, being basic salary and benefits, the Annual Bonus (earned over 12 months) and the bonus payable under the Medium Term Bonus Scheme (earned over a 23 month period). For comparative purposes, in the 11 months ended 31 December 1996, the remuneration was made up of only two of these elements, i.e. basic salary and benefits and the Annual Bonus. The aggregate amounts payable on the above basis are as follows: for the year ended 31 December 1997 (comparative 11 months ended 31 December 1996): J M Blackburn £823,930 (£395,817), R F Boyes £473,206 (£231,642), J R Crosby £339,711 (£nil), M H Ellis £312,787 (£nil), G J Folwell £476,007 (£234,809), J A Lee £395,942 (£194,123) and J R Miller £432,107 (£209,294). In the case of Messrs Crosby and Ellis, these amounts include the full Annual Bonus for the 12 month period and the full Medium Term Bonus for the 23 month period. As the Medium Term Bonus is earned over 23 months and also during that period the Company changed its year end date, the figures in brackets above are not directly comparable with the current year. Table 1 has been prepared to enable year on year comparisons to be made.

Non-Executive Directors

The remuneration of each of the Non-Executive Directors is determined by the Board as a whole.

The remuneration of each of the two Vice-Chairmen who held office during 1997 comprises the annual fee for Non-Executive Directors (£21,000) and an additional amount for services as Vice-Chairman of £31,500 pa. Mr J L Wood also received £22,500 for services as a Director (Chairman) of Clerical Medical Investment Group Limited for the year ended 31 December 1997.

In 1997 the annual fee payable to other Non-Executive Directors was £21,000. This fee covers duties and responsibilities associated with the 12 Board meetings per year, the Annual General Meeting and the Strategy Conference. Further remuneration is paid to Non-Executive Directors for the responsibilities associated with Board Committee meetings and meetings of subsidiary boards.

Pension benefits

Executive Directors and senior Executives are eligible for membership of the Halifax Retirement Fund. The fund provides pension benefits based on basic salary only, with a maximum of two thirds of final pensionable salary (in broad terms, the last 12 months' basic salary) at normal retirement age, subject to the necessary pensionable service. The fund also provides a lump sum 'death in service' benefit of four times basic salary. All fund benefits are subject to Inland Revenue limits.

Messrs Blackburn, Boyes, Crosby, Ellis, Folwell, Lee and Miller are entitled, on retirement from service at normal retirement date, to a pension calculated on the basis of 63.5 per cent., 60 per cent., 60 per cent., 66.7 per cent., 66.7 per cent., 60 per cent. and 62 per cent. respectively, of final pensionable salary, disregarding the earnings cap (as defined in the Finance Act 1989). These pensions are provided from the fund (to the extent permitted by legislation) and otherwise from separate unfunded arrangements with the Company.

Messrs Folwell and Ellis are entitled to a lump sum 'death in service' benefit of four times basic salary under the fund. Messrs Blackburn, Boyes, Crosby, Lee and Miller are entitled to a lump sum 'death in service' benefit of four times the earnings cap under the fund.

Additional 'death in service' life assurance is provided via separate arrangements for amounts of £1 million for Mr Blackburn and £500,000 for each of Messrs Boyes, Crosby, Lee and Miller so that, in broad terms, the total 'death in service' benefit is what would have applied under the fund had the earnings cap not been in place.

The Actuary to the fund estimates that the costs to the Company of providing pension and life assurance benefits over the future service periods of the Executive Directors are, as annual percentages of basic salaries, 82 per cent., 54 per cent., 21 per cent., 29 per cent., 39 per cent., 55 per cent. and 48 per cent. for Messrs Blackburn, Boyes, Crosby, Ellis, Folwell, Lee and Miller, respectively. These costs are calculated on the funding assumptions adopted for the actuarial valuation of the fund as at 31 March 1997 and do not distinguish between the costs of providing benefits from the fund and the costs of providing benefits from separate unfunded arrangements.

9 Financial information relating to Halifax

Details of each Executive Director's accrued pension benefits are shown as follows:

Name	Age at 31 December 1997	Accrued pension at 31 December 1997 £	Increase in accrued pension for year to 31 December 1997 £	Director's contribution in year to 31 December 1997 £	Transfer Value of increase in accrued pension (less Director's contribution) £
J M Blackburn	56	169,100	35,200	8,100	458,100
R F Boyes	53	83,500	10,200	4,600	117,500
J R Crosby	41	69,300	10,300	4,100	75,500
M H Ellis	46	75,900	8,700	3,800	74,600
G J Folwell	54	120,400	13,800	4,600	162,600
J A Lee	53	68,200	11,300	3,800	135,100
J R Miller	50	63,600	11,300	4,200	124,500

The accrued pension at 31 December 1997 is:

- the pension which the Director would have been entitled to receive based on all his pensionable service, had he left on 31 December 1997;
- payable from normal retirement date (age 60);
- subject to revaluation increases between leaving and retirement.

The increase in accrued pension is:

- the accrued pension at 31 December 1997 less the accrued pension at 31 December 1996;
- after allowance for RPI-linked revaluation increases to the latter pension covering the year to 31 December 1997.

The Directors' contribution is:

- the contribution required under the terms of the fund;
- exclusive of any voluntary contributions made.

The transfer value is:

- the money which could have been transferred to another pension arrangement in respect of the increase in accrued pension, had the Director left on 31 December 1997;
- exclusive of the Director's own contribution;
- calculated in accordance with actuarial guidance.

In addition to the above, the Company made contributions totalling £17,063 to a money purchase scheme during the year in respect of one of the Executive Directors, G J Folwell.

9 Financial information relating to Halifax

Directors' Share Interests

(i) Shares

The beneficial interests of the Directors and their immediate families in the ordinary shares of Halifax plc are set out below:

	Number of shares at 31 December 1997
Chairman	
H J Foulds	1,181
Executive Directors	
J M Blackburn, Chief Executive	7,551
R F Boyes, Group Finance Director	7,348
J R Crosby, Financial Services and Insurance Director	400
M H Ellis, Banking and Savings Director	4,956
G J Folwell, Deputy Chief Executive	2,789
J A Lee, Group Personnel and Services Director	1,499
J R Miller, Housing and Technology Director	2,540
Non-Executive Directors	
J L Wood, Vice-Chairman	1,646
Lord Chadlington	10,281
R J Chapman	1,181
A L Coleby	201
N L Colne	2,091
D E Cook	951
D G R Ferguson	617
R N Hodge	957
J A Kay	204
P M Leith	1,036
P G Rogerson	201
P I M Sherwood	—

The business of Halifax Building Society was transferred to Halifax plc on 2 June 1997. None of the Directors had a beneficial interest in the ordinary share capital of the Company at 1 January 1997 or their date of appointment if later.

None of the Directors had a non-beneficial interest in the ordinary share capital of the Company at the beginning or end of the year.

(ii) Halifax Sharesave Scheme

The Halifax Sharesave Scheme was founded in August 1997 and was available to all employees eligible at that time, which was the majority of employees. Almost 80 per cent. of those eligible joined the Scheme, which allows employees to save a regular sum on a monthly basis. At the end of a pre-determined period, employees have the right, if they so choose, to use the funds accumulated to purchase shares in Halifax plc at a fixed price (£5.80).

The Executive Directors have each taken up membership of the Sharesave Scheme and the projected number of shares which they would be entitled to purchase at the end of the relevant pre-determined period is set out below:

	Projected entitlement		At 31 December 1997	Date from which exercisable	Expiry date
	Granted in year	Exercised in year			
Executive Directors					
JM Blackburn, Chief Executive	2,974	—	2,974	1.9.2002	1.3.2003
RF Boyes, Group Finance Director	3,362	—	3,362	1.9.2004	1.3.2005
JR Crosby, Financial Services and Insurance Director	2,974	—	2,974	1.9.2002	1.3.2003
MH Ellis, Banking and Savings Director	2,974	—	2,974	1.9.2002	1.3.2003
GJ Folwell, Deputy Chief Executive	1,681	—	1,681	1.9.2000	1.3.2001
JA Lee, Group Personnel and Services Director	3,362	—	3,362	1.9.2004	1.3.2005
JR Miller, Housing and Technology Director	2,974	—	2,974	1.9.2002	1.3.2003

The market price of the shares at 31 December 1997 was £7.54, and the range during the period since conversion was £6.63 to £7.78.

General

The register of Directors' interests, which is open to inspection, contains full particulars of the Directors' shareholdings and options to subscribe for shares in the Group.

No Director had any interest in the loan capital of the Company or in the share capital of any other Group undertaking at the beginning or end of the financial year. No options to subscribe for shares in other Group companies were granted.

There has been no change in the Directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and 2 February 1998 which is one month prior to the notice of the Annual General Meeting.

9 Financial information relating to Halifax

9 Provisions for Bad and Doubtful Debts

	Year ended 31 December 1997			11 months ended 31 December 1996		
Provisions have been made as follows:	Specific £m	General £m	Total £m	Specific £m	General £m	Total £m
At beginning of year/period	398.9	226.7	625.6	457.2	183.2	640.4
Amounts written off during the year/period	(126.6)	(25.4)	(152.0)	(147.0)	(3.8)	(150.8)
Provisions arising on acquisition of subsidiary undertakings	—	—	—	5.0	—	5.0
Charge for the year/period						
– provisions	98.0	19.7	117.7	95.0	47.3	142.3
– recoveries	(15.5)	—	(15.5)	(11.3)	—	(11.3)
	82.5	19.7	102.2	83.7	47.3	131.0
At 31 December	354.8	221.0	575.8	398.9	226.7	625.6
Provisions at 31 December can be analysed as follows:						
– residential property and other advances secured on land	246.1	217.7	463.8	298.8	216.8	515.6
– unsecured loans	108.7	3.3	112.0	100.1	9.9	110.0
	354.8	221.0	575.8	398.9	226.7	625.6

10 Profit on Ordinary Activities Before Tax

	Year ended 31 December 1997 £m	11 months ended 31 December 1996 £m
Profit on ordinary activities before tax is stated after crediting:		
Profits less losses on disposal of investment securities	16.9	26.6
Profit on ordinary activities before tax is stated after charging:		
Interest payable on subordinated liabilities	163.6	99.8
Rental of premises	56.1	59.4
Hire of equipment	19.7	15.2
Remuneration of auditors and their associates (including VAT):		
– for audit work	1.2	0.9
– for non-audit work (Exceptional administrative expenses)	—	3.6
– for non-audit work (Ongoing administrative expenses)	2.8	1.2

In addition to the remuneration of the auditors and their associates noted above, remuneration of £1.4m (Group) is included within attributable costs arising on the transfer of long term assurance business (note 20) for the 11 months ended 31 December 1996.

11 Tax on Profit on Ordinary Activities

	Year ended 31 December 1997 £m	11 months ended 31 December 1996 £m
The charge for the year, based on a corporation tax rate applicable to the year of 31.5 per cent. (11 months ended 31 December 1996 33 per cent.) comprises:		
UK corporation tax	459.4	422.2
UK corporation tax on exceptional items	—	(19.8)
Tax relating to change in value of long term assurance business (note 24)	30.6	10.2
Deferred taxation	49.7	18.5
Deferred taxation on exceptional items	—	(67.8)
Deferred taxation on provisions for losses on disposal of fixed assets	—	(10.1)
	539.7	353.2

12 Profit for the Financial Year Attributable to Shareholders

Of the profit attributable to shareholders, £886.4m (11 months ended 31 December 1996 £486.2m) has been dealt with in the financial statements of the Company. As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company has not been presented separately.

9 Financial information relating to Halifax

13 Dividends

	Year ended 31 December 1997		11 months ended 31 December 1996	
	pence per share	£m	pence per share	£m
Ordinary shares				
Final (proposed)	17.5	440.9	—	—

No interim dividend has been paid.

14 Earnings per Ordinary Share

Earnings per ordinary share has been calculated by dividing the profit attributable to shareholders of £1,090.8m (11 months ended 31 December 1996 £539.5m) by the weighted average number of ordinary shares assuming that the number of shares in issue following the conversion process, 2,510.0 million, had been in issue throughout the year. The weighted average number of ordinary shares in the year, calculated on this basis, was 2,510.4 million. The comparative figures have been calculated for illustrative purposes by reference to the 2,510.0 million shares in issue immediately following conversion.

Earnings per ordinary share has also been calculated by reference to profit attributable to shareholders excluding the post-tax impact of exceptional items, amounting to £1,108.9m for the current year (11 months ended 31 December 1996 £855.1m). The adjusted earnings per share figure has been calculated in addition to the earnings per ordinary share figure required by FRS 3 because, in the opinion of the Directors, its inclusion is necessary to enable shareholders to assess underlying trading performance.

15 Treasury Bills and Other Eligible Bills

	As at 31 December 1997		As at 31 December 1996	
	Book value £m	Market value £m	Book value £m	Market value £m
Investment securities				
Treasury bills and similar securities	103.8	104.4	374.5	374.5
Other eligible bills	1,416.4	1,416.6	951.0	951.0
	<u>1,520.2</u>	<u>1,521.0</u>	<u>1,325.5</u>	<u>1,325.5</u>

The movement on treasury bills and other eligible bills held for investment purposes was as follows:

	£m
At 1 January 1997	1,325.5
Additions	10,247.8
Disposals	(10,150.8)
Amortisation of discounts and premiums	97.7
At 31 December 1997	<u>1,520.2</u>

Included in the above balances are unamortised discounts net of premiums on investment securities as follows:

As at 31 December 1997	As at 31 December 1996
£m	£m
10.8	9.7

16 Loans and Advances to Banks

	As at 31 December 1997	As at 31 December 1996
	£m	£m
Repayable on demand	1,738.2	2,681.1
Other loans and advances repayable:		
In not more than three months	7,176.0	2,125.4
In more than three months but not more than one year	504.8	79.8
In more than one year but not more than five years	0.4	—
	<u>9,419.4</u>	<u>4,886.3</u>
Included above are the following amounts which relate to items in the course of collection from other banks	<u>387.9</u>	<u>294.2</u>

9 Financial information relating to Halifax

17 Loans and Advances to Customers

	As at 31 December 1997 £m	As at 31 December 1996 £m
Advances secured on residential properties	80,756.3	79,531.3
Other secured advances	1,659.0	1,471.2
Unsecured loans	1,527.5	1,379.1
Provisions for bad and doubtful debts	(575.8)	(625.6)
	<u>83,367.0</u>	<u>81,756.0</u>
Repayable:		
On demand or at short notice	128.8	121.8
In not more than three months	898.2	1,146.3
In more than three months but not more than one year	1,366.4	1,558.0
In more than one year but not more than five years	6,481.8	6,442.8
In more than five years	75,067.6	73,112.7
Provisions for bad and doubtful debts	(575.8)	(625.6)
	<u>83,367.0</u>	<u>81,756.0</u>
Non performing loans and advances:		
Loans and advances three months or more in arrears	2,256.9	3,388.0
Loans and advances on properties in possession	140.2	155.8
	<u>2,397.1</u>	<u>3,543.8</u>
Provisions for bad and doubtful debts	(575.8)	(625.6)
	<u>1,821.3</u>	<u>2,918.2</u>

18 Debt Securities

	As at 31 December 1997		As at 31 December 1996	
	Book value £m	Market value £m	Book value £m	Market value £m
Investment securities				
Government securities	4,488.1	4,580.5	3,222.3	3,211.9
Other public sector securities	87.6	87.6	88.9	88.4
Bank and building society certificates of deposit	8,576.4	8,570.5	7,026.2	7,026.2
Other debt securities	4,096.3	4,107.3	1,983.6	1,990.5
	<u>17,248.4</u>	<u>17,345.9</u>	<u>12,321.0</u>	<u>12,317.0</u>
Other securities				
Government securities	24.2	24.2	—	—
Other debt securities	0.5	0.5	—	—
	<u>24.7</u>	<u>24.7</u>	<u>—</u>	<u>—</u>
Total	<u>17,273.1</u>	<u>17,370.6</u>	<u>12,321.0</u>	<u>12,317.0</u>
Debt securities analysed by listing status:				
Investment securities				
Listed on recognised UK exchange	6,371.5	6,468.9	4,512.5	4,503.8
Listed on other exchanges	2,075.6	2,081.9	485.0	489.7
	<u>8,447.1</u>	<u>8,550.8</u>	<u>4,997.5</u>	<u>4,993.5</u>
Unlisted	8,801.3	8,795.1	7,323.5	7,323.5
	<u>17,248.4</u>	<u>17,345.9</u>	<u>12,321.0</u>	<u>12,317.0</u>
Other securities				
Listed on recognised UK exchange	24.2	24.2	—	—
Unlisted	0.5	0.5	—	—
	<u>24.7</u>	<u>24.7</u>	<u>—</u>	<u>—</u>
Total	<u>17,273.1</u>	<u>17,370.6</u>	<u>12,321.0</u>	<u>12,317.0</u>

9 Financial information relating to Halifax

	As at 31 December 1997 £m	As at 31 December 1996 £m
Book value		
Debt securities analysed by remaining maturity:		
Due within one year	10,149.7	7,971.4
Due one year and over	7,123.4	4,349.6
	<u>17,273.1</u>	<u>12,321.0</u>

The movement on debt securities held for investment purposes was as follows:

	Book value £m
At 1 January 1997	12,321.0
Additions	49,231.6
Disposals	(44,286.6)
Amortisation of premiums and discounts	(43.6)
Exchange adjustments	26.0
At 31 December 1997	<u>17,248.4</u>

The total net book value of debt securities held for investment purposes at 31 December 1997 includes unamortised premiums less discounts of £125.6m (31 December 1996 £96.2m) for the Group.

Included within Group debt securities are securities with a market value of £1,371.7m (31 December 1996 £1,037.7m) sold subject to agreement to repurchase.

9 Financial information relating to Halifax

19 Shares in Group Undertakings

Halifax is the parent company of the Group and the principal subsidiary undertakings of Halifax at 31 December 1997 are listed below:

Subsidiary Undertakings	Country of incorporation or registration	Major activity	Class of shares held	Interest in shares	Direct or indirect
Banco Halifax Hispania SA	Spain	Provision of banking services in Spain	Ordinary	100%	Direct
HCM Holdings Ltd and its subsidiaries:	England and Wales	Financial services	Ordinary	100%	Direct
Clerical Medical Investment Group (Holdings) Ltd and its subsidiary:	England and Wales	Financial services	Ordinary	100%	Indirect
Clerical Medical Investment Group Ltd	England and Wales	Life assurance and pensions	Ordinary	100%	Indirect
Halifax Financial Services (Holdings) Ltd and its subsidiaries:	England and Wales	Financial services	Ordinary	100%	Indirect
Halifax Financial Services Ltd	England and Wales	Financial services	Ordinary	100%	Indirect
Halifax Fund Management Ltd	England and Wales	Investment fund management	Ordinary	100%	Indirect
Halifax Investment Services Ltd	England and Wales	Financial services	Ordinary	100%	Indirect
Halifax Life Ltd	England and Wales	Life assurance and pensions	Ordinary	100%	Indirect
Halifax Unit Trust Management Ltd	England and Wales	Unit trust management	Ordinary	100%	Indirect
Halifax Independent Financial Advisers Ltd	England and Wales	Financial services	Ordinary	100%	Indirect
Halifax Credit Card Ltd	England and Wales	Provision of credit card facilities	Ordinary	100%	Direct
Halifax Estate Agencies Ltd	England and Wales	Estate agency and financial services	Ordinary	100%	Direct
Halifax General Insurance Services Ltd	England and Wales	General insurance brokerage	Ordinary	100%	Direct
Halifax International (Isle of Man) Ltd	Isle of Man	Offshore licensed deposit taker	Ordinary	100%	Direct
Halifax International (Jersey) Ltd	Jersey	Offshore licensed deposit taker	Ordinary	100%	Direct
Halifax Loans Ltd and its subsidiaries:	England and Wales	Secured lending on residential property	Ordinary	100%	Direct
HL Group (Holdings) Ltd and its subsidiaries	England and Wales	Secured lending on residential property	Ordinary	100%	Indirect
Halifax Mortgage Services (Holdings) Ltd and its subsidiaries	England and Wales	Secured lending on residential property	Ordinary	100%	Indirect
Halifax Mortgage Re Ltd	Guernsey	Provision of mortgage indemnity insurance	Ordinary	100%	Direct
Halifax Share Dealing Ltd	England and Wales	Execution only stockbroking	Ordinary	100%	Direct

All the above companies are included in the consolidated financial statements and have 31 December as their accounting reference date, and operate principally in their country of incorporation or registration. There are no third party interests in any of the subsidiaries of Halifax.

Each of the above companies has its registered office at Trinity Road, Halifax, West Yorkshire HX1 2RG, with the exception of:

- (i) Banco Halifax Hispania SA which is incorporated in Spain and has its principal place of business at Serrano 59, Madrid 6, Spain;
- (ii) Halifax International (Isle of Man) Ltd which is incorporated in the Isle of Man and has its principal place of business at PO Box 30, 67 Strand Street, Douglas, Isle of Man IM99 1TA;
- (iii) Halifax International (Jersey) Ltd which is incorporated in Jersey and has its principal place of business at PO Box 664, Halifax House, 31-33 New Street, St Helier, Jersey JE4 8YZ;
- (iv) Halifax Mortgage Re Ltd which is incorporated in Guernsey and has its principal place of business at IRM House, Le Bordage, St Peter Port, Guernsey CY1 1BR; and
- (v) Halifax Life Ltd which is incorporated in England and Wales and has its registered office at 62/64 Cornhill, London EC3V 3PL.

9 Financial information relating to Halifax

20 Transfer of Long Term Assurance Business

On 31 December 1996, the long term assurance business of Clerical, Medical and General Life Assurance Society was transferred to Clerical Medical Investment Group Ltd under Schedule 2C of the Insurance Companies Act 1982. The contribution to be made by the Company to its wholly owned subsidiary Clerical Medical Investment Group Ltd in connection with this transfer was provisionally valued in the 1996 financial statements. Following completion of the valuation of the business transferred, amendments to the provisional fair values of the total assets acquired and the contribution, including attributable costs, were made.

