Offering Circular

EC080468

Halifax Group Euro Finance (Jersey) L.P.

€415,000,000 Fixed to Floating Rate Guaranteed Non-voting Non-cumulative Preferred Securities

having the benefit of a subordinated guarantee of

Halifax Group plc

(incorporated as a public limited company in England and Wales)

Issue price: €1,000 per Preferred Security

The €415,000,000 Fixed to Floating Rate Guaranteed Non-voting Non-cumulative Preferred Securities (the "Preferred Securities") each with a liquidation preference of €1,000, comprising limited partnership interests in Halifax Group Euro Finance (Jersey) L.P. ("Halifax Euro Jersey"), are proposed to be in issue on 9 December 1999 (the "Closing Date"). The Preferred Securities will entitle holders to receive (subject as described under "Description of the Preferred Securities") non-cumulative preferential cash distributions on the liquidation preference payable annually in arrear, in respect of the period from (and including) 9 December 1999, to (but excluding) 9 December 2011 at the rate of 7.627 per cent. per annum and thereafter payable quarterly in arrear on 9 March, 9 June, 9 September and 9 December in each year at the percentage rate which is the sum of three-month EURIBOR plus 2.875 per cent. (see "Description of the Preferred Securities"). Investors should be aware that Halifax Euro Jersey is a Jersey limited partnership and is not a legal entity separate from its partners.

The Preferred Securities are redeemable on 9 December 2011 or on each 9 March, 9 June, 9 September and 9 December thereafter in whole, but not in part, (subject to, as described under "Description of the Preferred Securities", *inter alia*, the prior written consent of the Financial Services Authority in the United Kingdom (the "FSA") (if then required)) at the option of Halifax Group Management (Jersey) Limited as general partner of Halifax Euro Jersey, at the liquidation preference of €1,000 per Preferred Security, plus any Halifax Euro Jersey Additional Amounts (see "Description of the Preferred Securities") plus any accrued and unpaid distribution for the then current Distribution Period to but excluding the redemption date. In the event of the dissolution of Halifax Euro Jersey, holders of Preferred Securities will be entitled to receive a liquidation preference in an amount equal to the distribution that those holders would have received in a dissolution of Halifax Group plc ("Halifax Group") at that time, if they had held, instead of the Preferred Securities, non-cumulative senior preference shares issued directly by Halifax Group, having the same liquidation preference and stated distribution rate as the Preferred Securities, subject as described under "Description of the Preferred Securities". Upon the occurrence of a Regulatory Event (see "Description of the Preferred Securities") or the involuntary dissolution of Halifax Euro Jersey where Halifax Group remains solvent, the Preferred Securities may be substituted for preference shares issued by Halifax Group, all as described in "Description of the Preferred Securities".

Under existing FSA requirements, neither Halifax Euro Jersey nor Halifax Group may redeem or purchase any Preferred Securities unless the FSA has given its prior written consent.

All obligations of Halifax Euro Jersey to make payment in respect of the Preferred Securities are guaranteed on a subordinated basis pursuant to the subordinated guarantee dated 9 December 1999 (the "Guarantee") executed by Halifax Group as a deed poll, as described under "Subordinated Guarantee" herein.

The Preferred Securities are expected to be assigned on issue a rating of A by Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. and aa3 by Moody's Investors Services Inc. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

See "Investment Considerations" for a discussion of certain factors that should be considered by prospective investors.

Contemporaneously with the issue of the Preferred Securities, Halifax Group Sterling Finance (Jersey) L.P. intends to issue £245,000,000 7.881 per cent. Guaranteed Non-voting Non-cumulative Preferred Securities (the "Sterling Preferred Securities").

Application has been made to list the Preferred Securities on the Luxembourg Stock Exchange.

Lehman Brothers **Warburg Dillon Read**

Dated: 8 December 1999

Halifax Group confirms, after having made all reasonable enquiries, that this Offering Circular contains all information with regard to Halifax Euro Jersey, Halifax Group and its subsidiaries (the "Group") and the Preferred Securities which is material in the context of the issue of the Preferred Securities, that the information contained in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which makes this Offering Circular as a whole or any such information or the expression of any such opinion or intention misleading. Halifax Group accepts responsibility accordingly.

No person has been authorised to give any information or to make any representation not contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by Halifax Euro Jersey, Halifax Group or the Managers (as defined under "Subscription and Sale"). Neither the delivery of this document nor any subscription, sale or purchase made in connection herewith shall, in any circumstances, create any implication that there has been no change in the affairs of Halifax Euro Jersey, Halifax Group or the Group since the date hereof.

Prospective investors should inform themselves as to the legal requirements and tax consequences within the countries of their residence and domicile for the acquisition, holding or disposal of Preferred Securities and any foreign exchange restrictions that might be relevant to them. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, Halifax Euro Jersey or any of its partners, Halifax Group or the Managers to subscribe for or purchase any of the Preferred Securities.

Investors should satisfy themselves that they understand all the risks associated with making investments in the Preferred Securities. If a prospective investor is in any doubt whatsoever as to the risks involved in investing in the Preferred Securities, he should consult his professional advisers.

The distribution of this document and the offering of the Preferred Securities in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by Halifax Euro Jersey, Halifax Group and the Managers to inform themselves about, and to observe, any such restrictions.

No action has been taken to permit a public offering of the Preferred Securities in any jurisdiction where action would be required for such purpose. Accordingly, the Preferred Securities may not be offered or sold, directly or indirectly and this Offering Circular may not be distributed in any jurisdiction, except in accordance with the legal requirements applicable in that jurisdiction. In particular, the Preferred Securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"). Subject to certain exceptions, the Preferred Securities may not be offered, sold or delivered within the United States or to U.S. persons. A further description of certain restrictions on the offering and sale of the Preferred Securities and on the distribution of this document is given under "Subscription and Sale" below.

The Jersey Financial Services Commission has given and has not withdrawn its consent under Article 8 of the Control of Borrowing (Jersey) Order 1958 to the creation by Halifax Euro Jersey of the Preferred Securities. The Jersey Financial Services Commission is protected by the Borrowing Control (Jersey) Law 1947 (as amended) against liability arising in the discharge of its functions under such law.

Unless otherwise specified or the context requires, references in this Offering Circular to "£" and "Sterling" are to the lawful currency of the United Kingdom ("U.K.") and references to "€" and "euro" are to the currency introduced at the start of the third stage of European Economic and Monetary Union, pursuant to the Treaty establishing the European Community, as amended from time to time.

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SUMMARY

The following summary is qualified in its entirety, including defined terms, by the more detailed information and financial statements included elsewhere in this Offering Circular.

Issuer: .... Halifax Group Euro Finance (Jersey) L.P. ("Halifax Euro Jersey"), a limited partnership established in the Island of Jersey ("Jersey") and registered under the Limited Partnerships (Jersey) Law, 1994 (the "Law"). Halifax Euro Jersey is not a legal entity separate from its partners and has no operating history. Its general partner is Halifax Group Management (Jersey) Limited, a wholly owned Jersey incorporated subsidiary of Halifax Group.

Guarantor: .... Halifax Group plc ("Halifax Group")

Issue Size: €415,000,000

Issue Details: .... €415,000,000 Fixed to Floating Rate Guaranteed Non-voting Non-cumulative Preferred Securities each with a liquidation preference of €1,000 comprising limited partnership interests in Halifax Euro Jersey.

The Preferred Securities, together with the Guarantee to be entered into by Halifax Group in respect of the Preferred Securities, are intended to provide holders of Preferred Securities, as nearly as possible, with rights against Halifax Group in respect of distributions and liquidation preference equivalent to those to which the holders would be entitled if they held the most senior preference shares of Halifax Group.

None of Halifax Euro Jersey, Halifax Group and any other member of the Group will make any payment to Holders, or procure such a payment, that could not lawfully have been made if Holders had held the most senior preference shares of Halifax Group instead of the Preferred Securities.

Income Distributions: .... Distributions will be payable by Halifax Euro Jersey subject to the Law.

In respect of the Preferred Securities, Distributions will, prior to 9 December 2011, be payable annually in arrear at a rate per annum of 7.627 per cent. on the liquidation preference of €1,000 per Preferred Security. On 9 December 2011 the rate will be reset and Distributions will be payable quarterly in arrear at a rate per annum which is the sum of three-month EURIBOR and 2.875 per cent., all as more fully described under "Description of the Preferred Securities".

Subordinated Guarantee: ... The payment of distributions and payments on the dissolution of Halifax Euro Jersey or on redemption of the Preferred Securities will be guaranteed on a subordinated basis by Halifax Group to the extent set out in the Guarantee.

The Guarantee will rank (a) junior to all liabilities of Halifax Group including subordinated liabilities and for the avoidance of doubt all subordinated liabilities expressed to rank ahead on a winding-up of all shares of Halifax Group (in each case other than any liability of Halifax Group referred to in (b) or (c) and any other liability expressed to rank *pari passu* with or junior to the Guarantee), (b) *pari passu* with the most senior preference shares, if any, issued by Halifax Group and any guarantee or support agreement of Halifax Group ranking *pari passu* with the Guarantee and (c) senior to Junior Share Capital (as defined under "Description of the Preferred Securities").

Limitations on payments in respect of Distributions: ..... Distributions on the Preferred Securities will be payable out of Halifax Euro Jersey's own legally available resources on each Distribution Payment Date (as defined under "Description of the Preferred Securities").

Notwithstanding receipt of any resources legally available for distribution by Halifax Euro Jersey, neither Halifax Euro Jersey nor Halifax Group will pay any Distributions or make any payment in respect of Distributions (including any grossing-up amounts) under the Preferred Securities or the Guarantee:

— to the extent that such payment, together with the amount of any distributions or dividends scheduled to be paid to holders of Parity Securities (as defined under "Description of the Preferred Securities") on the relevant Distribution Payment Date would exceed Distributable Profits (as defined under "Description of the Preferred Securities") on such date; or

— even if Distributable Profits are sufficient, to the extent that such payment in respect of the Preferred Securities and/or Parity Securities would breach or cause a breach of the U.K. banking capital adequacy requirements then applicable to Halifax Group.