The following table sets out the provisional and amended fair value of the total assets transferred:

	Notes	Provisional fair value 1996 £m	Adjustments revaluation £m	Amended fair value 1997 £m
Policyholders' net assets		12,931	—	12,931
Value of in-force policies	a	620	(25)	595
Other assets	b	20	2	22
Policyholders' net liabilities		(12,931)	—	(12,931)
Net assets transferred		640	(23)	617
Contribution, including attributable costs	c	(786)	2	(784)
Excess contribution transferred to reserves	d	(146)	(21)	(167)

Notes

- a A more detailed investigation into the future cash flows of the in-force policies as at 31 December 1996 was carried out taking account of the bases used in the statutory valuation as at that date and the finalisation of the contribution both of which were concluded after the date of signing the accounts.
- b Net adjustment to provisional fair values of other assets.
- c Small adjustment on finalisation of contribution, including attributable costs.
- d The excess contribution adjustment is a reflection of the amended fair values and contribution noted above.

21 Tangible Fixed Assets and Capital Commitments

	Premises £m	Equipment £m	Total £m
Cost			
At 1 January 1997	869.1	476.1	1,345.2
Additions	53.8	192.7	246.5
Disposals	(16.7)	(42.7)	(59.4)
At 31 December 1997	906.2	626.1	1,532.3
Depreciation and provisions for diminution in value			
At 1 January 1997	308.3	147.5	455.8
Depreciation charged in year	33.3	128.2	161.5
Disposals	(7.1)	(35.1)	(42.2)
At 31 December 1997	334.5	240.6	575.1
Net book value			
At 31 December 1997	571.7	385.5	957.2
At 31 December 1996	560.8	328.6	889.4

	As at 31 December 1997 £m	As at 31 December 1996 £m
The net book value of premises comprises:		
Freeholds	464.0	466.4
Long leaseholds	27.6	29.1
Short leaseholds	80.1	65.3
Land and buildings occupied for own activities:		
Net book value at 31 December 1997	447.5	414.0
Capital commitments for which no provision has been made:		
Contracted for	22.9	105.3

Included within Group tangible fixed assets are assets in the course of construction amounting to £69.5m (31 December 1996 £34.5m) which are not depreciated until the assets are brought into use.

9 Financial information relating to Halifax

22 Other Assets

	As at 31 December 1997 £m	As at 31 December 1996 £m
Foreign exchange and interest rate contracts (note 37)	0.4	–
Other assets	511.4	150.2
Deferred taxation (due after more than one year)	21.6	71.3
	<u>533.4</u>	<u>221.5</u>

	As at 31 December 1997 £m	As at 31 December 1996 £m
Deferred taxation		
At beginning of year/period	71.3	11.9
Movement in year/period	(49.7)	59.4
At 31 December	<u>21.6</u>	<u>71.3</u>

The amount provided for deferred taxation and the amounts unprovided are set out below:

	Amount provided		Amount unprovided	
	As at 31 December 1997 £m	As at 31 December 1996 £m	As at 31 December 1997 £m	As at 31 December 1996 £m
Capital allowances in advance of depreciation	(13.0)	(17.3)	–	–
Pension fund prepayment	(17.9)	(21.7)	–	–
Conversion costs	–	16.0	–	–
Reorganisation costs	40.0	76.8	–	–
Other timing differences	12.5	17.5	10.9	11.6
	<u>21.6</u>	<u>71.3</u>	<u>10.9</u>	<u>11.6</u>

23 Prepayments and Accrued Income

	As at 31 December 1997 £m	As at 31 December 1996 £m
Accrued Interest	403.6	215.4
Pension fund prepayment	61.2	68.8
Other	394.7	257.0
	<u>859.5</u>	<u>541.2</u>

24 Long Term Assurance Business

The value of long term assurance business is actuarially assessed and comprises the surplus attributable to the Group, together with the net present value of in-force business. This method of calculating the net worth of the business to the Group is known as the embedded value approach. The principal economic assumptions behind the embedded value calculation are reviewed regularly and are as follows:

	Year ended 31 December 1997 %	11 months ended 31 December 1996 %
Risk discount rate (net of tax) for traditional with profits business	10.0	10.0
Risk discount rate (net of tax) for other business	12.0	12.0
Return of equities (gross of tax)	8.5	9.0
Return on gilts (gross of tax)	6.5	7.0
Expense inflation	<u>5.0</u>	<u>5.5</u>

In-force business is defined as all live policies where the first premium has been paid. Recurrent single premium policies are treated as single premium policies, with the exception of Department of Social Security rebate policies, which are treated as regular premium policies. The Group is entitled to one ninth of the value of traditional with profits business bonuses declared in any particular year. The level of assumed future bonuses is calculated by projecting the portfolio of with profits business forward and applying reversionary and terminal bonus rates at such a level as to exhaust the level of projected surplus of assets attributable to with profit policyholders over liabilities. For all other business the entire surplus is attributable to the Group.

9 Financial information relating to Halifax

The income from long term assurance business which is included within Other operating income in the consolidated profit and loss account is calculated as follows:

	Year ended 31 December 1997 £m	11 months ended 31 December 1996 £m
Closing value of Group's interest in long term assurance business	743.5	695.7
Opening value of Group's interest in long term assurance business	(695.7)	(55.0)
Increase in value of long term assurance business	47.8	640.7
Transfer of long term assurance business of Clerical, Medical and General Life Assurance Society	24.3	(620.0)
Income after tax from long term assurance business	72.1	20.7
Taxation relating to long term assurance business (note 11)	30.6	10.2
Income before tax from long term assurance business (note 4)	102.7	30.9

The assets and liabilities attributable to policyholders are presented separately from those arising from other Group activities to reflect the different nature of the Group's interest.

The long term assurance assets attributable to policyholders comprise:

	As at 31 December 1997 £m	As at 31 December 1996 £m
Investments	16,038.0	13,189.7
Value of in-force policies	747.6	692.0
Net current (liabilities)/assets	(101.6)	68.7
	16,684.0	13,950.4
Long term assurance business attributable to the Group	(743.5)	(695.7)
Long term assurance assets attributable to policyholders	15,940.5	13,254.7
Long term assurance liabilities attributable to policyholders	15,940.5	13,254.7

25 Deposits by Banks

	As at 31 December 1997 £m	As at 31 December 1996 £m
Repayable on demand	1,289.1	945.9
Repayable with agreed maturity dates or periods of notice:		
In not more than three months	3,739.5	1,159.1
In more than three months but not more than one year	178.5	58.0
In more than one year but not more than five years	163.4	226.4
	5,370.5	2,389.4
Amounts include:		
Items in the course of transmission to other banks	391.8	313.3

26 Customer Accounts

	As at 31 December 1997 £m	As at 31 December 1996 £m
Repayable on demand	73,372.2	74,654.9
Repayable with agreed maturity dates or periods of notice:		
In not more than three months	6,140.8	3,111.7
In more than three months but not more than one year	1,539.8	1,243.1
In more than one year but not more than five years	48.6	45.3
	81,101.4	79,055.0

9 Financial information relating to Halifax

27 Debt Securities in Issue

	As at 31 December 1997 £m	As at 31 December 1996 £m
Bonds and medium term notes		
Repayable:		
In one year or less, or on demand	1,538.5	1,417.1
In more than one year but not more than two years	1,612.1	1,585.6
In more than two years but not more than five years	1,396.9	2,392.5
In more than five years	1,674.0	968.9
	<u>6,221.5</u>	<u>6,364.1</u>
Other debt securities		
Repayable:		
In not more than three months	6,846.7	1,991.6
In more than three months but not more than one year	969.0	595.4
In more than one year but not more than two years	5.0	–
In more than two years but not more than five years	–	5.0
	<u>7,820.7</u>	<u>2,592.0</u>
Total debt securities in issue	<u>14,042.2</u>	<u>8,956.1</u>

28 Other Liabilities

	As at 31 December 1997 £m	As at 31 December 1996 £m
Short positions – Government debt securities	24.1	–
Foreign exchange and interest rate contracts (note 37)	0.4	–
Corporation tax due within one year	519.3	453.3
Dividends payable	440.9	–
Other liabilities	606.0	313.8
	<u>1,590.7</u>	<u>767.1</u>

29 Accruals and Deferred Income

	As at 31 December 1997 £m	As at 31 December 1996 £m
Accrued interest	3,434.3	2,777.8
Other	344.4	350.8
	<u>3,778.7</u>	<u>3,128.6</u>

30 Provisions for Liabilities and Charges

	Other post retirement benefits and unfunded pensions £m	Reorganisation costs provision £m	Conversion costs provision £m	Total £m
At 1 January 1997	18.5	241.2	116.0	375.7
Charged in year	3.3	–	18.1	21.4
Utilised in year	–	(108.3)	(134.1)	(242.4)
At 31 December 1997	<u>21.8</u>	<u>132.9</u>	<u>–</u>	<u>154.7</u>

Reorganisation costs relate to the costs of reorganising, restructuring and integrating the businesses following the transfer of engagements of Leeds Permanent Building Society on 1 August 1995. The conversion costs provision comprises costs arising within the programme of conversion to become a public limited company.

9 Financial information relating to Halifax

31 Subordinated Liabilities

	As at 31 December 1997 £m	As at 31 December 1996 £m
Dated		
10½% Subordinated sterling bonds 1998	50.0	50.0
Variable rate subordinated sterling notes 2001	–	50.0
8½% Subordinated sterling bonds 2006	400.0	400.0
Floating rate subordinated sterling notes 2009	75.0	75.0
Step-up callable floating rate subordinated sterling notes 2012	200.0	–
11% Subordinated sterling bonds 2014	250.0	250.0
10½% Subordinated sterling bonds 2018	150.0	150.0
9½% Subordinated sterling bonds 2021	500.0	300.0
Unamortised premiums, discounts and issue costs	5.7	(6.8)
	<u>1,630.7</u>	<u>1,268.2</u>
Undated		
12% Sterling Perpetual Subordinated Bonds	100.0	100.0
8½% Sterling Perpetual Subordinated Bonds	100.0	100.0
13½% Sterling Perpetual Subordinated Bonds	75.0	75.0
	<u>1,905.7</u>	<u>1,543.2</u>

Under current regulations, no repayment, for whatever reason, of dated subordinated debt prior to its stated maturity and no purchase by the Company of its subordinated debt may be made without the consent of the Bank of England. On a winding up of the Company, the claims of the holders of dated subordinated debt shall be subordinated in right of payment to the claims of all depositors and creditors of the Company other than creditors whose claims are expressed to rank *pari passu* with or junior to the claims of the holders of the dated subordinated debt.

On 7 February 1997 a further £200m 9½ per cent. subordinated bonds 2021 were issued, which, from and including 15 May 1997, became fungible with the £300m already in issue as itemised above. On 25 April 1997, £200m step-up callable floating rate subordinated notes 2012 were issued.

Interest on the bonds due 1998, 2006, 2014, 2018 and 2021 is payable annually in arrear. These bonds are due for redemption on 21 April 1998, 10 July 2006, 17 January 2014, 16 February 2018 and 15 May 2021 respectively.

Interest on the variable rate notes dated 2001 was payable three months in arrear at a variable margin above the London Inter Bank Offered Rate (LIBOR). The Company exercised its option to redeem these notes at their nominal value on the interest payment date falling on 29 December 1997.

Interest on the floating rate notes dated 2009, issued in 1996, is payable three months in arrear at LIBOR plus a margin of 0.25 per cent. per annum for years 1 to 8, 0.75 per cent. per annum for years 9 and 10 and 1.25 per cent. per annum thereafter. The Company has the option to redeem the notes at their nominal value on the interest payment date falling in July 2004. The notes are otherwise due for redemption on the interest payment date falling in July 2009.

Interest on the floating rate notes dated 2012 is payable three months in arrear at LIBOR plus a margin of 0.25 per cent. per annum for years 1 to 10 and 1.25 per cent. thereafter. The Company has the option to redeem the notes at their nominal value on the interest payment date falling in April 2007. The notes are otherwise due for redemption on the interest payment date falling in April 2012.

Upon conversion, the three classes of Permanent Interest Bearing Shares ("PIBS") which made up the subscribed capital of the Society were replaced by three series of perpetual subordinated bonds which are undated subordinated liabilities of the Company. These bonds have a principal amount equal to the principal amount of the class of PIBS they replace and carry the same rate of interest as those PIBS.

The Company has the option at any time after, in the case of the 12 per cent. perpetual subordinated bonds, 30 January 2022 and, in the case of the 8½ per cent. perpetual subordinated bonds, 14 September 2023, to redeem some or all of the bonds at their principal value plus any accrued and unpaid interest. Under current regulations, the Company may not exercise this redemption option or purchase any of its undated subordinated debt without the consent of the Bank of England. On a winding up of the Company the claims of the holders of perpetual subordinated debt shall be subordinated in right of payment to the claims of all depositors and creditors of the Company other than creditors whose claims are expressed to rank *pari passu* with or junior to the claims of the holders of the perpetual subordinated bonds. The perpetual subordinated bonds are junior in point of subordination to the dated subordinated debt referred to above.

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Dated subordinated liabilities are repayable as follows:

In one year or less, or on demand

In more than one year but not more than two years

In more than two years but not more than five years

In more than five years

As at 31 December 1997 £m	As at 31 December 1996 £m
50.0	–
–	50.0
–	50.0
1,580.7	1,168.2
1,630.7	1,268.2

32 Called Up Share Capital and Share Premium Account

	£m
Authorised share capital	
At 31 December 1996 (ordinary shares of 20p each)	1.0
At 31 December 1997 (ordinary shares of 20p each)	660.0
Allotted, called up and fully paid share capital	
At 1 January 1997	0.1
Issued in respect of conversion	501.9
Issued to the Halifax plc Qualifying Employee Share Ownership Trust ("the QUEST")	1.9
At 31 December 1997	503.9
Share premium account	
At 1 January 1997	–
Arising on share issue to the QUEST	70.1
At 31 December 1997	70.1

On 22 April 1997, the authorised share capital was increased to £660.0m by the creation of 3,295.0m new ordinary shares of 20p each. On 27 May 1997, 2,509.5m ordinary shares were issued to Halifax Building Society for cash. As explained in note 1, these shares were then listed and distributed as part of the conversion process.

On 17 December 1997, the QUEST subscribed at market value for 9.4m of the Company's ordinary 20p shares. These shares were held at 31 December 1997, at which time their total market value amounted to £70.8m. The shares rank *pari passu* in all respects with the existing ordinary shares. They will be allocated to employees and Directors in satisfaction of their options under the employee savings-related share option scheme, the Halifax plc Sharesave Scheme 1997.

The QUEST was established, under a deed of trust, on 8 December 1997 to acquire shares in the Company for the benefit of employees and Directors of the Company and its subsidiaries. Under the terms of the QUEST, which is an employee share scheme as defined in Section 743 of the Companies Act 1985, the Company is empowered to finance the acquisition of shares by the QUEST. On 17 December 1997, the Company provided £72.0m to the QUEST for this purpose.

The cost of this contribution has been transferred by the Company directly to profit and loss account reserves, and a share premium account has been established for the excess of the subscription price over nominal value which amounts to £70.1m.

The shares held by the QUEST at 31 December 1997 have been included in the Group balance sheet at nil value, reflecting their ultimate purpose which is to satisfy options granted to employees and Directors of the Company.

Under the terms of the trust deed, dividends are required to be waived on the shares held by the QUEST.

At 31 December 1997, options to acquire 31.8m Halifax plc shares were outstanding under the Halifax plc Sharesave Scheme 1997 which are exercisable by employees of the Group at a price of £5.80 at various dates up to the year 2005.

33 Profit and Loss Account

	£m
At 1 January 1997	6,605.4
Profit retained for the financial year	649.9
Statutory cash bonus paid	(14.9)
Share capitalisation (note 32)	(573.9)
Excess contribution on transfer of long term business (note 20)	(20.7)
Foreign currency translation differences on subsidiary undertaking	(4.4)
At 31 December 1997	6,641.4

The cumulative amount of goodwill resulting from acquisitions in the current year and earlier financial years, which has been deducted from Group profit and loss account reserves, is £303.4m (31 December 1996 £303.4m). The cumulative amount of excess contribution on transfer of long term assurance business in the current and earlier financial years, which has been deducted from Group general reserves, is £166.7m (31 December 1996 £146.0m). Of the total Group profit and loss account reserves at 31 December 1997, £183.1m, representing principally the Group's share of the net

9 Financial information relating to Halifax

present value of long term assurance business in force and the surplus retained within the long term assurance funds, is not currently available for distribution.

34 Non-Sterling Assets and Liabilities

The aggregate amount of all assets and all liabilities included in the Group balance sheets denominated in a currency other than sterling was as follows:

	As at 31 December 1997 £m	As at 31 December 1996 £m
Assets	8,595.0	2,446.0
Liabilities	9,541.2	4,606.0

35 Memorandum Items – Commitments

	As at 31 December 1997 £m	As at 31 December 1996 £m
Forward asset purchases and forward deposits placed	208.0	298.5
Undrawn formal standby facilities, credit lines and other commitments to lend:		
– Over one year	385.1	142.2
– One year or less	2,037.4	1,757.5
	<u>2,630.5</u>	<u>2,198.2</u>

Commitments to lend include the undrawn element of overdraft and credit card facilities.

36 Leasing Commitments

Annual commitments under non-cancellable operating leases

	As at 31 December 1997		As at 31 December 1996	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases which expire:				
Within one year	2.6	1.5	2.3	0.1
Within two to five years inclusive	7.2	16.1	6.4	9.8
In more than five years	53.8	–	48.1	–
	<u>63.6</u>	<u>17.6</u>	<u>56.8</u>	<u>9.9</u>

37 Derivative Financial Instruments

The contract or underlying principal amounts of derivative financial instruments, together with their risk weighted amounts and replacement costs were:

Non Trading Derivatives

	As at 31 December 1997			As at 31 December 1996		
	Contract or underlying principal amount £m	Credit risk weighted amount £m	Net replacement cost £m	Contract or underlying principal amount £m	Credit risk weighted amount £m	Net replacement cost £m
Exchange rate contracts						
Cross currency swaps	4,131.1	61.3	84.5	3,187.7	95.0	78.0
Forward foreign exchange	4,499.7	27.6	92.8	1,225.4	8.1	28.2
	<u>8,630.8</u>	<u>88.9</u>	<u>177.3</u>	<u>4,413.1</u>	<u>103.1</u>	<u>106.2</u>
Interest rate contracts						
Interest rate swaps	7,487.8	84.9	223.3	7,155.5	71.2	128.4
Forward rate agreements	382.5	0.1	0.6	250.0	–	–
Caps and floors	357.1	1.4	5.4	514.6	0.3	0.8
Financial futures	1,700.0	–	–	100.0	–	–
	<u>9,927.4</u>	<u>86.4</u>	<u>229.3</u>	<u>8,020.1</u>	<u>71.5</u>	<u>129.2</u>

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Trading Derivatives

	As at 31 December 1997				As at 31 December 1996			
	Contract or underlying principal amount £m	Credit risk weighted amount £m	Positive fair values £m	Negative fair values £m	Contract or underlying principal amount £m	Credit risk weighted amount £m	Positive fair values £m	Negative fair values £m
Interest rate contracts								
Forward rate agreements	771.7	0.3	0.4	0.4	—	—	—	—
Financial futures	350.0	—	—	—	—	—	—	—
	<u>1,121.7</u>	<u>0.3</u>	<u>0.4</u>	<u>0.4</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Amount included in other assets or other liabilities	<u>—</u>	<u>—</u>	<u>0.4</u>	<u>0.4</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Substantially all of the Group's derivatives activity is contracted with financial institutions. The risk weighted values have been calculated in accordance with the provisions of the EU Solvency Ratio Directive. Replacement cost is calculated by marking the value of contracts to market and aggregating those with a positive value.

The residual maturity of 'over the counter' (OTC) and non-margined exchange traded contracts was as follows:

	As at 31 December 1997		As at 31 December 1996	
	Contract or underlying principal amount £m	Net replacement cost £m	Contract or underlying principal amount £m	Net replacement cost £m
Contracts maturing:				
In not more than one year	7,525.6	150.5	4,270.9	57.6
In more than one year but not more than five years	6,388.3	107.6	6,260.4	123.9
In more than five years	2,944.3	148.5	1,801.9	53.9
	<u>16,858.2</u>	<u>406.6</u>	<u>12,333.2</u>	<u>235.4</u>

38 Retirement Benefits

Pension Schemes

The Group operates a number of pension schemes for the benefit of the majority of employees. The principal scheme at 31 December 1997 was the Halifax Retirement Fund, formerly the Halifax Building Society Retirement Fund, which is a funded scheme and provides defined benefits based on final pensionable salary. The assets of the scheme are held separately from the assets of the Group in trustee administered funds. Contributions to the scheme are assessed in accordance with the advice of a qualified actuary. Actuarial valuations are normally carried out triennially.

The most recent formal valuation for the Halifax Retirement Fund was as at 31 March 1997.

The main long term financial assumptions used in the valuation were:

	% per annum
Price inflation	4.0
Investment return	8.25
Salary escalation	6.0
Pension increases*	4.0
Dividend increases	<u>4.0</u>

* On the excess over the Guaranteed Minimum Pension

At 31 March 1997, the market value of the assets of the Halifax Retirement Fund was £1,404m. The actuary's assessment, on a market value basis, was that the assets represented 126 per cent. of the value of the benefits that had accrued to members and pensioners, after allowing for expected future increases in earnings. The valuation takes into account the impact of the loss of tax credits on UK equity dividends which was announced in the Budget of July 1997.

The valuation method and assumptions have been reviewed by the actuary in the light of the scheme's experience and market trends. The projected unit method of valuation has been retained but the financial assumptions have been amended. In addition, the valuation has been prepared on the basis of market values of assets and liabilities rather than assessed values to reflect emerging actuarial and accounting practice. These changes have not had a material effect on the level of surplus declared.

Excess funding has been spread over the average expected future working lives of scheme members using the 'straight line' method. The Group charge for pension costs for the year ended 31 December 1997 was £17.1m (11 months ended 31 December 1996 £15.4m). Included in Prepayments and accrued income (note 23) is a pension prepayment of £61.2m (31 December 1996 £68.8m) which relates to excess pension contributions.

9 Financial information relating to Halifax

Other Post-Retirement Benefits

The Group also provides post-retirement health care benefits and concessionary rate mortgages for certain pensioners and dependent spouses.

An independent actuarial valuation as at 31 December 1997 estimated the present value of the accumulated other post-retirement benefit obligations at £25.4m for the Group (31 December 1996 £21.2m). The main financial assumption used was that over the long term the rate of increase in health care costs would be 8.25 per cent. per annum, being 4.25 per cent. per annum higher than the rate of inflation. The charge for the year ended 31 December 1997 for other post-retirement benefits was £2.9m (11 months ended 31 December 1996 £2.6m). Included in Provisions for liabilities and charges (note 30) is £18.4m (31 December 1996 £15.5m) which represents the accrued amount for other post-retirement benefits.

39 Income Tax

Following the decision of the House of Lords in October 1990 that the Income Tax (Building Societies) Regulations 1986 were ultra vires in so far as they purported to levy tax on interest paid by building societies during the year of assessment 1985/86, Leeds Permanent Building Society ('the Leeds') launched proceedings in the High Court to recover the sums wrongfully collected from it. Shortly afterwards, the Government introduced retrospective legislation to validate the unlawful levies, so as to nullify the Leeds' legal proceedings. The Leeds thereupon launched alternative proceedings challenging the composite rate fixed by the Treasury for the years in which the unlawful levies were collected. If successful, these proceedings would have resulted in the Leeds recovering the amount claimed in its original High Court action. However, the Government introduced further retrospective legislation to validate the rates in question whether previously unlawful or not, so as to nullify the Leeds' alternative proceedings also. In December 1992, the Leeds lodged an application to the European Commission on Human Rights for a ruling as to whether the original levies themselves, and the Government's subsequent interference with the Leeds' right to seek redress in the courts, were in accordance with the United Kingdom's treaty obligations. The amounts unlawfully levied amounted to approximately £57m, without interest.

In September 1996, the Commission issued a decision on the merits finding that the United Kingdom was in violation of Article 6 of the Convention (right to a fair hearing by an independent tribunal).

The matter being referred to the European Court of Human Rights both by the Commission and the United Kingdom was heard by the Court in May 1997. By a judgement published in October 1997 the Court, reversing the finding of the Commission, determined that the actions of the UK Government fell within the range of the wide discretion ('margin of appreciation') permitted to States in matters of taxation. The decision of the Court is final. No credit had been taken for any amount in respect of these proceedings.

40 Transactions with Directors and Other Officers

The aggregate amounts outstanding at 31 December 1997 under transactions, arrangements and agreements made by the Group for persons who are, or were during the year, Directors of Halifax plc and their connected persons and for officers of the Company were:

	Number	Amounts £000s
Directors		
Loans	8	558
Credit card accounts	6	14
Officers		
Loans	25	2,910
Credit card accounts	11	15

The credit card balances disclosed above for Directors and Officers are with a subsidiary of the Company, Halifax Credit Card Ltd. Transactions are on normal commercial terms and in the ordinary course of business.

There were no significant contracts between the Company and Directors or persons connected with Directors of the Company during the year.

9 Financial information relating to Halifax

41 Notes to the Consolidated Cash Flow Statement

	Year ended 31 December 1997 £m	11 months ended 31 December 1996 £m
Gross cash flows		
Returns on investments and servicing of finance		
Interest paid on subordinated liabilities	148.9	43.9
Capital expenditure and financial investment		
Purchase of investment securities	59,479.4	54,112.3
Disposal and redemption of investment securities	(54,437.4)	(53,032.8)
Purchase of tangible fixed assets	246.5	213.7
Sale of tangible fixed assets	(22.7)	(24.6)
	5,265.8	1,268.6
Acquisitions and disposals		
Investment in subsidiary undertaking	(1.6)	797.7
Investment in associated undertaking	—	0.3
	(1.6)	798.0
Financing		
Net issue of subordinated liabilities	350.0	775.0
Statutory cash bonus	(14.9)	—
	335.1	775.0
Analysis of the balances of cash as shown in the balance sheet		
Cash and balances with central banks	486.0	184.0
Loans and advances to other banks repayable on demand	1,738.2	2,681.1
	2,224.2	2,865.1
Analysis of the changes in cash		
Opening cash	2,865.1	1,417.6
Cash flow	(640.9)	1,447.5
Closing cash	2,224.2	2,865.1
Analysis of changes in financing during the period		
	Share Capital and Share Premium £m	Subordinated liabilities £m
Balance at 1 February 1996	0.1	775.0
Net inflow of cash from financing	—	775.0
Other movements	—	(6.8)
Balance at 31 December 1996	0.1	1,543.2
Net inflow of cash from financing	—	350.0
Share capital issued	573.9	—
Other movements	—	12.5
Balance at 31 December 1997	574.0	1,905.7

9 Financial information relating to Halifax

9.3 Historical consolidated financial record of Halifax for the six months ended 30 June 1998

9.3.1 Consolidated profit and loss account

	Notes	Six months ended 30 June 1998 £m
Interest receivable:		
– Interest receivable and similar income arising from debt securities		797.9
– Other interest receivable and similar income		3,541.8
Interest payable		(3,153.7)
Net interest income		1,186.0
Fees and commissions receivable		355.0
Fees and commissions payable		(52.0)
Other operating income	4	76.0
Operating income		1,565.0
Administrative expenses	5	570.8
Depreciation and amortisation		78.9
Provisions for bad and doubtful debts	6	50.1
Provisions for contingent liabilities and commitments	25	22.0
Profit on ordinary activities before tax	7	843.2
Tax on profit on ordinary activities	8	267.7
Profit attributable to the shareholders of Halifax plc		575.5
Dividends	10	162.4
Profit retained for the financial period	27	413.1
Earnings per ordinary share	11	23.1p

9.3.2 Consolidated statement of total recognised gains and losses

There were no material gains or losses other than the profit for the six months ended 30 June 1998.

9.3.3 Note of consolidated historical cost profits and losses

There is no difference between the Group's results as disclosed in the consolidated profit and loss account and the results on an unmodified historical cost basis for the period under review.

9.3.4 Reconciliation of movements in shareholders' funds

	Six months ended 30 June 1998 £m
Profit for the financial period	575.5
Dividends	(162.4)
	413.1
Foreign currency translation differences on subsidiary undertaking	(0.6)
Repurchase of shares	(518.0)
Net reduction in shareholders' funds	(105.5)
Opening shareholders' funds	7,215.4
Closing shareholders' funds	7,109.9

9 Financial information relating to Halifax

9.3.5 Consolidated balance sheet

	Notes	As at 30 June 1998	
		£m	£m
Assets			
Cash and balances at central banks			150.7
Treasury bills and other eligible bills	12		2,108.9
Loans and advances to banks	13		6,914.1
Loans and advances to customers	14		83,268.8
Debt securities	15		20,346.1
Tangible fixed assets	16		934.3
Other assets	17		491.5
Prepayments and accrued income	18		1,043.6
Long term assurance business attributable to shareholders	19		849.6
			<u>116,107.6</u>
Long term assurance assets attributable to policyholders	19		17,902.5
Total Assets			<u>134,010.1</u>
Liabilities			
Deposits by banks	20		7,045.1
Customer accounts	21		81,303.4
Debt securities in issue	22		14,116.7
Other liabilities	23		1,497.2
Accruals and deferred income	24		3,043.0
Provisions for liabilities and charges	25		136.6
Subordinated liabilities	26		1,855.7
Equity shareholders' funds:			
Called up share capital	27	492.8	
Share premium account	27	119.1	
Capital redemption reserve	27	12.1	
Profit and loss account	27	6,485.9	
			<u>7,109.9</u>
			<u>116,107.6</u>
Long term assurance liabilities attributable to policyholders	19		17,902.5
Total Liabilities			<u>134,010.1</u>
Memorandum items			
Commitments	28		<u>2,751.6</u>

9 Financial information relating to Halifax

9.3.6 Consolidated cash flow statement

	Note	Six months ended 30 June 1998 £m
Net cash inflow from operating activities (see below)		4,796.4
Returns on investments and servicing of finance	33	(90.7)
Taxation		(200.8)
Capital expenditure and financial investment	33	(3,751.6)
		<hr/> 753.3
Equity dividends paid		(425.7)
		<hr/> 327.6
Financing	33	(568.0)
Decrease in cash	33	(240.4)
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit		843.2
(Increase) in prepayments and accrued income		(184.1)
(Decrease) in accruals and deferred income		(731.0)
Provisions for bad and doubtful debts		50.1
Depreciation and amortisation		78.9
(Increase) in the value of long term assurance business		(106.1)
Interest on subordinated liabilities		86.0
		<hr/> 37.0
Net cash inflow from trading activities		(62.5)
(Increase) in treasury and other eligible bills		2,600.2
Decrease in loans and advances to banks		47.5
Decrease in loans and advances to customers		96.4
Decrease in debt securities		(27.2)
(Increase) in other assets		1,674.6
Increase in deposits by banks		202.0
Increase in customer accounts		74.5
Increase in debt securities in issue		172.0
Increase in other liabilities		(18.1)
(Decrease) in provisions for liabilities and charges		<hr/> 4,796.4
Net cash inflow from operating activities		

9.3.7 Notes to the financial statements

1 Accounting Policies

Accounting Convention

These financial statements do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The Directors' Report and certain notes including Directors' remuneration and staff numbers have been omitted. However, the financial statements are drawn up under the historical cost convention in compliance with the special provisions of Part VII of the Companies Act 1985 applicable to banking groups, with certain exceptions. They have been prepared in accordance with applicable accounting standards, except for the adoption of merger accounting referred to below, and with the Statements of Recommended Accounting Practice issued by the British Bankers' Association and the Irish Bankers' Federation.

Basis of Presentation of Financial Statements

On 2 June 1997, the entire business of Halifax Building Society ('the Society'), including all property, rights, liabilities and goodwill, but excluding the Society's shares in Halifax plc ('the Company'), was transferred to the Company by virtue of the terms of the Transfer Agreement dated 20 December 1996, the Company was authorised by the Bank of England under the Banking Act 1987 and its shares were admitted to the Official List of the London Stock Exchange. This completed the process of conversion to a listed company. The Society's shares in the Company were then distributed or allocated to qualifying members, qualifying employees, qualifying pensioners and qualifying successors of the Society, and the Society was dissolved.

The transfer to the Company of the business of the Society has been accounted for in accordance with the principles of merger accounting, although the transfer did not satisfy all the conditions required. These financial statements have therefore been presented as if the Company had been the parent undertaking of the Group and carrying on the business of the Society throughout the current and previous financial periods.

Schedule 4(A) to the Companies Act 1985 and Financial Reporting Standard (FRS) No. 6, 'Acquisitions and Mergers' require acquisition accounting to be adopted where all the conditions laid down for merger accounting are not satisfied. The process of conversion of the Society to a public limited company did not satisfy all the conditions for merger accounting but there is an overriding requirement under Section 227(6) of the Companies Act 1985 for financial statements to present a true and fair view of the reporting entity's results and financial position. In recognition of this requirement, merger accounting principles were adopted.

9 Financial information relating to Halifax

The Directors consider that to record this transfer of business as an acquisition by the Company, with consequent adjustments to the fair values of the assets and liabilities transferred to the Company and the reflection of only post conversion results within these financial statements would not give a true and fair view of the Group's results and financial position. The principal issues supporting this conclusion are set out in the paragraph below.

Substantially all the shareholders of the Company at the time of conversion were members of the Society immediately prior to conversion and accordingly maintained an interest in the Halifax business both before and after its transfer. In addition, the method of conversion is prescribed by the Building Societies Act 1986 such that the successor company stands in the place of the former Society. To attribute fair values to the assets and liabilities transferred to the Company would not be meaningful in the context of these financial statements, as in substance the process of conversion represented a change in legal status rather than an acquisition of a business.

The Directors consider that it is not practicable to quantify the effect of this departure from the Companies Act 1985 requirements.

Basis of Consolidation

The audited Group financial statements include the audited results of the Company and the management accounts of its subsidiaries. The assets and liabilities of the long term assurance business are presented separately from those of other businesses in order to reflect the different nature of the shareholders' interest therein.

Investments in Subsidiaries

Investments in subsidiaries are stated either at cost or Directors' valuation in the Company's balance sheet.

Mortgage Incentive Schemes

All costs associated with mortgage incentive schemes are charged in full against interest receivable in the year in which the expense is incurred.

Provisions for Bad and Doubtful Debts

Provisions are made to reduce the carrying value of loans and advances to the amount which the Directors consider is likely to be received. Following an appraisal of loans and advances at the balance sheet date, specific provisions for losses are made in respect of those loans and advances individually identified as impaired. General provisions are made to cover losses on loans and advances impaired at the balance sheet date which, although not yet specifically identified, are known from experience to exist within the portfolio of loans and advances. The charge to the profit and loss account reflects the movement in the level of provisions made together with amounts written off net of recoveries in the period.

Taxation

Corporation tax is provided on the profit on ordinary activities as adjusted for taxation purposes. Provision is made for deferred taxation using the liability method at the current rate of tax for all material timing differences where it is considered that a liability will crystallise in the foreseeable future.

Securities

Securities held with the intention of use on a continuing basis are classified as fixed asset investment securities and shown at cost. Where the adjusted purchase price differs from par value, the premium or discount is amortised over the period to maturity. Provision is made for any permanent diminution in value.

Securities sold subject to repurchase agreements are retained within the balance sheet where the Group retains the risks and rewards of ownership. Funds received under these arrangements are included within deposits by banks or customer accounts. Conversely, securities acquired under commitments to resell are not recognised in the balance sheet, where all the risks and rewards do not pass to the Group. In this case, the purchase price is included within loans and advances to banks or loans and advances to customers.

Long Term Assurance Business

The value of the long term assurance business comprises the surplus retained in the long term assurance assets and liabilities attributable to policyholders together with a prudent estimate of the net present value of in-force business. The change in this value, grossed up at the effective rate of taxation, is included within other operating income.

Transferred Long Term Assurance Business

The excess of the contribution made over the fair value of the assets transferred from Clerical, Medical and General Life Assurance Society has been deducted from the Group profit and loss account reserves.

Tangible Fixed Assets and Depreciation

The cost of all additions and major alterations to office premises, plant, equipment, fixtures, fittings and vehicles is capitalised.

9 Financial information relating to Halifax

The cost of tangible fixed assets is written off over their estimated expected useful lives in equal annual instalments, which are taken as:

Buildings	
Freehold properties	100 years
Leasehold properties (100 or more years unexpired)	100 years
Leasehold properties (less than 100 years unexpired)	Unexpired period of lease
Plant and equipment and major alterations to existing properties	5 – 10 years
Equipment, fixtures, fittings and vehicles	3 – 6 years

Provision is made for the diminution in value of any fixed asset where an impairment is identified. The resulting net book value of the asset is written off over its remaining expected economic life.

Debt Securities in Issue and Subordinated Liabilities

Premiums and discounts together with commissions and other costs incurred in the issuing of fixed and floating rate notes and subordinated liabilities are accounted for as an adjustment to the amount of the liability and amortised over the relevant period to maturity.

Additional Mortgage Security

The recognition of income is deferred in respect of premiums received by the Group for additional mortgage security on high loan to value advances. After due allowance for the expected level of claims, the surplus or deficit arising is included in the consolidated profit and loss account.

Goodwill

Following the introduction of FRS No. 10 "Goodwill and Intangible Assets", the excess of the fair value of purchase consideration over the fair value of net assets at the date of acquisition of subsidiary undertakings is to be capitalised in the year of acquisition and amortised over its useful life. Goodwill on acquisitions prior to 31 December 1997 was eliminated against reserves and has not been reinstated, as permitted by FRS 10. On the disposal of subsidiary undertakings any related goodwill charged directly to reserves prior to 1 January 1998 is reinstated and included in the calculation of the profit or loss on disposal.

Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the appropriate rates of exchange prevailing at the period end date and exchange differences are dealt with in the profit and loss account.

In the Group financial statements, the results of overseas subsidiaries are translated using the closing rate. Exchange differences arising on the retranslation of the opening net investment in the subsidiaries at the closing rate are taken directly to profit and loss account reserves.

Derivative Financial Instruments

Derivative financial instruments used in trading activities are included in the financial statements at market value. Profits and losses on instruments which are being used to hedge exposures are recognised in a manner that reflects the accounting treatment of the assets or liabilities being hedged.

Retirement Benefits

The cost of providing retirement pensions and related benefits is assessed in accordance with the advice of qualified actuaries and is charged to the profit and loss account over the periods which benefit from the employees' services.

The full provision basis has been used in accounting for the deferred tax implications of pensions and other post-retirement benefits.

9 Financial information relating to Halifax

2 Segmental Analysis – Business Sectors

Halifax reports through five business sectors: Retail Operations (which includes Mortgages, Liquid Savings and Retail Banking), Consumer Credit, Personal Lines Insurance, Long Term Savings and Protection and Treasury.

The information contained within the following tables represents an analysis of the Group profit before tax and Group total assets by business sectors. Further information on the bases of these analyses is given in notes (a) and (b) below.

	Six months ended 30 June 1998 £m
Retail Operations	660.4
Consumer Credit	21.8
Personal Lines Insurance	74.6
Long Term Savings and Protection	80.2
Treasury	42.7
Group Items	(36.5)
Profit on ordinary activities before tax (note a)	843.2

	As at 30 June 1998 Total assets (note b) £m
Retail Operations	80,602.1
Consumer Credit	1,758.6
Personal Lines Insurance	—
Long Term Savings and Protection	965.0
Treasury	26,697.9
Group Items	6,084.0
	116,107.6

Notes

- a In order to analyse net interest margin by business sector, internal funds transfer pricing is applied to the average funding or liquidity gap in each sector. Interest rates used for transfer pricing have been determined to eliminate interest rate risk, reducing the volatility of earnings in the business sectors. The level of central funding takes account of the capital notionally absorbed by each business sector, calculated on the basis of regulatory requirements. Costs have been assigned to each sector based on resources consumed.
- b Interest bearing assets have been allocated to the relevant business sector and exclude long term assurance assets attributable to policyholders. Long term assurance business attributable to shareholders has been assigned to Long Term Savings and Protection. All other non-interest bearing assets are included in Group Items together with the Group's portfolio of Government securities.

No segmental analysis of turnover has been presented as the business of the Group is mainly that of banking and insurance. The only separable business segment as defined by the relevant accounting standard (SSAP 25) is Long Term Savings and Protection. The net assets attributable to the Long Term Savings and Protection business at 30 June 1998 were £384.1m. The net assets of the remaining businesses were £6,725.8m. It should be noted that the business is not managed on the basis of an allocation of net assets and it is not therefore appropriate to relate the segmental profits outlined above to these net assets.

3 Mortgage Incentives

All costs associated with mortgage incentive schemes are charged in full against interest receivable in the year in which the expense is incurred. The amount charged against interest receivable is £257m for the period ended 30 June 1998.

4 Other Operating Income

	Six months ended 30 June 1998 £m
Increase in value of long term assurance business (note 20)	67.1
Other	8.9
	76.0

9 Financial information relating to Halifax

5 Administrative Expenses

	Six months ended 30 June 1998 £m
Staff costs:	
Wages and salaries	267.0
Social security costs	21.2
Other pension costs	11.3
Other post-retirement benefits	0.8
	300.3
Other administrative expenses	270.5
	570.8

These charges exclude those staff costs (set out below) which are taken account of in determining the increase in value of the long term assurance business (note 4).

	Six months ended 30 June 1998 £m
Wages and salaries	37.1
Social security costs	3.5
Other pension costs	2.0
	42.6

Ongoing administrative expenses include costs relating to the Year 2000 programme. The incremental costs of the Year 2000 programme are estimated at £80m during the period 1997 - 2000 of which £30m has been incurred to 30 June 1998. Of this amount, £20m has been incurred in the six month period ended 30 June 1998.

Work on core systems, mainframe hardware and personal computer networks is well advanced and is scheduled for completion by December 1998. This includes computer links with external organisations.

We have completed an assessment of embedded systems (programmed instructions in control and communication devices) in all Group locations. Remedial work is scheduled for completion by the end of 1998.

A programme to assess the Year 2000 status of our key business partners and suppliers has been established.

Despite a high level of confidence in the Year 2000 preparations, contingency plans are being developed which will be built into existing business continuity arrangements.

Year 2000 continues to be the overriding priority for Information Systems (IS) and is progressing in line with plans. All IS systems are planned to be tested to meet the BSI definition of compliance by 31 December 1998.

6 Provisions for Bad and Doubtful Debts

	Six months ended 30 June 1998		
	Specific £m	General £m	Total £m
Provisions have been made as follows:			
At beginning of period	354.8	221.0	575.8
Amounts written off during the period	(41.5)	(11.4)	(52.9)
Charge for the period:			
– provisions	47.4	12.0	59.4
– recoveries	(9.3)	—	(9.3)
	38.1	12.0	50.1
At end of period	351.4	221.6	573.0
Provisions at 30 June 1998 can be analysed as follows:			
– residential property and other advances secured on land	224.8	218.3	443.1
– unsecured loans	126.6	3.3	129.9
	351.4	221.6	573.0

9 Financial information relating to Halifax

7 Profit on Ordinary Activities before Tax

	Six months ended 30 June 1998 £m
Profit on ordinary activities before tax is stated after crediting: Profits less losses on disposal of investment securities	51.7
Profit on ordinary activities before tax is stated after charging: Rental of premises	35.0
Hire of equipment	12.7

8 Tax on Profit on Ordinary Activities

	Six months ended 30 June 1998 £m
The charge for the period, based on a corporation tax rate applicable to the period of 31.0 per cent. comprises: UK corporation tax	244.1
Tax relating to change in value of long term assurance business (note 19)	20.3
Deferred taxation	3.3
	267.7

9 Profit for the Financial Period Attributable to Shareholders

Of the profit attributable to shareholders, £419.0m has been dealt with in the financial statements of the Company. As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company has not been presented separately.

10 Dividends

	pence per share	Six months ended 30 June 1998 £m
Ordinary shares		
Interim	6.75	162.4

11 Earnings per Ordinary Share

Earnings per ordinary share has been calculated by dividing the profit attributable to shareholders of £575.5m by the weighted average number of ordinary shares. The weighted average number of ordinary shares in the period was 2,492.1m.

12 Treasury Bills and Other Eligible Bills

	As at 30 June 1998 Book value £m	Market value £m
Investment securities		
Treasury bills and similar securities	538.9	538.9
Other eligible bills	1,570.0	1,569.8
	2,108.9	2,108.7

9 Financial information relating to Halifax

13 Loans and Advances to Banks

	As at 30 June 1998 £m
Repayable on demand	1,833.1
Other loans and advances repayable:	
In not more than three months	3,160.7
In more than three months but not more than one year	1,803.6
In more than five years	116.7
	<hr/> 6,914.1
Included above are the following amounts which relate to items in the course of collection from other banks	<hr/> 617.7

14 Loans and Advances to Customers

	As at 30 June 1998 £m
Advances secured on residential properties	80,321.1
Other secured advances	1,860.5
Unsecured loans	1,660.2
Provisions for bad and doubtful debts	(573.0)
	<hr/> 83,268.8
Repayable:	
On demand or at short notice	108.4
In not more than three months	1,004.2
In more than three months but not more than one year	1,482.3
In more than one year but not more than five years	6,314.1
In more than five years	74,932.8
Provisions for bad and doubtful debts	(573.0)
	<hr/> 83,268.8
Non performing loans and advances:	
Loans and advances three months or more in arrear	2,239.9
Loans and advances on properties in possession	134.9
	<hr/> 2,374.8
Provisions for bad and doubtful debts	(573.0)
	<hr/> 1,801.8

Loans and advances to customers include finance lease receivables of £83.7m which are stated in the balance sheet after deducting £2.4m of unearned charges and interest.

Assets acquired in the period for letting under finance leases amounted to £84.4m.

9 Financial information relating to Halifax

15 Debt Securities

	As at 30 June 1998	
	Book value £m	Market value £m
Investment securities		
Government securities	3,888.3	3,954.9
Other public sector securities	87.0	87.3
Bank and building society certificates of deposit	11,323.5	11,303.8
Other debt securities	5,034.0	5,044.4
	<u>20,332.8</u>	<u>20,390.4</u>
Other securities		
Government securities	13.3	13.3
Total	<u>20,346.1</u>	<u>20,403.7</u>
		As at 30 June 1998 £m
Book value		
Debt securities analysed by remaining maturity:		
Due within one year		12,049.5
Due one year and over		8,296.6
		<u>20,346.1</u>

16 Tangible Fixed Assets and Capital Commitments

	Premises £m	Equipment £m	Total £m
Cost			
At 1 January 1998	906.2	626.1	1,532.3
Additions	25.9	35.6	61.5
Disposals	(5.9)	(20.9)	(26.8)
At 30 June 1998	<u>926.2</u>	<u>640.8</u>	<u>1,567.0</u>
Depreciation and provisions for diminution in value			
At 1 January 1998	334.5	240.6	575.1
Depreciation charged in period	15.6	62.1	77.7
Disposals	(3.1)	(17.0)	(20.1)
At 30 June 1998	<u>347.0</u>	<u>285.7</u>	<u>632.7</u>
Net book value			
At 30 June 1998	<u>579.2</u>	<u>355.1</u>	<u>934.3</u>
At 31 December 1997	<u>571.7</u>	<u>385.5</u>	<u>957.2</u>

Included within tangible fixed assets are assets in the course of construction amounting to £70.5m which are not depreciated until the assets are brought into use.

9 Financial information relating to Halifax

17 Other Assets

	As at 30 June 1998 £m
Foreign exchange and interest rate contracts (note 30)	0.4
Other assets	472.8
Deferred taxation (due after more than one year)	18.3
	<u>491.5</u>
	As at 30 June 1998 £m
Deferred taxation	
At beginning of period	21.6
Movement in period	(3.3)
At end of period	<u>18.3</u>
	As at 30 June 1998 Amount provided £m
The amounts provided for deferred taxation and the amounts unprovided are set out below:	
Capital allowances in advance of depreciation	(8.5)
Pension fund prepayment	(16.0)
Reorganisation costs	26.9
Other timing differences	15.9
	<u>18.3</u>
	As at 30 June 1998 Amount unprovided £m
	–
	–
	–
	10.9
	<u>10.9</u>

18 Prepayments and Accrued Income

	As at 30 June 1998 £m
Accrued interest	571.3
Pension fund prepayment	55.2
Other	417.1
	<u>1,043.6</u>

19 Long Term Assurance Business

The value of long term assurance business is actuarially assessed and comprises the surplus attributable to the Group, together with the net present value of in-force business. This method of calculating the net worth of the business to the Group is known as the embedded value approach. The principal economic assumptions behind the embedded value calculation are reviewed regularly and are as follows:

	Six months ended 30 June 1998 %
Risk discount rate (net of tax) for traditional with profits business	10.0
Risk discount rate (net of tax) for other business	12.0
Return on equities (gross of tax)	8.5
Return on gilts (gross of tax)	6.5
Expense inflation	<u>5.0</u>

In-force business is defined as all live policies where the first premium has been paid. Recurrent single premium policies are treated as single premium policies, with the exception of Department of Social Security rebate policies, which are treated as regular premium policies. The Group is entitled to one ninth of the value of traditional with profits business bonuses declared in any particular year. The level of assumed future bonuses is calculated by projecting the portfolio of with profits business forward and applying reversionary and terminal bonus rates at such a level as to exhaust the level of projected surplus of assets attributable to with profit policyholders over liabilities. For all other business the entire surplus is attributable to the Group.

9 Financial information relating to Halifax

The income from long term assurance business which is included within other operating income in the consolidated profit and loss account is calculated as follows:

	Six months ended 30 June 1998 £m
Closing value of Group's interest in long term assurance business	849.6
Opening value of Group's interest in long term assurance business	(743.5)
Increase in value of long term assurance business	106.1
Transfer to long term assurance business	(59.3)
Income after tax from long term assurance business	46.8
Taxation relating to long term assurance business (note 8)	20.3
Income before tax from long term assurance business (note 4)	67.1

The assets and liabilities attributable to policyholders are presented separately from those arising from other Group activities to reflect the different nature of the Group's interest.

The long term assurance assets attributable to policyholders comprise:

	As at 30 June 1998 £m
Investments	18,015.8
Value of in-force policies	849.6
Net current liabilities	(113.3)
	18,752.1
Long term assurance business attributable to shareholders	(849.6)
Long term assurance assets attributable to policyholders	17,902.5
Long term assurance liabilities attributable to policyholders	17,902.5

20 Deposits by Banks

	As at 30 June 1998 £m
Repayable on demand	2,307.8
Repayable with agreed maturity dates or periods of notice:	
In not more than three months	3,933.6
In more than three months but not more than one year	674.7
In more than one year but not more than five years	129.0
	7,045.1
Included above are the following amounts which relate to items in the course of transmission to other banks	734.1

21 Customer Accounts

	As at 30 June 1998 £m
Repayable on demand	74,307.9
Repayable with agreed maturity dates or periods of notice:	
In not more than three months	5,272.4
In more than three months but not more than one year	1,680.2
In more than one year but not more than five years	42.9
	81,303.4

9 Financial information relating to Halifax

22 Debt Securities in Issue

	As at 30 June 1998 £m
Bonds and medium term notes	
Repayable:	
In one year or less, or on demand	1,603.0
In more than one year but not more than two years	1,273.2
In more than two years but not more than five years	1,243.4
In more than five years	2,463.8
	<u>6,583.4</u>
Other debt securities	
Repayable:	
In not more than three months	6,295.1
In more than three months but not more than one year	1,227.2
In more than one year but not more than two years	11.0
	<u>7,533.3</u>
Total debt securities in issue	<u>14,116.7</u>

23 Other Liabilities

	As at 30 June 1998 £m
Foreign exchange and interest rate contracts (note 30)	0.4
Corporation tax	560.2
Dividends payable	177.6
Other liabilities	759.0
	<u>1,497.2</u>

24 Accruals and Deferred Income

	As at 30 June 1998 £m
Accrued interest	2,345.3
Other	697.7
	<u>3,043.0</u>

25 Provisions for Liabilities and Charges

	Pensions review provision £m	Other post- retirement benefits and unfunded pensions £m	Reorganisation costs provision £m	Total £m
At 1 January 1998	—	21.8	132.9	154.7
Charged in period	22.0	1.4	—	23.4
Utilised in period	—	—	(41.5)	(41.5)
At 30 June 1998	<u>22.0</u>	<u>23.2</u>	<u>91.4</u>	<u>136.6</u>

Reorganisation costs relate to the costs of reorganising, restructuring and integrating the businesses following the transfer of engagements of Leeds Permanent Building Society on 1 August 1995.

The pensions review provision has been established to cover estimated administrative costs and compensation payable in connection with phase 2 of the pensions review.

9 Financial information relating to Halifax

26 Subordinated Liabilities

	As at 30 June 1998 £m
Dated	
8% Subordinated sterling bonds 2006	400.0
Floating rate subordinated sterling notes 2009	75.0
Step-up callable floating rate subordinated sterling notes 2012	200.0
11% Subordinated sterling bonds 2014	250.0
10% Subordinated sterling bonds 2018	150.0
9% Subordinated sterling bonds 2021	500.0
Unamortised premiums, discounts and issue costs	5.7
	<u>1,580.7</u>
Undated	
12% Sterling Perpetual Subordinated Bonds	100.0
8% Sterling Perpetual Subordinated Bonds	100.0
13% Sterling Perpetual Subordinated Bonds	75.0
	<u>1,855.7</u>

Under current regulations, no repayment, for whatever reason, of dated subordinated debt prior to its stated maturity and no purchase by the Company of its subordinated debt may be made without the consent of the Financial Services Authority. On a winding up of the Company, the claims of the holders of dated subordinated debt shall be subordinated in right of payment to the claims of all depositors and creditors of the Company other than creditors whose claims are expressed to rank *pari passu* with or junior to the claims of the holders of the dated subordinated debt.

The 10% per cent. subordinated bonds 1998 were redeemed at maturity in accordance with their terms on 21 April 1998.

Interest on the bonds due 2006, 2014, 2018 and 2021 is payable annually in arrear. These bonds are due for redemption on 10 July 2006, 17 January 2014, 16 February 2018 and 15 May 2021 respectively.

Interest on the floating rate notes dated 2009, issued in 1996, is payable three months in arrear at LIBOR plus a margin of 0.25 per cent. per annum for years 1 to 8, 0.75 per cent. per annum for years 9 and 10 and 1.25 per cent. per annum thereafter. The Company has the option to redeem the notes at their nominal value on the interest payment date falling in July 2004. The notes are otherwise due for redemption on the interest payment date falling in July 2009.

Interest on the floating rate notes dated 2012 is payable three months in arrear at LIBOR plus a margin of 0.25 per cent. per annum for years 1 to 10 and 1.25 per cent. thereafter. The Company has the option to redeem the notes at their nominal value on the interest payment date falling in April 2007. The notes are otherwise due for redemption on the interest payment date falling in April 2012.

The Company has the option at any time after, in the case of the 12 per cent. perpetual subordinated bonds, 30 January 2022 and, in the case of the 8% per cent. perpetual subordinated bonds, 14 September 2023, to redeem some or all of the bonds at their principal value plus any accrued and unpaid interest. Under current regulations the Company may not exercise this redemption option or purchase any of its undated subordinated debt without the consent of the Financial Services Authority. On a winding up of the Company the claims of the holders of perpetual subordinated debt shall be subordinated in right of payment to the claims of all depositors and creditors of the Company other than creditors whose claims are expressed to rank *pari passu* with or junior to the claims of the holders of the perpetual subordinated bonds. The perpetual subordinated bonds are junior in point of subordination to the dated subordinated debt referred to above.

	As at 30 June 1998 £m
Dated subordinated liabilities are repayable as follows:	
In more than five years	<u>1,580.7</u>

27 Capital and reserves

Called Up Share Capital

	£m
Authorised share capital	
At 30 June 1998 (ordinary shares of 20p each)	<u>660.0</u>
Allotted, called up and fully paid share capital	
At 1 January 1998	503.9
Issued to the Halifax plc Qualifying Employee Share Ownership Trust ('the QUEST')	1.0
Repurchase of shares	<u>(12.1)</u>
At 30 June 1998	<u>492.8</u>

9 Financial information relating to Halifax

The QUEST was established, under a deed of trust, on 8 December 1997 to acquire shares in the Company for the benefit of employees and Directors of the Company and its subsidiaries. Under the terms of the QUEST, which is an employee share scheme as defined in Section 743 of the Companies Act 1985, the Company is empowered to finance the acquisition of shares by the QUEST. On 11 March 1998 the Company provided £50.0m to the QUEST for this purpose.

On 11 March 1998, the QUEST subscribed at market value for 5.3m of the Company's ordinary 20p shares. The total number of shares held by the QUEST at 30 June 1998 had a market value of £114.0m. The shares rank *pari passu* in all respects with the existing ordinary shares. They will be allocated to employees and Directors in satisfaction of their options under the employee savings-related share option scheme, the Halifax plc Sharesave Scheme 1997.

The cost of the contribution by the Company has been transferred directly to profit and loss account reserves, and a share premium account has been established for the excess of the subscription price over nominal value which amounts to £49.0m.

The shares held by the QUEST at 30 June 1998 have been included in the Group balance sheet at nil value, reflecting their ultimate purpose which is to satisfy options granted to employees and Directors of the Company.

Under the terms of the trust deed, dividends are required to be waived on the shares held by the QUEST.

At 30 June 1998, options to acquire 29.4m Halifax plc shares were outstanding under the Halifax plc Sharesave Scheme 1997 which are exercisable by employees of the Group at a price of £5.80 at various dates up to the year 2005.

During the six month period ended 30 June 1998 the Company repurchased ordinary shares with a nominal value of £12.1m at a total cost of £518.0m which has been charged against profit and loss account reserves.

Share Premium Account

	£m
At 1 January 1998	70.1
Arising on share issue to the QUEST	49.0
At 30 June 1998	119.1

Capital Redemption Reserve

	£m
At 1 January 1998	—
Repurchase of shares	12.1
At 30 June 1998	12.1

Profit and Loss Account

	£m
At 1 January 1998	6,641.4
Profit retained for the financial period	413.1
Repurchase of shares	(518.0)
Share capitalisation (see above)	(50.0)
Foreign currency translation differences on subsidiary undertaking	(0.6)
At 30 June 1998	6,485.9

The cumulative amount of goodwill resulting from acquisitions in earlier financial years, which has been deducted from Group profit and loss account reserves, is £303.4m. The cumulative amount of excess contribution on transfer of long term assurance business in earlier financial years, which has been deducted from Group general reserves, is £166.7m. Of the total Group profit and loss account reserves at 30 June 1998, £295.3m, representing principally the Group's share of the net present value of long term assurance business in-force and the surplus retained within the long term assurance funds, is not currently available for distribution.

28 Memorandum Items — Commitments

	As at 30 June 1998 £m
Forward asset purchases and forward deposits placed	99.0
Undrawn formal standby facilities, credit lines and other commitments to lend:	
– Over one year	387.5
– One year or less	2,265.1
	2,751.6

Commitments to lend include the undrawn element of overdraft and credit card facilities.

9 Financial information relating to Halifax

29 Leasing Commitments

Annual commitments under non-cancellable operating leases

	As at 30 June 1998	
	Land and buildings £m	Other £m
Operating leases which expire:		
Within one year	1.3	1.7
In more than one year but not more than five years	6.8	16.6
In more than five years	50.2	–
	<u>58.3</u>	<u>18.3</u>

30 Derivative Financial Instruments

At 30 June 1998, the contract or underlying principal amounts of derivative financial instruments, together with their risk weighted amounts and replacement costs, were:

Non Trading Derivatives

	As at 30 June 1998		
	Contract or underlying principal amount £m	Credit risk weighted amount £m	Net replacement cost £m
Exchange rate contracts			
Cross currency swaps	4,559.2	54.7	125.4
Forward foreign exchange	4,215.0	21.7	66.1
	<u>8,774.2</u>	<u>76.4</u>	<u>191.5</u>
Interest rate contracts			
Interest rate swaps	7,166.0	102.8	262.8
Forward rate agreements	5,500.0	2.9	11.3
Caps and floors	2,826.9	27.5	119.4
Financial futures	8,189.2	–	–
	<u>23,682.1</u>	<u>133.2</u>	<u>393.5</u>

Trading Derivatives

	As at 30 June 1998			
	Contract or underlying principal amount £m	Credit risk weighted amount £m	Positive fair values £m	Negative fair values £m
Interest rate contracts				
Forward rate agreements	500.0	1.4	0.4	0.4
Financial futures	728.0	–	–	–
	<u>1,228.0</u>	<u>1.4</u>	<u>0.4</u>	<u>0.4</u>
Amount included in other assets or other liabilities	<u>–</u>	<u>–</u>	<u>0.4</u>	<u>0.4</u>

Substantially all of the Group's derivatives activity is contracted with financial institutions. The risk weighted values have been calculated in accordance with the provisions of the EU Solvency Ratio Directive. Replacement cost is calculated by marking the value of contracts to market and aggregating those with a positive value.

The residual maturity of 'over the counter' (OTC) and non-margined exchange traded contracts was as follows:

	As at 30 June 1998	
	Contract or underlying principal amount £m	Net replacement cost £m
Contracts maturing:		
In not more than one year	11,365.4	150.6
In more than one year but not more than five years	9,653.4	173.1
In more than five years	3,748.3	261.2
	<u>24,767.1</u>	<u>584.9</u>

9 Financial information relating to Halifax

31 Retirement Benefits

Pension Schemes

The Group operates a number of pension schemes for the benefit of the majority of employees. The principal scheme at 30 June 1998 was the Halifax Retirement Fund, which is a funded scheme and provides defined benefits based on final pensionable salary. The assets of the scheme are held separately from the assets of the Group in trustee administered funds. Contributions to the scheme are assessed in accordance with the advice of a qualified actuary. Actuarial valuations are normally carried out triennially.

The most recent formal valuation for the Halifax Retirement Fund was as at 31 March 1997.

The main long term financial assumptions used in the valuation were:

	% per annum
Price inflation	4.0
Investment return	8.25
Salary escalation	6.0
Pension increases*	4.0
Dividend increases	4.0

*On the excess over the Guaranteed Minimum Pension

At 31 March 1997, the market value of the assets of the Halifax Retirement Fund was £1,404m. The actuary's assessment, on a market value basis, was that the assets represented 126 per cent. of the value of the benefits that had accrued to members and pensioners, after allowing for expected future increases in earnings. The valuation takes into account the impact of the loss of tax credits on UK equity dividends which was announced in the Budget of July 1997.

The valuation method and assumptions were reviewed by the actuary in the light of the scheme's experience and market trends. The projected unit method of valuation has been retained but the financial assumptions have been amended. In addition, the valuation has been prepared on the basis of market values of assets and liabilities rather than assessed values to reflect emerging actuarial and accounting practice. These changes have not had a material effect on the level of surplus declared.

Excess funding has been spread over the average expected future working lives of scheme members using the 'straight line' method. The Group charge for pension costs for the period ended 30 June 1998 was £13.3m. Included in Prepayments and accrued income (note 18) is a pension prepayment of £55.2m which relates to excess pension contributions.

Other Post-Retirement Benefits

The Group also provides post-retirement health care benefits and concessionary rate mortgages for certain pensioners and dependent spouses.

An independent actuarial valuation as at 31 December 1997 estimated the present value of the accumulated other post-retirement benefit obligations at £25.4m for the Group. The main financial assumption used was that over the long term the rate of increase in health care costs would be 8.25 per cent. per annum, being 4.25 per cent. per annum higher than the rate of inflation. The charge for the period ended 30 June 1998 for other post-retirement benefits was £0.8m. Included in Provisions for liabilities and charges (note 25) is £19.2m which represents the accrued amount for other post-retirement benefits.

32 Transactions with Directors

The aggregate amounts outstanding at 30 June 1998 under transactions, arrangements and agreements made by the Group for persons who are, or were during the period, Directors of Halifax plc and their connected persons were:

	Number	Amount £000s
Directors		
Loans	6	323
Credit card accounts	7	12

The credit card balances disclosed above for Directors are with a subsidiary of the Company, Halifax Credit Card Ltd. Transactions are on normal commercial terms and in the ordinary course of business.

There were no significant contracts between the Company and Directors or persons connected with Directors of the Company during the period.

9 Financial information relating to Halifax

33 Notes to the Consolidated cash flow statement

	Six months ended 30 June 1998 £m
Gross cash flows	
Returns on investments and servicing of finance	
Interest paid on subordinated liabilities	(90.7)
Capital expenditure and financial investment	
Purchase of investment securities	(27,511.5)
Disposal and redemption of investment securities	23,815.9
Purchase of tangible fixed assets	(61.5)
Sale of tangible fixed assets	5.5
	(3,751.6)
Financing	
Repurchase of share capital	(518.0)
Redemption of subordinated liabilities	(50.0)
	(568.0)
Analysis of the balances of cash as shown in the balance sheet	
Cash and balances with central banks	150.7
Loans and advances to other banks repayable on demand	1,833.1
	1,983.8
The Group is required to maintain balances with the Bank of England which, at 30 June 1998, amounted to £116.8m.	
Analysis of the changes in cash	
Opening cash	2,224.2
Cash flow	(240.4)
Closing cash	1,983.8

Analysis of changes in financing during the period

	Share Capital and Share Premium £m	Subordinated liabilities £m
Balances at 1 January 1998	574.0	1,905.7
Net outflow of cash from financing	–	(50.0)
Repurchase of share capital	(12.1)	–
Share capital issued	50.0	–
Balances at 30 June 1998	611.9	1,855.7

34 Post Balance Sheet Event

On 30 July 1998, the Board of Halifax plc announced that it had agreed terms with the Board of Birmingham Midshires Building Society (Birmingham Midshires) under which it will acquire the business of Birmingham Midshires subject to the approval of Birmingham Midshires' members and various regulatory bodies. The proposed consideration of £750 million will be paid in cash to those qualifying members who are eligible, under the terms of the Building Societies Act, to receive cash and in the form of preference shares to those qualifying members who are ineligible to receive cash under the Act. It is proposed that these distributions will be made to Birmingham Midshires' eligible investing and borrowing members and certain other stakeholders, in accordance with the terms of the distribution scheme which will be determined by the Board of Birmingham Midshires.

9 Financial information relating to Halifax

9.4 Summary consolidated financial information of Halifax for the six months ended 30 June 1998 and the six months ended 30 June 1997

The summary consolidated financial information of Halifax set out below has been provided to show the comparative financial information for the six months ended 30 June 1997. This comparative financial information has not been audited.

9.4.1 Consolidated profit and loss account

	Six months ended 30 June 1998 (Audited) £m	Six months ended 30 June 1997 (Unaudited) £m
Interest receivable:		
Interest receivable and similar income arising from debt securities	798	413
Other interest receivable and similar income	3,542	2,992
Interest payable	(3,154)	(2,302)
Net interest income	1,186	1,103
Fees and commissions receivable	355	320
Fees and commissions payable	(52)	(57)
Other operating income	76	51
Operating income	1,565	1,417
Administrative expenses	(571)	(519)
Depreciation and amortisation	(79)	(54)
Provisions for bad and doubtful debts	(50)	(42)
Provisions for contingent liabilities and commitments	(22)	–
Profit on ordinary activities before tax	843	802
Tax on profit on ordinary activities	(268)	(270)
Profit attributable to the shareholders of Halifax plc	575	532
Dividends	(162)	–
Profit retained for the period	413	532
Earnings per share	23.1p	21.2p

9 Financial information relating to Halifax

9.4.2 Statement of total recognised gains and losses

There were no material gains or losses other than the profit for the six months ended 30 June 1998 or the six months ended 30 June 1997.

9.4.3 Reconciliation of movements in shareholders' funds

	Six months ended 30 June 1998 (Audited) £m	Six months ended 30 June 1997 (Unaudited) £m
Profit for the financial period	575	532
Dividends	(162)	—
	<hr/> 413	<hr/> 532
Foreign currency translation difference on subsidiary undertaking	—	(2)
Payment of statutory cash bonus	—	(15)
Repurchase of shares	(518)	—
	<hr/> (105)	<hr/> 515
Net (reduction in)/addition to shareholders' funds	7,215	6,605
Opening shareholders' funds	<hr/> 7,110	<hr/> 7,120
Closing shareholders' funds		

Of the total Group profit and loss account reserves of £6,486m at 30 June 1998, £295m (£136m, 30 June 1997), representing principally the Group's share of the net present value of long term assurance business in force and the surplus retained within the long term assurance funds, is not currently available for distribution.

9.4.4 Consolidated balance sheet

	As at 30 June 1998 (Audited) £m	As at 30 June 1997 (Unaudited) £m
Assets		
Cash and balances at central banks	151	399
Treasury bills and other eligible bills	2,109	1,764
Loans and advances to banks	6,914	6,330
Loans and advances to customers	83,269	82,978
Debt securities	20,346	14,224
Tangible fixed assets	934	937
Other assets	491	439
Prepayments and accrued income	1,044	582
Long term assurance business attributable to shareholders	850	729
	<hr/> 116,108	<hr/> 108,382
Long term assurance assets attributable to policyholders	17,903	14,895
Total assets	<hr/> 134,011	<hr/> 123,277
Liabilities		
Deposits by banks	7,045	2,423
Customer accounts	81,303	82,720
Debt securities in issue	14,117	9,914
Other liabilities	1,497	1,450
Accruals and deferred income	3,043	2,593
Provisions for liabilities and charges	137	206
Subordinated liabilities	1,856	1,956
Equity shareholders' funds:		
Called up share capital	493	502
Share premium account	119	—
Capital redemption reserve	12	—
Profit and loss account	6,486	6,618
	<hr/> 116,108	<hr/> 108,382
Long term assurance liabilities attributable to policyholders	17,903	14,895
Total liabilities	<hr/> 134,011	<hr/> 123,277

9 Financial information relating to Halifax

9.5 Capitalisation statement

The following table sets out, on a consolidated basis, the shareholders' funds, subordinated liabilities and bonds and medium term notes of Halifax (none of which is guaranteed or secured):

	As at 30 June 1998 (Audited) £m
Shareholders' funds	
Equity shareholders' funds:	
Called up share capital (ordinary shares of 20p each)	492.8
Share premium account	119.1
Capital redemption reserve	12.1
Profit and loss account ⁽¹⁾	6,485.9
Total shareholders' funds	7,109.9
Undated Subordinated liabilities	
12 per cent. Sterling perpetual Subordinated bonds	100.0
8% per cent. Sterling perpetual Subordinated bonds	100.0
13% per cent. Sterling perpetual Subordinated bonds	75.0
Total undated subordinated liabilities	275.0
Dated Subordinated liabilities	
8% per cent. Subordinated Sterling bonds 2006	400.0
Floating rate Subordinated Sterling notes 2009	75.0
Step-up callable floating rate Subordinated Sterling notes 2012	200.0
11 per cent. Subordinated Sterling bonds 2014	250.0
10% per cent. Subordinated Sterling bonds 2018	150.0
9% per cent. Subordinated Sterling bonds 2021	500.0
Unamortised premiums, discounts and issue costs	5.7
Total dated Subordinated liabilities	1,580.7
	As at 30 September 1998 (Unaudited) £m
Bonds and medium term notes⁽¹⁾⁽²⁾	6,115.7

Notes:

- (1) Amounts denominated in currencies other than Sterling are represented by Sterling equivalent amounts calculated using the appropriate spot exchange rates prevailing on the dates at which the table is prepared.
- (2) Since 30 September 1998 Halifax has issued bonds and medium term notes in an amount of £42.4 million and has redeemed bonds and medium term notes in an amount of £125.0 million.
- (3) Save for the information disclosed above, there has been no material change in the subordinated liabilities of Halifax since 30 June 1998, nor, save as mentioned above, has there been any material change in the amount of bonds and medium term notes of Halifax since 30 September 1998.

10 General information

10 General information

10.1 Incorporation

Halifax was incorporated and registered in England and Wales on 31 March 1989 under the Companies Act under the name of Listmid Limited with registered number 2367076. On 16 October 1989, the name of the Company was changed to Halifax Loans (No. 2) Limited and on 19 March 1993 the name of the Company was changed again to Halifax Syndicated Loans Limited. On 4 December 1996, the Company was re-registered as a public limited company and its name was changed to Halifax plc.

On 2 June 1997, the business of Halifax Building Society was transferred to Halifax in accordance with section 97(6) of the Act, upon the whole of the issued share capital of Halifax being admitted to the Official List and Halifax being authorised under the Banking Act 1987.

The registered office of Halifax is Trinity Road, Halifax, West Yorkshire HX1 2RG.

10.2 Share capital

10.2.1 On incorporation, the authorised share capital of Halifax was £1,000 divided into 1,000 ordinary shares of £1.00 each, two of which were in issue. On 2 October 1989, the authorised share capital of Halifax was increased to £1 million divided into one million shares of £1.00 each. As at 1 December 1996 Halifax had 100,000 ordinary shares of £1.00 each in issue all of which were beneficially owned by Halifax Building Society.

10.2.2 At an extraordinary general meeting of Halifax held on 4 December 1996 each of the ordinary shares of £1.00 each in the capital of the Company was sub-divided into five Ordinary Shares of 20p each. Halifax also amended its Memorandum of Association and adopted the Articles in substitution for its then current articles of association.

10.2.3 At the annual general meeting of Halifax held on 22 April 1997:

- (i) the Company increased its ordinary share capital to £660,000,000 by the creation of 3,295,000,000 new Ordinary Shares of 20p each;
- (ii) the directors were authorised, in accordance with the Articles, under section 80 of the Companies Act to allot shares or rights to shares with an aggregate nominal value of £659,900,000, such authority to last for a period of five years from the date of the resolution;
- (iii) the directors were given power for the period to the date of the next annual general meeting of the Company or to 21 July 1998, whichever was the earlier, to allot equity securities wholly for cash pursuant to the authority given under section 80 of the Companies Act:
 - (a) in connection with a rights issue; and
 - (b) otherwise than in connection with a rights issue up to an aggregate amount of £527,100,000 (being the estimated maximum amount of ordinary share capital to be subscribed for prior to vesting by Halifax Building Society to satisfy entitlements to free shares under the Halifax Transfer Agreement together with an additional amount of 5 per cent. of that estimated maximum amount),

as if, in either case, section 89(1) of the Companies Act did not apply to any such allotment. By this power the directors could at any time during such period make offers or agreements which would or might require the allotment of equity securities after the expiry of such period; and

- (iv) conditionally on the ordinary share capital of Halifax being listed, the Company was authorised, for the purposes of section 166 of the Companies Act, to make market purchases of Ordinary Shares provided that:
 - (a) the maximum number of shares which could be purchased was 251,000,000;
 - (b) the minimum price which could be paid for each share was an amount equal to 95 per cent. of the average of the middle market quotations of the Ordinary Shares as derived from the Official List for the five business days immediately preceding the day on which such share was contracted to be purchased;

10 General information

- (c) the maximum price which could be paid for each share was an amount equal to 105 per cent. of the average of the middle market quotations of the Ordinary Shares during that period; and
- (d) the authority would expire at the conclusion of the annual general meeting of the Company to be held in 1998 or, if earlier, 21 July 1998 (except in relation to shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry) unless such authority was renewed prior to such time.

10.2.4 At the annual general meeting of Halifax held on 21 April 1998:

- (i) the directors, pursuant to the resolution conferring authority under section 80 of the Companies Act passed on 22 April 1997, were given power for the period to the date of the next annual general meeting of Halifax or to 21 July 1999, whichever is the earlier, to allot equity securities wholly for cash:
 - (a) in connection with a rights issue; and
 - (b) otherwise than in connection with a rights issue up to an aggregate nominal amount of £25,193,933as if, in either case, section 89(1) of the Companies Act did not apply to any such allotment. By this power the directors may at any time during such period make offers or agreements which would or might require the allotment of the equity securities after the expiry of such period; and
- (ii) the Company was authorised, for the purposes of section 166 of the Companies Act, to make market purchases of Ordinary Shares provided that:
 - (a) the maximum number of shares which may be purchased is 251,939,334;
 - (b) the minimum price which may be paid is the 20p nominal value of each share;
 - (c) the maximum price which may be paid for each share is an amount equal to 105 per cent. of the average of the middle market quotations of the Ordinary Shares during that period; and
 - (d) the authority shall expire at the conclusion of the annual general meeting of the Company to be held in 1999 or, if earlier, 21 July 1999 (except in relation to shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry) unless such authority is renewed prior to such time.

10.2.5 At the extraordinary general meeting of the Company to be held on 18 November 1998 the following special resolution will be proposed:

“THAT:

- 1 the authorised share capital of Halifax be increased from £660,000,000 to £1,660,000,000 by the creation of one billion Preference Shares of £1 each, such shares having attached thereto the respective rights and being subject to the respective limitations set out in the Articles of Association of Halifax as amended by paragraph 4 of this resolution;
- 2 in addition to, and without prejudice to, any and all previous authorities to allot and issue relevant securities given to the Directors, the Directors be and are authorised, generally and without conditions, under Section 80 of the Companies Act 1985 to exercise all the powers of Halifax to allot all or any of the one billion Preference Shares of £1 each created by paragraph 1 of this resolution, and this authority (unless previously revoked or varied by Halifax in general meeting) shall expire on 17 November 2003, but shall allow Halifax before such expiry to make an offer or agreement which would or might require the allotment and issue of all or any of these Preference Shares after such expiry;
- 3 Halifax be authorised, for the purposes of Section 166 of the Companies Act 1985, to make market purchases of all or any of the Preference Shares of £1 each in Halifax in issue from time to time up to a maximum of one billion Preference Shares, provided that:
 - (a) the minimum price which may be paid for each Preference Share is one penny per Preference Share;

10 General information

- (b) the maximum price which may be paid for each Preference Share is an amount equal to 105 per cent. of the average of the middle market quotations of the Preference Shares as derived from the Stock Exchange Daily Official List for the five business days immediately preceding the day on which that Preference Share is contracted to be purchased; and
 - (c) the authority shall expire at the conclusion of the Annual General Meeting of Halifax in 1999 or, if earlier, 17 November 1999 (except in relation to Preference Shares the contract of purchase for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry) unless such authority is renewed prior to such time;
- 4 the Articles of Association of Halifax be amended in the manner set out in the Appendix to the document addressed to shareholders and other participants of Halifax dated 28 September 1998 (the 'Appendix'); and
 - 5 the Memorandum of Association of Halifax be amended in the manner set out in the Appendix.

By order of the Board

D Gilchrist, Company Secretary
Halifax plc, Trinity Road, Halifax
West Yorkshire HX1 2RG

28 September 1998"

The full text of the Appendix referred to in the resolutions set out above is reproduced below.

"Appendix – Amendments to the Articles and Memorandum

- (A) The Articles of Association of Halifax will be amended in the manner described below:
 - 1 after Article 153, the following Articles, which specify the rights which may be attached to the **Preference Shares**, will be inserted:
 - "154 **The rights of the Preference Shares**
 - 154.1 **Preference Shares** can be *issued* in one or more separate series, each of which will constitute a separate class of shares. Each series will be identified in the way that the **Directors** decide, and they do not have to make any changes to the Articles to do this. The rights of the **Preference Shares** and the restrictions which apply to them will be determined in accordance with Articles 154 to 161 and such other Articles as are relevant.
 - 154.2 The rights of the **Preference Shares** to share in profits and *assets rank* ahead of the rights of any other shares. Every **Preference Share** *ranks* equally with every other **Preference Share**. The **Preference Shares** also *rank* equally with any other shares, to the extent that the terms of those other shares say that they *rank* equally with the **Preference Shares**.
 - 154.3 A series of **Preference Shares** will also have the particular rights which the **Directors** decide to give them. The **Directors** must decide on the particular rights before the **Preference Shares** of that series are first *allotted*. The particular rights must not, however, conflict with the provisions of Articles 154 to 161. The terms of any series of **Preference Shares** can be set out in language which reflects the substance, rather than the language, of the Articles.
 - 154.4 The **Directors** can exercise the powers of **the Company's shareholders** under Article 6 to *consolidate* and/or divide shares in relation to the **Preference Shares**. This power is not intended to restrict the wider authority of the **Directors** to give extra rights to **Preference Shares**, or to restrict the authority given by Article 157.12.
 - 154.5 Where Articles 154 to 161 give the **Directors** the power to decide on the particular terms to be attached to any series of **Preference Shares**, these do not have to be the same as the particular terms which are attached to any existing series of **Preference Shares**.

10 General information

155 The rights of Preference Shares to profits

155.1 The **Preference Shares** have a right to a preferential dividend. Before any **Preference Shares** of any particular series are first *allotted*, the **Directors** must decide the following:

- the rate or rates of the dividend (which can be fixed or variable) or how the rate or rates will be decided;
- the date or dates when the dividend will be paid;
- the dates from which dividends will begin to *accrue* and the dates they *accrue* to;
- whether the dividend will be paid in, or based on, a different currency from the currency of the **Preference Shares**;
- whether the rights to receive a dividend are *cumulative* or not;
- in relation to **Non-Cumulative Preference Shares**, whether the provisions of Articles 155.7 to 155.10 will apply; and
- any other terms and conditions relating to the dividend which must be consistent with Articles 155.2 to 155.17.

To avoid any doubt, before any **Preference Shares** of any particular series are first *allotted*, the **Directors** can make it a term or condition of those shares that they will not have a right to a dividend, or that they will only have a right to a dividend in certain circumstances (for example, only after a certain period), or that they will have a right on the first dividend payment date after allotment to a different amount of dividend than would otherwise be paid for the period ended on that date on the basis of the rate decided by the **Directors**.

The **Preference Shares** will not have any other rights to share in the **Company's** profits.

155.2 If, on a dividend payment date, the **Directors** consider that the profits of the **Company** which can be distributed are enough to cover the full payment of:

- dividends on the **Preference Shares** (including any **dividend arrears** on any **Cumulative Preference Shares**); and
- all dividends which are payable at that time on any other shares whose rights say that they *rank* equally with the **Preference Shares** in sharing in profits (including any **dividend arrears** on any such shares which have rights to **cumulative dividends**),

then, *subject to* Article 155.5, the dividends on the **Preference Shares**, and on the other shares, must be *declared* and *paid in full*.

155.3 If, on a dividend payment date, the **Directors** consider that the profits of the **Company** which can be distributed are not enough to cover payment in full of the dividends referred to in Article 155.2, then, *subject to* Article 155.5, the **Directors** must use any distributable profits to *declare* a reduced dividend on the shares referred to in that Article. This will be paid in proportion to the dividends which would have been due on each of those shares, if there had been sufficient profits. The dividend which would have been due includes any **dividend arrears** on any of those shares which have rights to **cumulative dividends**.

155.4 If it turns out that the dividends should not have been paid, either in full or in part, as set out in Article 155.2 or 155.3, the **Directors** will not be liable for any loss which any **Preference Shareholder** might suffer as a result, as long as the **Directors** have acted in good faith.

155.5 If the **Directors** consider that paying any dividend on any **Preference Shares** would result in a breach of the *capital adequacy requirements* of the **FSA** which apply to the **Company** and/or any of its subsidiaries, none of that dividend will be **declared** or paid, unless the **FSA** otherwise agrees.

155.6 If any dividend, or part of a dividend, is not paid on any **Non-Cumulative Preference Shares** for any of the reasons given in Articles 155.3 and 155.5, the holders of those **Non-Cumulative Preference Shares** will not be entitled to make any claim for that dividend.

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- 155.7 If the **Directors** have decided that this Article applies to a particular series of **Non-Cumulative Preference Shares** before those shares are first *allotted* and if the whole or part of any dividend on any **Non-Cumulative Preference Shares** of that series is not paid for any of the reasons given in Articles 155.3 and 155.5, the **Directors** will, if the following condition is met, and as far as the **legislation** allows, *allot* and *issue* extra **Non-Cumulative Preference Shares** to the holders of those shares.

The condition is that there must be an amount in **the Company's** profit and loss account, or in any of **the Company's** *reserves* (including any *share premium account* and *capital redemption reserve*), which can be used for paying up the full *nominal value* of the extra **Non-Cumulative Preference Shares**, so that the extra **Non-Cumulative Preference Shares** can be *allotted* and *issued*.

The amount of unpaid dividend is called "the unpaid amount" in this Article. The extra **Non-Cumulative Preference Shares** will be credited as fully paid. The total *nominal value* of the extra **Non-Cumulative Preference Shares** to be *allotted* and *issued* will be equal to the unpaid amount, after deducting any associated tax credit, multiplied by a set amount, or worked out by using a formula. The **Directors** will decide on the amount or formula before *allotting* the extra **Non-Cumulative Preference Shares**. The extra **Non-Cumulative Preference Shares** will be *allotted* and *issued* when the unpaid amount was due to be paid.

- 155.8 To **pay up** in full the extra **Non-Cumulative Preference Shares** referred to in Article 155.7, the **Directors** will:

- *capitalise* from the *reserves* a sum equal to the total *nominal value* of the extra **Non-Cumulative Preference Shares**;
- set the sum aside for the holders of **Non-Cumulative Preference Shares** on the **Register** at the close of business on the record date for the relevant dividend (or another date if the **Directors** consider it appropriate) and use that sum to **pay up** in full the extra **Non-Cumulative Preference Shares**; and
- *allot* and *issue* the extra **Non-Cumulative Preference Shares** to the holders of the **Non-Cumulative Preference Shares** entitled to them.

- 155.9 The extra **Non-Cumulative Preference Shares** referred to in Article 155.7 will:

- be in the same currency as;
- have the same rights and restrictions as; and
- *rank* equally and proportionately with

the **Non-Cumulative Preference Shares** on which the dividend could not be paid in cash but the extra **Non-Cumulative Preference Shares** will not have any rights to the dividend which could not be paid in cash.

- 155.10 The **Directors** must call a General Meeting of **the Company's** shareholders if **the Company** cannot *allot* and *issue* the extra **Non-Cumulative Preference Shares** referred to in Article 155.7 because:

- there is not enough *authorised share capital*; and/or
- they are not authorised to *allot* enough **Non-Cumulative Preference Shares** under Section 80 of the **Companies Act**.

The **Directors** will propose resolutions at that meeting to increase the *authorised share capital*, and/or to grant the **Directors** the necessary authority to *allot* the extra **Non-Cumulative Preference Shares**.

- 155.11 The **Directors** can do anything which they think is necessary or convenient to carry out what is required by Articles 155.7 to 155.10.

10 General information

155.12 If the day when dividends are payable on the **Preference Shares** is not a **working day**, the dividend will be paid on the next **working day**. There will be no interest or other payment for any delay.

155.13 When **the Company** has to work out a dividend on the **Preference Shares** for less than or more than a full dividend period, the daily dividend rate will be worked out by dividing the yearly dividend rate by 365 days. This daily rate will then be multiplied by the actual number of days which have passed in that period to give the amount payable for the relevant period. The **Directors** can, however, decide before any **Preference Shares** of any particular series are first allotted that a different amount should be paid on those **Preference Shares** on the first dividend payment date after allotment.

155.14 In the circumstances set out below, **the Company** cannot:

- *redeem*, reduce, buy or otherwise acquire in any other way, any series of **Preference Shares** or any other shares which *rank* equally with, or behind, the **Preference Shares** in sharing in the *assets* of **the Company** and **the Company** may not set aside any sum nor establish any *sinking fund* for their *redemption*, reduction, purchase or acquisition; or
- *declare*, or set aside any sum for the payment of, any dividends on any series of **Preference Shares** or any other shares of **the Company** which *rank* equally with, or behind, the **Preference Shares** in sharing in **the Company's** profits, except as allowed by Article 155.15.

The Company cannot do any of these things if, in relation to all other series of **Preference Shares** and any other shares of **the Company** which *rank* equally with the **Preference Shares** and which have the benefit of the provisions of this Article:

- all dividends on **Cumulative Preference Shares** (including any **dividend arrears**) have not been fully paid, or a sum has not been set aside for full payment; or
- the dividends on **Non-Cumulative Preference Shares** have not been fully paid, or a sum has not been set aside for full payment, or, if the **Directors** have decided that the provisions of Articles 155.7 to 155.10 will apply to a particular series of **Non-Cumulative Preference Shares**, the extra **Non-Cumulative Preference Shares** have not been *allotted* and *issued* in accordance with those Articles, in each case, on the dividend payment date or dates (if any) or in respect of the dividend period or periods which the **Directors** decided on before the relevant **Non-Cumulative Preference Shares** were first *allotted*.

155.15 Nothing in Articles 154 to 161 stops the **Directors** paying a special dividend of up to one penny per share if they consider that this is necessary to allow any of **the Company's** shares to continue to be classed as "wider range investments" as defined in the Trustee Investments Act 1961 (as amended or re-enacted from time to time).

155.16 **The Company** will pay dividends on any redeemable **Preference Shares** on the Redemption Date on which they are due to be *redeemed*. If the Redemption Date on which those **Preference Shares** are due to be *redeemed* is not a dividend payment date, the dividend will *accrue* to that Redemption Date and will be calculated as provided in Article 155.13. The meaning of "**Redemption Date**" is given in Article 157.3. The payment restrictions in Articles 155.3, 155.5 and 155.14 will apply to the payment. Otherwise Article 155.16 applies despite anything else in Articles 154 to 161.

155.17 This Article applies to any **Preference Shares** which are *allotted* with the right to receive dividends in, or based on, a different currency from the currency of the **Preference Shares**. In the terms of the **Preference Shares**, the **Directors** can allow a dividend on the shares paid under Article 155.15 to be paid in a different currency from the currency of the **Preference Share**.

156 The rights of Preference Shares to capital

156.1 If capital is returned or any *assets* are distributed to **shareholders** for any reason (including **the Company** being *wound up*), each **Preference Share** will *rank* equally with every other

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Preference Share, and with any other shares whose terms say that they *rank* equally with them, in sharing in **the Company's assets**. The **Preference Shares** will *rank* ahead of all other shares in sharing in **the Company's assets**. This will not apply where the **Company** returns capital by *redeeming* or buying back any class of shares. If there is a return of capital to which this Article applies, each holder of a **Preference Share** will be entitled to receive all of the following from **the Company's assets** which can be distributed to its **shareholders**:

- repayment of the **amount** paid up on the **Preference Share**, or the **amount** treated as paid up on the **Preference Share**;
- any **premium** which was paid when the **Preference Share** was *issued*;
- the amount of any dividend which is due for payment on, or after, the date the *winding up* commenced, or the date capital was returned in any other way, which is payable for a period ending on or before that date;
- any **dividend arrears** on any **Cumulative Preference Shares** held by him; and
- a proportion of any dividend if the dividend period began before the *winding up* commenced, or capital was returned in any other way, but ends after that date. The proportion will be the amount of the dividend that would otherwise have been payable for the period which ends on that date. This applies even if the dividend has not been *declared* or *earned*.

156.2 If there is a return of capital or distribution of *assets* to which Article 156.1 applies, and there is not enough to pay the **amounts** due on the **Preference Shares** and on any other shares whose rights say that they *rank* equally with them in sharing in **the Company's assets**, the holders of the **Preference Shares** and the holders of those other shares will share what is available in proportion to the **amounts** to which they are entitled. The holders of the **Preference Shares** and the holders of those other shares will be given preference over the holders of other classes of shares which *rank* behind them in sharing in **the Company's assets**.

156.3 No **Preference Share** gives any other right to share in **the Company's assets**.

157 Redeeming Preference Shares

157.1 **The Company** can *redeem* each series of **Preference Shares** in the way set out in Article 157, *subject to* the **legislation** and Article 157.13. A particular series of **Preference Shares** cannot, however, be *redeemed* if the **Directors** have decided, before the **Preference Shares** of that series have been first *allotted*, that the **Preference Shares** of that series cannot be *redeemed*.

157.2 When a **Preference Share** is *redeemed*, the following will be paid in sterling for each **Preference Share**:

- the amount of the *nominal value* paid up on the **Preference Share**, or the amount of the *nominal value* treated as paid upon it;
- any dividend which has *accrued* and is due on the Redemption Date on which the **Preference Share** is due to be *redeemed* (which will be included in the redemption payment if the **Directors** have decided before the **Preference Shares** are first *allotted*); and
- any *premium* paid when the **Preference Shares** was *issued*, if the **Directors** have decided before any **Preference Shares** of that series were first *allotted* that this *premium* should be paid when that share is *redeemed*.

157.3 In order to *redeem* some or all of the **Preference Shares** of a particular series on a Redemption Date applicable to that series, **the Company** will give the holders of that particular series of **Preference Shares** notice *in writing* containing the information required by Article 157.5 (a "**Redemption Notice**"). The meaning of "Redemption Date" is given below.

For holders of **Preference Shares** with a fixed rate of dividend, the Redemption Notice must be given at least 30 days before the Redemption Date, but not more than 60 days before. For

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holders of **Preference Shares** with a variable rate of dividend, the Redemption Notice must be given at least 20 days before the Redemption Date, but not more than 60 days before.

Unless the **Directors** decide otherwise before **Preference Shares** of that series are first *allotted*, the Redemption Date for any series of **Preference Shares** will be any date, which falls on or after the date the **Directors** have chosen as the first date on which the **Preference Shares** of that series can be *redeemed* (the “**first Redemption Date**”) before any **Preference Shares** of that series were first *allotted*. The first Redemption Date for any series of **Preference Shares** must not be less than five years and one day after the **Preference Shares** of that series were first *allotted*. The **Directors** may also decide before any **Preference Shares** of any series are first *allotted* that any Redemption Date after the first Redemption Date will only occur:

- at specified intervals after the first Redemption Date;
- after a period following the Redemption Date which precedes it; or
- on particular dates.

For any series of **Preference Shares** which is first *allotted* after Section 159(A) of the **Companies Act** comes into force, the **Directors** may, before that series is first *allotted*, in addition to, or instead of, the dates referred to earlier in Article 157.3:

- fix a date when the shares will be, or may be, *redeemed*;
- fix a date by which the shares will be, or may be, *redeemed*; and/or
- fix dates between which the shares will be, or may be, *redeemed*.

157.4 If the **Company** is only going to *redeem* some of a series of **Preference Shares**, it will arrange for a draw to decide which **Preference Shares** to *redeem* on such basis as the **Directors** consider appropriate at the time. This will be drawn at the **Registered Office** or at any other place which the **Directors** decide on. The **Auditors** must be present at the draw.

157.5 A Redemption Notice must state:

- the Redemption Date on which the **Preference Shares** are due to be *redeemed*;
- the number of **Preference Shares** which are to be *redeemed*;
- the redemption payment (specifying details of the amount of any dividend which may have *accrued* but is unpaid, which will be included in the redemption payment if the **Directors** have so decided before the **Preference Shares** are first *allotted*);
- the place or places, where documents of title for the **Preference Shares** must be presented and surrendered, and where the redemption payment will be made, in the case of **Preference Shareholders** who hold their **Preference Shares** in *certificated form*; and
- details of the *issuer-instruction* to be sent to the *relevant system* by the **Company** requesting the deletion of the entries in the *relevant system* relating to the relevant **Preference Shares**, in the case of **Preference Shares** held in *uncertificated form*.

On the relevant Redemption Date, the **Company** will *redeem* the relevant **Preference Shares**. This is *subject to* the other provisions of Article 157 and also to the **legislation**. If the Redemption Notice is defective in any way, or not given properly, the *redemption* will still be valid.

157.6 The redemption payment will be made by:

- a sterling cheque drawn on any bank in London; or
- a transfer to a sterling account held by the person to be paid at any bank in London, if the holder or joint holders has or have requested this before the date given in the Redemption Notice; or
- any other method which the **Directors** may decide on and which is specified in the Redemption Notice.

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157.7 In the case of **Preference Shares** held in *certificated form*, payment will be made when the relevant share certificate is presented and surrendered at the place, or any of the places, stated in the Redemption Notice. If a certificate is for more **Preference Shares** than are to be *redeemed*, **the Company** will send a certificate for the balance. This certificate will be sent within 14 days of redemption to the registered holder, or to the first-named joint holder, free of charge, but at the holder's risk.

In the case of **Preference Shares** held in *uncertificated form*, payment will be made when **the Company** has received confirmation from the *relevant system* of the deletions of the relevant entries on the *relevant system*.

157.8 All redemption payments will be made after complying with any tax laws, and any other laws, which apply.

157.9 The dividend on any **Preference Shares** which are to be *redeemed* will stop *accruing* from the date on which the redemption payment is due. But if the redemption payment is wrongly withheld or refused after it has become due, the dividend will be treated as continuing to *accrue*. This will be at the rate or rates which would have applied without the *redemption*, and will apply from that date until the day the redemption payment is made. The **Preference Shares** will not be treated as having been *redeemed* until the redemption payment has been made.

157.10 If the date on which the redemption payment is due is not a **working day**, then the payment will be made on the next **working day**. There will be no interest or other payment for the delay.

157.11 If the holder of any **Preference Share** which is being *redeemed* gives **the Company** a receipt for the redemption payment, or if the law treats him or her as giving a receipt, this will establish conclusively that **the Company** has carried out its obligation completely. If a **Preference Share** is held jointly, this will apply to any receipt, or anything the law treats as a receipt, from the first-named joint holder.

157.12 *Subject to any restriction in the Companies Act*, if **the Company** *redeems* or buys back any **Preference Shares**, the **Directors** can do either or both of the following things relating to the **share capital** representing the **Preference Shares**:

- change the *nominal amount* of **Preference Shares** into **Preference Shares** of a larger or smaller *nominal amount*; or
- convert this capital into shares of any other class of **share capital** in the same currency which exists at the time, or into unclassified shares in the same currency, with as near as possible the same total *nominal amount*.

Article 6 will apply to any change to the amount of **Preference Shares** which is carried out under Article 157.12.

157.13 **The Company** cannot *redeem* any **Preference Shares** unless it has received the prior consent of the **FSA** (if **the Company** is required to obtain such consent). If the **FSA** does consent to any *redemption*, it may impose any conditions at the time it gives the consent with which **the Company** must comply.

158 The voting rights of Preference Shares

158.1 *Subject to Article 158.2*, the holders of any series of **Preference Shares** are only entitled to receive notice of General Meetings, or to attend, speak and vote at General Meetings, if any of the following apply:

- a resolution is going to be proposed at the meeting which would vary or *abrogate* the rights attached to that series of **Preference Shares**. In this case, they are only entitled to speak to and vote on this resolution; or
- a resolution is going to be proposed at the meeting to *wind up the Company*. In this case they are only entitled to speak to and vote on this resolution; or

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- any other circumstances have arisen which, the **Directors** decided before the **Preference Shares** of that series were first *allotted*, would give the **Preference Shareholders** of that series a right to attend and speak and vote at meetings.
- 158.2 If, on the dividend payment date which occurs immediately before the date of notice of any General Meeting of **the Company**, a dividend for the relevant series of **Preference Shares** has not been *declared* and paid in full or, in the case of a series of **Non-Cumulative Preference Shares** to which the **Directors** have decided that the provisions of Articles 155.7 to 155.10 will apply, the extra **Non-Cumulative Preference Shares** have not been *allotted* and *issued*, the holders of the **Preference Shares** of that series will be entitled to speak and vote on all resolutions proposed at that meeting. These rights of the holders of the **Preference Shares** of the relevant series will continue until, in the case of **Cumulative Preference Shares**, the **Company** has paid all unpaid dividends in full or, in the case of **Non-Cumulative Preference Shares**, payment of dividends has been resumed in full or, if the provisions of Articles 155.7 to 155.10 apply, the extra **Non-Cumulative Preference Shares** have been *allotted* and *issued*.
- 158.3 The **Preference Shareholders** of any series can also require there to be a General Meeting if the **Directors** have decided, before the **Preference Shares** of that series were first *allotted*, that those **Preference Shareholders** can do this. The **Directors** can decide when and how those **Preference Shareholders** can do this. If those **Preference Shareholders** require there to be a General Meeting in this way, the **Directors** must call the meeting as soon as it is practicable to do so.
- 158.4 If a **Preference Shareholder** can vote at a meeting, a **Preference Shareholder** who attends personally or a *proxy* (other than the chairman of the meeting in his capacity as a *proxy*) or a *company representative*, in each case who is present in person, will have one vote on a *show of hands*. If there is a *poll*, a **Preference Shareholder** who attends personally, or who appoints a *proxy* or a *company representative*, will have one vote for every £1 *nominal value* of **Preference Share** of which he or she is the holder. Other provisions in the **Articles** relating to voting rights will also apply to **Preference Shareholders**.

159 Buying back Preference Shares

The **Company** can buy back any **Preference Shares** which have been *issued*, on the terms and conditions decided on by the **Directors**, provided that it has obtained the prior consent of the **FSA** (if the **Company** is then required to obtain such consent). The **Preference Shares** can be bought back:

- through the market;
- by tender (which will be available to all holders of **Preference Shares** alike); or
- if the **Directors** decide before the **Preference Shares** of any particular series are first *allotted*, by private arrangement.

The **Directors** must comply with the **legislation** and, if it applies, with Article 155.14.

160 Varying the rights of Preference Shares

- 160.1 The rights of the holders of any series of **Preference Shares** will be regarded as being varied or *abrogated* if:
- the **Directors** seek to authorise, create or increase the **amount** of any class of shares, or other securities which can be converted into any class of shares, which *rank* ahead of the **Preference Shares** of the relevant series in sharing in the profits or *assets* of the **Company**;
 - immediately following a *capitalisation* of any *reserves* which are capable of being distributed to **shareholders** (other than in the case of distributable *reserves* which are being *capitalised* for the purposes of *allotting* and *issuing* extra **Ordinary Shares** to **Ordinary Shareholders** as permitted under Article 135 or for the purposes of *allotting* and *issuing* extra **Non-Cumulative Preference Shares** to **Preference Shareholders** as permitted under Article 155.7), the *reserves* which are held by the **Company** and its **subsidiaries** and are capable of being distributed would amount, in total, to less than a

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multiple, decided on by the **Directors** before the **Preference Shares** of the relevant series are first *allotted*, of the total annual amount of any dividends payable in respect of all **Preference Shares** in *issue* at the time of that *capitalisation*;

- any other series of **Preference Shares** or any other class of shares of the **Company** which is to *rank* equally with the **Preference Shares** in some or all respects is created or *issued* or any securities are created or *issued* which are convertible into **Preference Shares** or those other shares, if, where the **Preference Shares** of the relevant series are **Cumulative Preference Shares**, the dividend payment on those **Preference Shares** (including any **dividend arrears**) has not been paid in full or, where the **Preference Shares** of the relevant series are **Non-Cumulative Preference Shares**, the dividend payment on the **Preference Shares** of the relevant series has not been paid in full on the dividend payment date which occurs immediately before the creation or *issue* of those shares or securities or, in the case of **Non-Cumulative Preference Shares** to which the **Directors** have decided that the provisions of Articles 155.7 to 155.10 will apply, if the extra **Non-Cumulative Preference Shares** have not been *allotted* and *issued* in respect of that dividend payment; or
- any resolution is passed for the reduction of the amount of capital paid up on the **Preference Shares** of the relevant series.

Accordingly, these events can only take place if:

- holders of at least three quarters in *nominal value* of all **existing Preference Shares** of the relevant series agree **in writing**; or
- an *Extraordinary Resolution*, passed at a separate meeting of the holders of the **existing Preference Shares** of the relevant series approves the proposal in accordance with Article 38.3.

Whenever the rights attached to **existing Preference Shares** of any particular series differ from the rights attached to **existing Preference Shares** of any other series and some matter arises which would amount to a variation or *abrogation* of the rights attached to all the **Preference Shares** of those series, if the effect of that variation or *abrogation* on all the **Preference Shares** of those series is, in the opinion of the **Directors**, substantially the same, the rights attached to all the **Preference Shares** of those series may be varied or *abrogated* by the agreement **in writing** of the holders of at least three quarters in *nominal value* of all the **Preference Shares** of those series or with the approval of any *Extraordinary Resolution*, passed at a separate meeting of the holders of all the **Preference Shares** of those series. Whenever this provision applies, all the holders of the **Preference Shares** of the relevant series shall be treated as holding **Preference Shares** of a single class.

However, this does not of itself restrict the **Company's** ability to *redeem*, or buy back, any shares before returning *assets* to **Preference Shareholders**.

160.2 *Subject to* Article 160.1 and unless the **Directors** decide otherwise before the **Preference Shares** of any particular series are first *allotted*, the *special rights* which apply to those **Preferences Shares** will not be varied if:

- any other series of **Preference Shares** is created or *issued*;
- any other shares are created or *issued* which *rank* equally with, or behind, the **Preference Shares** in sharing in the **Company's** profits or *assets*; or
- the **Company** *redeems* or buys back any of its shares which *rank* equally with, or behind, those **Preference Shares** in sharing in the **Company's** profits or *assets*.

For the avoidance of doubt, any shares of any other class which are created or *issued* which *rank* equally with the **Preference Shares** in sharing in the **Company's** profits or *assets* may have the benefit of the rights set out in Article 155.14.

160.3 If a new series of **Preference Shares**, or any other class of shares, is created, or *issued*, which *rank*s equally with the **existing Preference Shares** in sharing in the profits or *assets* of the **Company**, these can either have the same rights as, or different rights from, **existing Preference**

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Shares. This will not, of itself, be treated as varying the rights of the **existing Preference Shares**. For example:

- the rate of the dividend on the shares can be different;
- the way that the dividend is worked out can be different;
- the payment dates for dividends can be different;
- the date from when the shares are entitled to dividends can be different;
- the *premium* may or may not be paid if capital is returned on the shares;
- **the Company** can *redeem* the new shares or they can be *non-redeemable*;
- if **the Company** can *redeem* the new shares, the *redemption* can be on different dates, and on different terms, from those which apply to the **existing Preference Shares**;
- the new shares can be converted (on the terms and conditions set before the new shares are first allotted) into **Ordinary Shares**, or into any other class of shares which *rank* equally with, or behind, the **existing Preference Shares** in sharing in the profits or *assets* of **the Company**;
- the new shares can be in any currency or denomination; and/or
- the new shares can be in any basket of currencies if the **legislation** allows.

161 Converting Preference Shares into other shares

161.1 If any **Preference Shares** are *issued* which can be converted into **Ordinary Shares**, or into any other class of shares which *rank* equally with, or behind, **existing Preference Shares** in sharing in the profits and *assets* of **the Company**, these are called “**Convertible Preference Shares**”. If the Convertible Preference Shares become due to be converted, the **Directors** can decide that they will be converted as set out in Article 161.2 or in any other way which the **legislation** allows.

161.2 The **Directors** can decide to *redeem* any Convertible Preference Shares at their *nominal value*. The *redemption* must be made out of the proceeds of a fresh *issue* of **Ordinary Shares** or any other shares into which they can be converted and the following will apply:

- the Convertible Preference Shares will give their holders the right and obligation to *subscribe for* the number of **Ordinary Shares**, or other shares, set by the terms of the Convertible Preference Shares;
- the new shares will be *subscribed for* at the *premium* (if any) which is equal to the redemption money, less the *nominal amount* of the new shares. If the Convertible Preference Shares are not in sterling, the **Directors** will decide on the equivalent amount of sterling to work out the *premium*;
- each holder of Convertible Preference Shares will be treated as authorising and instructing the **Company Secretary**, or anybody else the **Directors** decide on, to *subscribe for* the shares in this way, and to borrow money in anticipation of the *redemption* of the Convertible Preference Shares. This cannot be *revoked*; and
- if a holder of Convertible Preference Shares converts them, or if someone does this for him or her, he or she will be treated as authorising and instructing the **Directors** to pay his or her redemption money to the **Company Secretary**, or anybody else the **Directors** decide on, and to *subscribe for* the new shares. If the redemption money is not in sterling, the **Directors** can decide how this is to be converted into sterling before being paid.”

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- 2 certain consequential amendments will be made to the **Articles** in the following manner:
- 2.1 by the insertion in Article 2, at the appropriate places within that Article, of the following definitions:
- | | |
|-----------------------------------|--|
| "dividend arrears" | any dividend arrears. This would apply to any dividends on shares with a right to <i>cumulative dividends</i> , which could not be paid, but which have been carried forward. |
| existing Preference Shares | Preference Shares which are <i>in issue</i> at the relevant time. |
| FSA | the Financial Services Authority or any other person or body which is the regulator of the Company's banking business at the relevant time. |
| Preference Shares | the Company's preference shares.

Any Preference Shares with a right to <i>cumulative dividends</i> are called Cumulative Preference Shares . Any Preference Shares with a right to <i>non-cumulative dividends</i> are called Non-Cumulative Preference Shares . |
| Preference Shareholder | a holder of the Company's Preference Shares ." |
- 2.2 by the deletion of the existing Article 3 and the insertion of a new Article 3 as follows:
- "3 Form of the Company's Share Capital**
- 3.1 **The Company's** share capital at 18 November 1998, being the date of the amendment of the **Articles**, consists of 3,300,000,000 **Ordinary Shares** of 20p each and 1,000,000,000 **Preference Shares** of £1 each.
- 3.2 The rights of **the Company's Ordinary Shares** to income and capital are as follows:
- 3.2.1 Rights to income
- Any profits of any financial year which the **Directors** or **Ordinary Shareholders** (*subject to* Article 124) decide to distribute to the **Ordinary Shareholders** in proportion to the **amounts** paid up on their **Ordinary Shares**. This is *subject to* the rights of any other class of shares which then exist (including the rights of the **Preference Shares**).
- 3.2.2 Rights to capital
- If there is a return of capital because **the Company** is *wound up*, **the Company's assets** which are left after paying its *liabilities* will be distributed to the **Ordinary Shareholders** in proportion to the **amounts** paid up on their **Ordinary Shares**. This is *subject to* the rights of any other class of shares which then exist (including the rights of the **Preference Shares**).
- 2.3 by the insertion in Article 8 of the words "Subject to the terms of any **Preference Shares** *in issue*," at the beginning of the first sentence.
- 2.4 by the insertion in Article 9 of the words "Subject to the terms of any **Preference Shares** *in issue*," at the beginning of the first sentence.
- 2.5 by the insertion in Article 10.1 of the phrase "Subject to Article 10.4," at the beginning of the first sentence and by the deletion of the existing Article 10.4 and the insertion of the following:
- "10.4 The rights of any new shares must not vary or *abrogate* any *special rights* already given to any other class of shares unless the holders of those shares have given their approval in the way required by Article 38.
- 10.5 The **Directors** can make it a term of any **Preference Shares** of a particular series that they can only be transferred as a unit together with another right or security. This can be for a limited period, or at all times, or until an event happens. The **Directors** must decide

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on any restrictions of this kind before the **Preference Shares** are first *allotted*. Articles 40 to 44 (transferring shares) will apply to these **Preference Shares**, but the **Directors** can refuse to register a transfer of any of the **Preference Shares** to which this Article 10.5 applies if they are not transferred with the other right or security. To avoid any doubt, if any of these **Preference Shares** are to be quoted on the **London Stock Exchange**, they must comply with its regulations.”

2.6 by the insertion of the following additional sentence at the end of Article 38.1:

“Article 38 is *subject to* what is said in Article 160 about varying the rights of the **Preference Shares**.”

and by the insertion in Article 38.4 of the following words at the end of the first sentence:

“, unless the terms of those shares require changes to be approved in some other way”

2.7 by the insertion in Article 40 of the following words in the first sentence after the word “otherwise”:

“and *subject to* the terms of *issue* of any **Preference Shares**.”

2.8 by the insertion in Article 51 of a new Article 51.2 with the result that the existing Article 51 will be renumbered Article 51.1 and its sub-paragraphs will be renumbered accordingly. Article 51.2 will read as follows:

“51.2 In this Article 51.2, “**Unclaimed Preference Shares**” means **Preference Shares** which are *issued* to the person appointed as *trustee* for the Unclaimed Preference Shares (or a nominee for such person) in connection with a transfer of the business of a building society to **the Company** (either on or before the date on which the business of that building society vests in **the Company** in accordance with Section 97 of the Building Societies Act 1986 (as amended) (the “**Vesting Day**”)), which have not been claimed by the person entitled to them under the transfer agreement effecting the transfer of the business of the relevant building society to **the Company** under Section 97 or, if that person has died, by the person *entitled to the shares by law*.

51.2.1 **The Company** can sell any Unclaimed Preference Shares at the best price reasonably obtainable if:

- during the three years following the relevant **Vesting Day**, no person has given notice to **the Company** or to the registered holder of the Unclaimed Preference Shares, that he is entitled to claim those **Preference Shares**;
- on or after the expiry of this three year period, **the Company** announces that it intends to sell the Unclaimed Preference Shares by placing an advertisement in a leading national newspaper in the United Kingdom and in at least one newspaper appearing in the area which includes the last known address held by the relevant building society of the person entitled to those **Preference Shares**;
- during the three year period and for three months after the last of these advertisements appears, **the Company** has not received a claim for those **Preference Shares** together with registration details in a form satisfactory to **the Company**, from the person entitled to them; and
- **the Company** has notified the **London Stock Exchange** that it intends to sell the Unclaimed Preference Shares.

51.2.2 To sell the Unclaimed Preference Shares in this way, any person who is the registered holder for and on behalf of the person entitled to the Unclaimed Preference Shares which **the Company** is proposing to sell must, at the request of **the Company**, effect a transfer of those **Preference Shares** to any other person in accordance with **the Company's** instructions. If that person fails to effect the transfer at the request of **the Company**, **the Company** can appoint any person to

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effect a transfer of the **Preference Shares**. A transfer effected by a person appointed by **the Company** will be just as effective as if it had been effected by the registered holders of the shares. The ownership of the person to whom the shares are transferred will not be affected even if the sale is irregular or invalid in any way.

- 51.2.3 The net sale proceeds (called the “**money**” in this Article 51.2) belong to **the Company** until claimed under this Article 51.2, but, unless and until the money has been *forfeited* under Article 51.2.5, it must pay the money to the person who would have been entitled to claim the **Preference Shares** or would have been *entitled to the shares by law*, if the relevant person claims it.
- 51.2.4 After the sale, **the Company** must record the name of the person entitled to claim the shares as a creditor for the money in its accounts, unless and until the money has been *forfeited* under Article 51.2.5. **The Company** will not be a *trustee* of money and will not be liable to pay interest on it. **The Company** can use the money, and any money earned by using the money, for its business or in any other way that the **Directors** decide, but the money cannot be invested in **the Company’s** shares or in those of any *holding company* of **the Company**.
- 51.2.5 If no valid claim for the money has been received by **the Company** under this Article 51.2 during a period of nine years from the date on which the relevant Unclaimed Preference Shares were sold by **the Company** under this Article 51.2, the money will be *forfeited* and will belong to **the Company**.
- 51.2.6 The **Directors** may *issue fully paid Preference Shares* at any time in order to satisfy a claim for **Preference Shares** by a person who, but for an error in the records of the relevant building society, would have been entitled to them under the relevant transfer agreement or, if that person has died, by the person *entitled to those shares by law*. When *issuing* the **Preference Shares**, the **Directors** may *capitalise* a sufficient sum to pay up the **Preference Shares** in full from any of **the Company’s reserves** or from funds which **the Company** is holding as net profit and Article 134.2 or 160.1 shall not apply to this *capitalisation*. The power to *issue* and pay up the **Preference Shares** is *subject to* the **Directors** having the necessary authority to *allot* a sufficient number of relevant securities.”
- 2.9 by the deletion in Article 132 of “unclaimed shares” in the first sentence and by the insertion of “either Unclaimed Shares, in the case of Article 51.1, or Unclaimed Preference Shares, in the case of Article 51.2” in its place.
- 2.10 by the insertion in Article 134.1 of the following at the beginning of the first sentence:
“Subject to Article 160.1,”.
- 2.11 by the insertion in Article 150 of the following words at the end of the first sentence:
“, *subject to* the rights of any class of share which then exists (including the rights of any **Preference Shares** of any particular series)”.
- 3 Article 50, which relates to shareholders who cannot be traced, will be amended as follows:
- 3.1 by the insertion in Article 50.3 of the following phrase between the words “but” and “it must”:
“, unless and until the money has been *forfeited* under Article 50.5”
- and by the deletion of the word “these” and the insertion of the words “the money” to replace it.
- 3.2 by the insertion in Article 50.4 at the end of the first sentence of the following phrase:
“, unless and until the money has been *forfeited* under Article 50.5.”
- 3.3 by the insertion of the following new Article 50.5:

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“If no valid claim for the money has been received by **the Company** under Article 50.3 during a period of six years from the date on which the relevant shares were sold by **the Company** under this Article 50, the money will be *forfeited* and will belong to **the Company**.”

- 4 Article 153 which provides that the Directors can arrange for the Company to purchase insurance for, or for the benefit of, certain persons, such as directors and employees, will be amended as follows:
- 4.1 by the deletion in Article 153.1 of the word “or” at the end of the fifth indented paragraph, the replacement of the full stop at the end of the sixth indented paragraph with “; or” and the insertion, as a new seventh indented paragraph, at the end of that Article of the following:
- any body, whether or not incorporated, acquired by **the Company** or by any **subsidiary of the Company** (including any building society, the business of which is transferred to **the Company** under Section 97 of the Building Societies Act 1986 (as amended)).”
- 4.2 by the deletion in the first indented paragraph of Article 153.2 of the word “or” between the words “*officers*” and “*employees*” and by the insertion in that indented paragraph of the phrase “, agents or consultants” after the word “*employees*”.
- (B) Clause 4.16 of the Memorandum of Association will be amended by the insertion of the words “, agents or consultants” after the word “*employees*” and by the deletion of the word “or” at the end of the fifth indented paragraph, by the replacement of the full stop at the end of the sixth indented paragraph with “; or” and by the insertion, as a new seventh indented paragraph, of the following:
- any body, whether or not incorporated, acquired by **the Company** or by any **subsidiary of the Company** (including any building society, the business of which is transferred to **the Company** under Section 97 of the Building Societies Act 1986 (as amended)).”
- 10.2.6** The only issues of shares that have been made by Halifax during the three years immediately preceding the date of this document are as follows:
- 2,509,500,000 Ordinary Shares issued to Halifax Building Society on 27 May 1997 at nominal value
 - 9,393,346 Ordinary Shares issued to Halifax Quest Trustees Limited on 17 December 1997 at £7.665 per Ordinary Share
 - 5,327,650 Ordinary Shares issued to Halifax Quest Trustees Limited on 11 March 1998 at £9.385 per Ordinary Share.
- 10.2.7** The authorised but unissued share capital of Halifax may be allotted and issued by the directors subject to the restrictions imposed by section 80 and, in the case of Halifax’s Ordinary Share capital, section 89 of the Companies Act and in compliance with the rules of the London Stock Exchange. The provisions of section 89(1) of the Companies Act confer on holders of Ordinary Shares rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash.
- 10.2.8** The Preference Shares will be created by a Board resolution of Halifax to be passed on or before the Vesting Date pursuant to the authority proposed to be granted to the Board by the resolution set out in paragraph 10.2.5 above.
- 10.2.9** The Preference Shares are not available in whole or in part to the public in conjunction with the application for the Preference Shares to be admitted to the Official List.

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10.2.10 The following table shows the authorised and issued ordinary share capital of Halifax as at 23 October 1998, being the latest practicable date prior to the publication of this document.

	Authorised		Issued and fully paid	
	Number	Amount	Number	Amount
Ordinary Shares	3,300,000,000	£660,000,000	2,447,147,389	£489,429,477.80

(i) The Company has announced a programme for the repurchase of up to £1 billion of its Ordinary Shares of which £664,045,148.76 has been purchased for cancellation as at 23 October 1998.

10.2.11 Rights over Ordinary Shares under the Sharesave Scheme

Date of Grant	Scheme	Price and consideration	Number of Ordinary Shares
2 July 1997	Halifax plc Sharesave Scheme	£5.80	31,780,894
28 August 1998	Halifax plc Sharesave Scheme	£5.79	5,861,107

Rights under the Sharesave Scheme will normally lapse six months after the end of the relevant savings period, which is either three, five or seven years.

10.3 Memorandum and Articles of Association

10.3.1 Memorandum of Association

At the extraordinary general meeting of Halifax convened for 18 November 1998, a special resolution will be proposed which, amongst other things, will amend the Memorandum of Association of Halifax in order to enable the directors to provide directors, officers and employees of certain businesses acquired by the Halifax Group with pensions, allowances, gratuities, bonuses and insurance cover in respect of their pre-acquisition activities. The full text of this special resolution is set out in paragraph 10.2.5.

The Memorandum of Association of Halifax provides, in clause 4.2, that its principal objects, or main purposes, are to carry on the business of banking and the provision of financial services and estate agency, in each case in all their forms. The Memorandum of Association provides that Halifax has the power to issue notes and other securities, to receive cash and securities and any kind of valuables (on deposit, or for safe keeping, or in any other way), to borrow, raise and take in money in any way and on any terms, to deposit or lend or advance money or securities or other property (with or without taking security), to deal in foreign exchange and to issue or subscribe or otherwise to deal with or trade in obligations, instruments, securities or derivative instruments. In common with other public limited companies, the Memorandum of Association includes a number of additional objects which enable it to carry on a wide range of business, including the acquisition of securities of any person and the acquisition of property, business or rights.

The objects of Halifax are set out in full in clause 4 of the Memorandum of Association and the proposed amended objects of Halifax are set out in full in the amended Memorandum of Association. Both the current and the proposed amended Memorandum of Association are available for inspection as described in paragraph 10.8 below.

10.3.2 Articles of Association

Details of the rights attaching to the Company's Ordinary Shares and the rights attaching to the proposed Preference Shares can be found in sections 3 and 2 of this document respectively. Details of the proposed amendments to the Articles contained in the special resolution to be put to shareholders at the extraordinary general meeting of Halifax convened for 18 November 1998 are set out in paragraph 10.2.5 above. If the special resolution is passed, the amended Articles will take effect immediately following the passing of the special resolution. The Articles contain (amongst others) provisions to the following effect:

(A) Shareholders' meetings

An annual general meeting of shareholders must be held once in every year (within a period of not more than 15 months after the holding of the last preceding annual general meeting). The directors may convene an extraordinary general meeting of shareholders whenever they think fit.

General meetings may be held at such time and place as may be determined by the directors. An annual general meeting may be convened on at least 21 clear days' written notice to shareholders entitled to receive notices.

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Most extraordinary general meetings may be convened on at least 14 clear days' written notice, but extraordinary general meetings, at which it is proposed to pass certain types of resolutions, must be convened on at least 21 clear days' written notice. Two people, who may be shareholders or proxies for shareholders, must be present to constitute a quorum for all purposes at general meetings.

(B) Appointment of directors

Directors may be appointed by the shareholders or by the directors. If the directors appoint a director, he must retire at the first annual general meeting after his appointment, at which meeting he can be elected by the shareholders as a director and this retirement is not taken into account in deciding which and how many directors should retire by rotation at the annual general meeting.

(C) Unclaimed shares

- (i) "Unclaimed shares" means Ordinary Shares which were issued in connection with the transfer of the business of the Halifax Building Society to the Company (either before the vesting day for that transfer or under paragraph (iv) below) which have not been claimed by the person entitled to them. The "person entitled to the shares" is the person who is entitled to claim them under the Halifax Transfer Agreement effecting the transfer of the business of the Halifax Building Society to the Company or, if that person has died, by any person entitled to the shares by law.
- (ii) The Company can sell any unclaimed shares at the best price reasonably obtainable if:
 - (a) during the three years following listing, no person has given notice to the Company or to the registered holder of the unclaimed shares that he is entitled to claim those shares;
 - (b) on or after the expiry of this three year period the Company announces that it intends to sell those shares by placing an advertisement in a leading national newspaper in the United Kingdom and in at least one newspaper appearing in the area which includes the last known address held by the Company of the person entitled to the shares;
 - (c) during this three year period, and for three months after the last of these advertisements appears, the Company has not received a claim for the shares together with registration details in a form satisfactory to the Company from the person entitled to the shares; and
 - (d) the Company has notified the London Stock Exchange that it intends to sell the shares.
- (iii) The net sale proceeds (the "money") belong to the Company until claimed. The Company must record the name of the person entitled to claim the shares as a creditor for the money in its accounts and it must pay this money (without interest) to the person who would have been entitled to the shares (or would have been entitled to his shares by law) if he or she asks for it at any time during a period of nine years from the date of sale. After the expiry of this nine year period the money is forfeited and belongs to the Company.
- (iv) The directors may issue fully paid Ordinary Shares at any time in order to satisfy a valid claim for shares by a person entitled to them under the Halifax Transfer Agreement or, if that person has died, by the person entitled to those shares by law. When issuing these shares, the directors may capitalise a sufficient sum to pay up the shares in full from any of the Company's reserves or from funds which the Company is holding as net profit.

10.3.3 The amendments to the Articles which will be proposed at the extraordinary general meeting of the Company to be held on 18 November 1998 are described in paragraph 10.2.5 above.

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10.4 Description of properties

The principal properties of the Halifax Group are:

	Area in sq ft
<i>Freehold tenure</i>	
Head Office, Trinity Road, Halifax HX1 2RG	600,000
1 Lovell Park Road, Leeds LS1 1NS	522,000
Data and Distribution Centre, Wakefield Road, Copley, Halifax HX3 0TA	447,000
50 Cote Lane, Dawson's Corner, Farsley, Pudsey LS28 5YE	152,000
West Bank, Water Lane, Leeds LS11 5TL	160,000
Land and buildings at Normanton, West Yorkshire	48,000
<i>Leasehold tenure</i>	
33 Old Broad Street, London EC2N 1HT	183,000
Castlewood, Tickenham Road, Clevedon, Bristol BS21 6BD	89,000

10.5 Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into in the two years preceding the date of this document by Halifax or its subsidiary undertakings and are or may be material to the Halifax Group:

- (i) the Transfer Agreement, which is summarised in paragraph 10.6; and
- (ii) the Halifax Transfer Agreement.

The document noted in paragraph 10.5(ii) has previously been made available for inspection in accordance with the listing rules of the London Stock Exchange.

10.6 Summary of the Transfer Agreement

10.6.1 Introduction

The terms on which the business of BMBS (including all property, liabilities and goodwill and the right to carry on the business in succession to BMBS) is to be transferred to Halifax are required by the Act to be set out in a transfer agreement. The Transfer Agreement was entered into by BMBS and Halifax on 26 October 1998 and a copy of it is available for inspection as described in paragraph 10.8. The Transfer Agreement may be amended as directed by the Commission in the circumstances referred to in sections 98(5) and (6) of the Act or, by agreement between the parties to it. The approvals of the Transfer Agreement sought by the transfer resolutions to be put to members of BMBS at a Special General Meeting convened for 11 December 1998 will apply to any such amendments. A summary of the principal provisions of the Transfer Agreement is set out below.

10.6.2 Procedural steps

Under the Transfer Agreement, BMBS is obliged, amongst other matters, to convene a Special General Meeting of BMBS members, to despatch the Transfer Document together with voting forms for those persons eligible to vote and, if the transfer resolutions referred to above are passed, to apply to the Commission for confirmation of the Transfer. Halifax is obliged to convene an extraordinary general meeting of its shareholders in connection with the creation of the Preference Shares.

10.6.3 Conditions

The Transfer is conditional upon:

- (a) the resolutions of the borrowing and investing members of BMBS approving the Transfer being duly passed in accordance with the requirements of the Act and the Rules before 11 January 1999;
- (b) the Commission confirming the Transfer and its terms before 19 May 1999;
- (c) formal approval of this document and authorisation of the issue of the summary particulars derived from this document and contained in the Transfer Document by the London Stock Exchange before 30 November 1998;
- (d) the passing of the resolution set out in paragraph 10.2.5 by the shareholders of Halifax before 18 December 1998;

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- (e) the Financial Services Authority confirming that the authorisation of Halifax under the Banking Act 1987 will not be revoked immediately following the Vesting Date and Halifax confirming that such authorisation does not, and, so far as it is aware, will not immediately following the Vesting Date, have conditions imposed upon it;
- (f) all material consents, approvals, authorisations, licences or decisions being obtained in terms reasonably satisfactory to BMBS and Halifax;
- (g) there having been no revocation of BMBS's authorisation under section 9 of the Act nor conditions imposed by the Commission on such authorisation; and
- (h) the effective admission to the Official List on the Vesting Date of the Preference Shares and the Bonds.

If any of these conditions is not fulfilled or satisfied by the date specified above (or such other date as may be agreed between BMBS and Halifax) or, if no particular date is specified above, by the Vesting Date, the Transfer Agreement will terminate unless, in the case of the condition referred to in sub-paragraph (g), fulfilment has been waived in writing by Halifax only or, in the case of the conditions referred to in sub-paragraphs (e) (as to the imposition of conditions only) and (f), by BMBS and Halifax. BMBS and Halifax have agreed to use all reasonable endeavours to procure the due fulfilment or satisfaction of the conditions in accordance with the agreed timetable.

BMBS has agreed to comply with any directions given by the Commission pursuant to sections 98(5) and 98(6) of the Act unless such directions cannot be complied with.

10.6.4 Consideration for the Transfer

The consideration payable by Halifax in respect of the Transfer will be satisfied by distributions of cash and Preference Shares to those entitled under the BMBS Distribution Scheme. The total value of these distributions (calculated on the assumption that the value of each Preference Share distribution is £400 and that no distributions are unclaimed) will be £750 million.

10.6.5 Determination of the Vesting Date

Subject to the satisfaction or waiver of any of the conditions described in paragraph 10.6.3, the Vesting Date will be 19 April 1999 or, if BMBS and Halifax agree that such date is for any reason not achievable, 26 April 1999. If the conditions are not satisfied or waived in time to enable the Transfer to take place on or before 26 April 1999, the Vesting Date will be 31 May 1999 or such other date as may be agreed between BMBS and Halifax.

10.6.6 Representations and warranties

BMBS and Halifax make certain representations and warranties to each other. These relate to, among other matters, the information contained in the Transfer Document, certain financial information, events since the dates to which the financial information relates and the non-occurrence of events which would constitute a termination event for the purposes of the Transfer Agreement. In addition, Halifax represents and warrants to BMBS as to certain matters including the truth and accuracy of the information contained in this document and the summary particulars in respect of the Preference Shares and the Bonds contained in the Transfer Document. BMBS represents and warrants to Halifax as to certain matters in connection with its business and as to the state and condition of its membership records.

10.6.7 Undertakings

BMBS and Halifax have given certain undertakings to each other. A summary of the principal undertakings is set out below.

BMBS has undertaken to Halifax that prior to the Vesting Date or termination of the Transfer Agreement (whichever is the earlier) (i) it and its subsidiaries will continue to carry on their business in the ordinary course and BMBS will fully consult with Halifax or, as the case may be, seek Halifax's written consent before entering into certain arrangements, departing from its business as currently carried on by BMBS or altering certain contractual terms and arrangements in respect of BMBS's officers and employees; (ii) it will not solicit or enter into any discussions with any person regarding any transfer of its business to any third party, subject to the fiduciary duties of its board in relation to giving information or advice to the members in respect of the Transfer and it will notify Halifax of the details of any approach by any third party; (iii) it will, as soon as reasonably

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practicable, supply to Halifax all information relating to the BMBS Group as Halifax may reasonably consider needs to be contained in any listing particulars or circular that Halifax is to issue in relation to the Transfer or which is otherwise required as a legal or regulatory matter; (iv) it will notify Halifax on becoming aware of any event referred to in paragraph (a) or (b) of section 147(1) of the Financial Services Act 1986 which arises between the publication of this document and the commencement of dealings on the London Stock Exchange in relation to the Preference Shares and Bonds and upon becoming aware of any significant changes or new matters relating to the business of any member of the BMBS Group; (v) it will, if requested by Halifax after confirmation of the Transfer by the Commission, give notice to terminate (so long as there is no breach of obligation by any member of the BMBS Group in so doing) any agreement to which it is a party with effect from the Vesting Date or as soon as practicable thereafter; (vi) it will supply Halifax with a copy of all monthly management information that is provided to the BMBS board (other than documents containing or relating to analysis, comment or advice given to the BMBS board by BMBS's professional advisers or its officers or employees in relation to the Transfer or to Halifax or any of its subsidiaries, information which is subject to a confidentiality undertaking or legal privilege or information which the BMBS board determines to be unsuitable for disclosure); and (vii) it will use all reasonable endeavours to procure that KPMG provides written reports at agreed times in respect of the identification of potential recipients of cash or Preference Shares under the BMBS Distribution Scheme and the distributions to which they are entitled, such reports to be addressed to both BMBS and Halifax.

Halifax has undertaken to BMBS that prior to the Vesting Date or termination of the Transfer Agreement (whichever is the earlier) (i) it will, as soon as reasonably practicable, supply to BMBS all information relating to the Halifax Group as BMBS may reasonably consider needs to be contained in any document relating to the Transfer or which is otherwise required as a legal or regulatory matter; (ii) it will notify BMBS on becoming aware of any event referred to in paragraph (a) or (b) of section 147(1) of the Financial Services Act 1986 which arises between the publication of this document and the commencement of dealings on the London Stock Exchange in relation to the Preference Shares and the Bonds; and (iii) it will inform BMBS forthwith if at any time the Board of Halifax determines that it no longer intends to recommend to the shareholders of Halifax the passing of the resolution set out in paragraph 10.2.5. Halifax has also undertaken that it will procure that its subsidiary, HSDL, enters into arrangements to provide a share dealing facility free of charge for members of BMBS with registered addresses in the United Kingdom who are entitled to receive Preference Shares under the BMBS Distribution Scheme for a period of ten Business Days after the Vesting Date.

10.6.8 Termination

The Transfer Agreement will terminate (i) if any of the conditions described in paragraph 10.6.3 has not been fulfilled or waived as described in paragraph 10.6.3; (ii) if the Commission informs BMBS and Halifax that it will not confirm the Transfer and its terms; (iii) if the Vesting Date does not occur on or before 31 May 1999 (or such later date as may be agreed by the parties); (iv) upon BMBS notifying Halifax that the board of the Society no longer intends to recommend the Transfer following advice that the consideration for the Transfer is no longer fair and reasonable (provided that BMBS has not breached its undertaking not to solicit or enter into discussions with any person regarding any transfer of its business to a third party); or (v) upon notice being given to Halifax by BMBS following a non-recommended takeover offer for Halifax becoming or being declared unconditional in all respects.

BMBS is entitled to terminate the Transfer Agreement forthwith by written notice to Halifax if (i) Halifax commits a breach of certain of its obligations under the Transfer Agreement; (ii) Halifax is in breach of any of its undertakings to BMBS under the Transfer Agreement; (iii) Halifax is in material breach of any of the representations and warranties given by it under the Transfer Agreement; (iv) Halifax gives notice to BMBS that its Board has determined that it no longer intends to recommend to the shareholders of Halifax the passing of the resolution set out in paragraph 10.2.5; or (v) a court order is made prior to the Vesting Date or an effective resolution is passed for the dissolution or winding up of Halifax or for the appointment of a receiver, examiner, administrative receiver, administrator, trustee or similar officer prior to the Vesting Date (other than for the purposes of a reorganisation on terms previously approved by BMBS) over or in respect of Halifax.

Halifax is entitled to terminate the Transfer Agreement forthwith by written notice to BMBS if (i) BMBS commits a breach of certain of its obligations under the Transfer Agreement; (ii) BMBS is in breach of any of its undertakings to Halifax under the Transfer Agreement; (iii) BMBS is in material breach of any of the representations and warranties given by BMBS under the Transfer Agreement; (iv) BMBS gives notice to Halifax that the board of BMBS has determined that it no longer intends to recommend the Transfer to the members

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(other than where the board of BMBS has been advised that the consideration for the Transfer is no longer fair and reasonable); (v) any report to be delivered by KPMG to BMBS and Halifax contains an adverse opinion as to the identification of potential recipients of Preference Shares or cash under the BMBS Distribution Scheme and the distributions to which they are entitled; or (vi) an order is made or an effective resolution is passed pursuant to the Act for the winding up of BMBS or an instrument of dissolution of BMBS is executed pursuant to the Act or BMBS is dissolved in any other manner (other than for the purposes of a reorganisation on terms previously approved by Halifax) or BMBS's authorisation under section 9 of the Act is revoked or a direction is made in relation to BMBS pursuant to section 41 of the Act or a determination is made in relation to BMBS pursuant to section 25A(1)(a) of the Act.

10.6.9 Enforcement

Each of BMBS and Halifax have confirmed that members may enforce the rights relating to the BMBS Distribution Scheme conferred upon them by the Transfer Agreement as if they were, in respect of such rights, party to the Transfer Agreement. However, the representations, warranties, confirmations and undertakings given to BMBS are not enforceable by members or potential recipients of distributions under the BMBS Distribution Scheme.

10.6.10 Costs and expenses

The Transfer Agreement provides that, if the Transfer does not proceed in accordance with its terms by virtue of the termination of the Transfer Agreement by BMBS for cause, where a non-recommended takeover offer for Halifax has become or been declared unconditional in all respects or where the condition referred to in paragraph 10.6.3(a) has not been satisfied in accordance with the agreed timetable following a determination by the directors of Halifax not to recommend the passing of the relevant resolution, the sum of £10 million is to be paid by Halifax to BMBS. Similarly, if the Transfer does not proceed in accordance with its terms by virtue of the termination of the Transfer Agreement by Halifax for cause, where the condition referred to in paragraph 10.6.3(a) has not been satisfied in accordance with the agreed timetable following a determination by the directors of BMBS not to recommend the passing of the transfer resolutions to approve the Transfer, or where BMBS has been advised that the consideration for the Transfer is no longer fair and reasonable, the sum of £10 million is to be paid by BMBS to Halifax. BMBS and Halifax have agreed that the sum of £10 million represents a fair and justified amount for costs, expenses and damages which each would incur as a result of a breach of the Transfer Agreement by the other. In any other circumstances, the costs incurred by Halifax are to be borne by Halifax, the costs incurred by BMBS are to be borne by BMBS and joint costs are to be borne equally by Halifax and BMBS.

10.7 Litigation

Neither Halifax nor any of its subsidiary undertakings are or have been involved in any legal or arbitration proceedings nor, so far as the directors are aware, are any such proceedings pending or threatened by or against any member of the Halifax Group in any case which may have, or have had during the 12 months prior to the date of this document, a significant effect on the financial position of the Halifax Group.

10.8 Documents available for inspection

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of Linklaters & Paines, One Silk Street, London EC2Y 8HQ for a period from the date of this document until the Vesting Date:

- (i) the Memorandum and Articles of Association and the proposed amended Memorandum and Articles of Association of Halifax;
- (ii) a draft of the Trust Deed (subject to completion and amendment) in respect of the Bonds;
- (iii) the audited consolidated financial statements of Halifax Building Society for the year ended 31 January 1996 and for the 11 months ended 31 December 1996 and the audited consolidated financial statements of Halifax for the year ended 31 December 1997 and the six months ended 30 June 1998 together with the interim announcement of the unaudited consolidated results of Halifax for the six months ended 30 June 1998;
- (iv) the Transfer Agreement;

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- (v) the Halifax Transfer Agreement dated 20 December 1996;
- (vi) the consent referred to in paragraph 10.12.7 below;
- (vii) the directors' service agreements referred to in paragraph 10.9 below;
- (viii) the registrar's agreement dated 2 June 1997 between Halifax, Independent Registrars Group Limited and The Law Debenture Trust Corporation p.l.c. and a draft of the supplemental registrar's agreement between those parties (subject to completion and amendment) supplementing that agreement in respect of the Bonds;
- (ix) Bank of England: Monetary and Financial Statistics;
- (x) Print out from search of NOP Financial Research Survey (FRS); and
- (xi) Housing Finance (the Quarterly Economics Journal of the Council of Mortgage Lenders).

10.9 Directors' service agreements

10.9.1 Each of the executive directors has a service agreement with Halifax dated 28 May 1996.

In line with the recommendations of the Greenbury Report, the employment of each executive director can be terminated by 12 months' notice from Halifax to the executive director. Each executive director can terminate his employment by giving six months' notice to Halifax.

Details of the executive directors' salaries under their service agreements are as follows:

	Basic salary earned in the financial period ended 31 December 1997 £000	Basic salary from 1 May 1997 £000	Basic salary from 1 May 1998 £000
J M Blackburn	409	425	440
R F Boyes	230	240	248
J R Crosby	128(i)	220	228
M H Ellis	117(i)	200	220
G J Folwell	230	240	248
J A Lee	192	200	220
J R Miller	210	220	228

(i) Remuneration from 2 June 1997 when Messrs Crosby and Ellis were remunerated as directors of Halifax

These figures show salary only and do not include any benefits or payments under the Halifax plc Executive Bonus Scheme (which is described in paragraphs 7.4.3 to 7.4.5 above).

Each executive director is entitled to the benefit of a company car for business and personal use, 30 days' annual holiday and family private medical insurance. Other benefits may be provided at the discretion of the Remuneration, Senior Appointments and Nominations Committee.

The executive directors participated in the 1998 operation of the Halifax plc Executive Bonus Scheme which has short and long term parts (respectively, the 'Short Term Bonus Scheme' and the 'Long Term Bonus Scheme'). Under the 1998 operation of the Short Term Bonus Scheme, the directors can receive a bonus equivalent to a percentage of their basic annual salary, depending on Halifax's profits after tax for the year ending 31 December 1998. Bonuses of 15 per cent., 45 per cent. and a maximum of 60 per cent. of salary can be payable if profits are, respectively, five per cent. below the target level, at the target level or five per cent. or more above the target level. If profits are between these levels, bonuses may be determined on a straight line sliding scale. No bonuses will be payable if profits are less than the target level minus five per cent. Half of any bonus will be paid as cash and half as a conditional award of Ordinary Shares which will, in normal circumstances, be transferred to the director after three years.

In addition, under the 1998 operation of the Long Term Bonus Scheme, each executive director received a conditional award of Ordinary Shares equivalent to 100 per cent. of his basic annual salary. The Ordinary Shares may be released to the director, after three years, depending on the extent to which the performance condition has been met. The performance condition is based on the annualised total shareholder return ('TSR') of Halifax, compared to the annualised weighted average TSR of a basket of

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15 competitor companies. None of these Ordinary Shares will be released if Halifax's TSR is below the weighted average of the comparator group. One-third of these shares may be released if Halifax's TSR matches the weighted average of the comparator group. Two-thirds of these shares may be released if Halifax's TSR exceeds the weighted average of the comparator group by two per cent. per annum over the three year period. All of these shares may be released only if Halifax's TSR exceeds the weighted average of the comparator group by three per cent. per annum or more over the three year period. If Halifax's TSR is between these levels, the number of shares which may be released may be determined on a straight line basis.

Each of the executive directors is a member of the Halifax Retirement Fund which is an Inland Revenue approved defined benefit pension and life assurance scheme. The benefits of Messrs Ellis and Folwell are wholly provided out of the Halifax Retirement Fund. The benefits of Messrs Blackburn, Boyes, Crosby, Lee and Miller (who joined the Halifax Retirement Fund after the introduction of the earnings cap as defined in the Finance Act 1989) are provided partly out of the Halifax Retirement Fund and partly from separate unfunded arrangements with Halifax. The actuary to the Halifax Retirement Fund estimates that the costs to Halifax of providing pension and life assurance benefits over the future service periods of the executive directors are, as annual percentages of basic salaries, 82 per cent., 54 per cent., 21 per cent., 29 per cent., 39 per cent., 55 per cent. and 48 per cent. in respect of Messrs Blackburn, Boyes, Crosby, Ellis, Folwell, Lee and Miller, respectively. These costs are calculated on the funding assumptions adopted for the actuarial valuation of the Halifax Retirement Fund as at 31 March 1997 and do not distinguish between the costs of providing benefits from the Halifax Retirement Fund and the costs of providing benefits from separate unfunded arrangements.

Messrs Ellis and Folwell are entitled to a lump sum death-in-service benefit of four times basic salary under the Halifax Retirement Fund, Messrs Blackburn, Boyes, Crosby, Lee and Miller are entitled to a lump sum death-in-service benefit of four times the earnings cap under the Halifax Retirement Fund. Additional death-in-service life assurance is provided via separate arrangements for amounts of £1.5 million for Mr Blackburn and £500,000 for each of Messrs Boyes, Crosby, Lee and Miller. These amounts may be reviewed from time to time by Halifax.

The aggregate of the remuneration paid and benefits in kind granted by BMBS or any of its subsidiaries to John Leighfield in respect of the year ended 31 December 1997 was £47,088 payable by way of fees.

10.10 Interests in Halifax

In so far as Halifax is aware, at 23 October 1998, the latest practicable date prior to the publication of this document, there was no person who was directly or indirectly interested in three per cent. or more of the issued Ordinary Shares.

10.11 Investments in other undertakings

The main investment made by Halifax in other undertakings over the last three financial years and during the current financial year was the acquisition by Clerical Medical of the business of Clerical, Medical and General Life Assurance Society on 31 December 1996 for a consideration of £784 million.

10.12 Other

10.12.1 Year 2000

Halifax is currently reviewing all its computer systems and any computer links with third parties to ensure that they are Year 2000 compliant. Halifax has also established a programme to assess whether its major business partners and suppliers are or will be Year 2000 compliant by 31 December 1999.

Work on Year 2000 compliance is being prioritised throughout the Halifax Group and a team of specialists is managing this review and monitoring its progress. This team reports to a steering group chaired by the Deputy Chief Executive of Halifax. Work on this review commenced in 1996 and is on schedule to have all business critical systems compliant by 31 December 1998.

Although the directors believe that Halifax's systems will be Year 2000 compliant, it is also developing contingency plans which will be built into its existing business continuity arrangements.

The total cost of the review is estimated to be up to £80 million.

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10.12.2 Economic and Monetary Union ("EMU")

The introduction of the single European currency, the euro, on 1 January 1999 will directly affect Halifax's Spanish subsidiary, Banco Halifax Hispania, Clerical Medical International, which is based in Luxembourg and the fund management activities of Clerical Medical and its subsidiaries and Halifax Fund Management Limited. Both Spain and Luxembourg will be in the first wave of EMU entrants. Halifax's treasury operations will also be affected through the wholesale markets. Halifax's plans to ensure that these business areas are able to handle the introduction of the euro are on schedule.

Halifax's branch network and other business areas based in the United Kingdom will not be directly affected by the introduction of the euro in 1999. Halifax's systems will remain in sterling and the euro will be treated as a foreign currency. The directors do not anticipate that there will be significant demand for products denominated in euros from retail customers before the United Kingdom enters EMU. Halifax has, however, started planning for the possible entry of the United Kingdom into EMU and is involved in changeover plans being prepared by HM Treasury in consultation with the banking industry.

10.12.3 It is expected that listing of the Preference Shares on the London Stock Exchange will be granted on the Vesting Date, subject only to allotment, and that dealings in the Preference Shares will also commence on that date which is expected to be 19 April 1999. Transactions will normally be effected for settlement in sterling and for delivery on the fifth working day after the date of the transaction.

It is expected that listing of the Bonds on the London Stock Exchange will be granted on the Vesting Date, subject to issue, and that dealings will also commence on that date.

10.12.4 The estimated total expenses of the issue of the Preference Shares payable by Halifax (excluding any value added tax) are some £1.4 million.

10.12.5 There has been no significant change in the financial or trading position of the Halifax Group which has occurred since 30 June 1998, being the date to which the last audited financial statements were made up.

10.12.6 The auditor of Halifax is KPMG Audit Plc, Chartered Accountants and Registered Auditor, of 1 The Embankment, Neville Street, Leeds LS1 4DW who have audited the consolidated financial statements of Halifax Building Society for the 11 months ended 31 December 1996 and the consolidated financial statements of Halifax for the 11 months ended 31 December 1996, the year ended 31 December 1997, and the six months ended 30 June 1998. The registered auditors of Halifax Building Society for the year ended 31 January 1996 were KPMG, Chartered Accountants and Registered Auditors of the same address.

10.12.7 Deutsche Bank has given and has not withdrawn its written consent to the inclusion herein of its name and the references to it in the form and respective contexts in which they appear and has authorised such inclusions for the purposes of section 152(1)(e) of the Financial Services Act 1986.

Definitions

Act	the Building Societies Act 1986 as amended and, where the context requires, all statutory instruments, regulations and orders made under that Act;
admission, introduction or listing	admission of the Preference Shares and Bonds to the Official List in accordance with the rules of the London Stock Exchange;
Articles	the articles of association of Halifax at the date of this document;
amended Articles	the amended memorandum and articles of association of Halifax proposed to be adopted on 18 November 1998 at an extraordinary general meeting of Halifax;
ATM	automated teller machine;
BHH	Banco Halifax Hispania S.A.;
BMBS	Birmingham Midshires Building Society;
BMBS Distribution Scheme	the distribution scheme proposed by the directors of BMBS, under the terms of which certain members, employees and pensioners of BMBS and certain other persons are entitled to receive cash distributions or Preference Shares, as set out in the Transfer Agreement;
BMBS Group	BMBS and its subsidiaries;
Board	the board of directors of Halifax;
Bonds	the £50,000,000 9% per cent. Perpetual Subordinated Bonds of Halifax to be issued in replacement of the PIBS;
borrower	a person with indebtedness to a member of the BMBS Group in respect of one or more BMBS mortgages;
Business Day	a day (other than a Saturday, Sunday or a day which is a public holiday) on which banks in England are open for business;
Clerical Medical	Clerical Medical Investment Group Limited, the subsidiary of Halifax which acquired the business of Clerical, Medical and General Life Assurance Society;
Commission	the Building Societies Commission;
Companies Act	the Companies Act 1985 as amended and, where the context requires, all statutory instruments, regulations and orders made under that Act;
CREST	the relevant system (as defined in the 1995 Regulations) in respect of which CRESTCo is the Operator (as defined in such regulations);
Deutsche Bank, sponsor or listing agent	Deutsche Bank AG London;
directors	the directors of Halifax;
Halifax or the Company	Halifax plc;
Halifax Direct	the brand name attributable to the direct telephone service operation of Halifax;
Halifax Financial Services	the marketing group made up of Halifax Life Limited, Halifax Unit Trust Management Limited and Halifax Group companies which distribute their products;
Halifax Group or Group	Halifax and its subsidiary undertakings, from time to time;
Halifax Transfer Agreement	the transfer agreement dated 20 December 1996 between Halifax and Halifax Building Society in relation to the transfer of the business of Halifax Building Society to Halifax, which came into effect on 1 January 1997;
HEAL	Halifax Estate Agencies Limited;
HIFAL	Halifax Independent Financial Advisers Limited;
HSDL	Halifax Share Dealing Limited;

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investing member	a person who holds a share account or whose name is entered in the records of BMBS as a member of BMBS;
ISA	Individual Savings Account;
KPMG or KPMG Audit Plc	Chartered Accountants and Registered Auditor(s) of 1 The Embankment, Neville Street, Leeds LS1 4DW;
London Stock Exchange	London Stock Exchange Limited;
Official List	the Daily Official List of the London Stock Exchange;
Ordinary Shares	ordinary shares of 20 pence each in the share capital of Halifax;
Ordinary Shareholders	holders of Ordinary Shares;
Preference Shares	the non-cumulative preference shares of £1 each in the share capital of Halifax proposed to be issued in connection with the Transfer, a summary of the principal rights of which is set out in paragraph 2 of this document;
PEP	Personal Equity Plan;
PIBS	the £50,000,000 9% per cent. Permanent Interest Bearing Shares of BMBS issued on 16 December 1993;
share account	a share account of BMBS;
shareholder	a person who holds shares in the Company;
Share Registration Forms	the share registration forms proposed to be sent by BMBS in advance of the Vesting Date to all persons entitled to receive Preference Shares under the BMBS Distribution Scheme requesting such person's registration details;
TESSA	any account qualifying as a tax-exempt special savings account under sections 326A to C of the Income and Corporation Taxes Act 1988;
Tier 1 capital	a category of capital, also known as core capital, which banks are required to maintain for regulatory purposes and which may include fully paid ordinary shares, certain kinds of non-redeemable preference shares and internally generated capital accumulated from retained profits;
Transfer	the proposed transfer of the whole of the business, assets and liabilities of BMBS to Halifax;
Transfer Agreement	the agreement dated 26 October 1998 between BMBS and Halifax which sets out the terms and conditions of the Transfer;
Transfer Document	the document dated 26 October 1998 sent to members of BMBS eligible to vote, containing the statutory transfer statement required to be issued in connection with the transfer under section 98 of the Act and which also contains summary particulars relating to the Preference Shares and the Bonds;
Trust Deed	the trust deed constituting the Bonds proposed to be made between Halifax and the trustee for the holders of the Bonds (expected to be The Law Debenture Trust Corporation p.l.c.);
Trustee	such person appointed to act as trustee in respect of unclaimed Preference Shares as the Company and BMBS may agree;
Vesting Date	the day on which the Transfer takes place, listing of the Preference Shares and the Bonds becomes effective and dealings in the Preference Shares and Bonds commence. This is currently expected to be 19 April 1999; and
1995 Regulations	the Uncertificated Securities Regulations 1995.