Withholding Tax and Additional Amounts:........... Halifax Euro Jersey, or Halifax Group pursuant to the Guarantee, will pay such additional amounts to each holder of the Preferred Securities as may be necessary in order that every net payment in respect of the Preferred Securities, after withholding for any taxes imposed by Jersey or the U.K., as the case may be, upon or as a result of such payment, will not be less than the amount otherwise required to be paid, subject to the exceptions described under "Description of the Preferred Securities" and "Subordinated Guarantee".

Optional Redemption: .... The Preferred Securities are redeemable on 9 December 2011 or on every 9 March, 9 June, 9 September and 9 December in each year thereafter in whole, but not in part, at the option of the General Partner and subject to the prior written consent of the FSA (if then required) and as set out in "Limitations on Redemption and Liquidation Payments" and subject to the Law, at the Optional Redemption Price (the "Optional Redemption Price") being €1,000 per Preferred Security together with any due and accrued but unpaid Distribution calculated to the date of payment from (and including) the immediately preceding Distribution Payment Date (or, if none, the Closing Date) and any Halifax Euro Jersey Additional Amounts (as defined under "Description of the Preferred Securities").

Tax Redemption: .... The Preferred Securities are redeemable at any time prior to 9 December 2011, in whole, but not in part, at the option of the General Partner at the Optional Redemption Price, subject to the prior written consent of the FSA (if then required) and as set out in "Limitations on Redemption and Liquidation Payments" and subject to the Law if (a) Halifax Euro Jersey is or would be required to pay Halifax Euro Jersey Additional Amounts or in making payment under the Guarantee, Halifax Group is required to pay Additional Amounts (as defined under "Subordinated Guarantee"), in either such case as a result of a change in, or amendment to, the laws or regulations of Jersey or the U.K., as the case may be, or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations or (b) a Tax Event (as defined under "Description of the Preferred Securities") occurs.

Capital Redemption:........... The Preferred Securities are redeemable at any time prior to 9 December 2011, in whole, but not in part, at the option of the General Partner at the Capital Redemption Price (as defined under "Description of the Preferred Securities"), subject to the prior written consent of the FSA (if then required) and as set out in "Limitations on Redemption and Liquidation Payments" and subject to the Law if (a) the FSA determines that the Preferred Securities no longer qualify as Tier 1 regulatory capital for U.K. banking capital adequacy purposes on a consolidated basis or (b) for any reason other than a Tax Event, there is more than an insubstantial risk that Halifax Group will not obtain relief for the purposes of U.K. corporation tax for any payment of interest on the Notes (as defined under "Description of the Preferred Securities").

Rights upon Liquidation: ... In the event of the dissolution (other than an Involuntary Dissolution (as defined under "Description of the Preferred Securities")) of Halifax Euro Jersey, holders of Preferred Securities will be entitled to receive, subject as set out in "Limitations on Redemption and Liquidation Payments" below and to the prior written consent of the FSA (if then required), for each Preferred Security a liquidation preference of €1,000 together with any due and accrued but unpaid Distribution calculated to the date of payment from and including the immediately preceding Distribution Payment Date (or, if none, the Closing Date) and together with any Halifax Euro Jersey Additional Amounts out of the assets of Halifax Euro Jersey available for distribution under the Law.

Notwithstanding the availability of sufficient assets of Halifax Euro Jersey to pay any Liquidation Distribution (as defined under "Description of the Preferred Securities") to the holders of the Preferred Securities as aforesaid, if, at the time such Liquidation Distribution is to be paid, proceedings have been commenced for the voluntary or involuntary liquidation, dissolution or winding-up of Halifax Group other than pursuant to a Permitted Reorganisation (as defined under "Description of the Preferred Securities"), the Liquidation Distribution payable per Preferred Security shall not exceed the amount per security that would have been paid as a liquidation distribution out of the assets of Halifax Group (after payment in full in accordance with English law of all creditors of Halifax Group, including any holders of subordinated debt but excluding holders of any liability expressed to rank *pari passu* with or junior to the Guarantee) had the Preferred Securities and all Parity Securities (as defined under "Description of the Preferred Securities") been preference shares issued by Halifax Group with equivalent rights of participation in the capital of Halifax Group and ranked (a) junior to all liabilities of Halifax Group including subordinated liabilities and for the avoidance of doubt all liabilities expressed to rank ahead on a winding-up of all shares of Halifax Group (in each case other than any liability of Halifax Group referred to in (b) or (c) and any other liability expressed to rank *pari passu* with or junior to the Guarantee), (b) *pari passu* with the most senior preference shares, if any, issued by Halifax Group and any guarantee or support agreement of Halifax Group ranking *pari passu* with the Guarantee and (c) senior to Junior Share Capital.

In the event of an order being made for the liquidation, dissolution, or winding-up of Halifax Group other than pursuant to a Permitted Reorganisation or a declaration being made that Halifax Group is insolvent, Halifax Euro Jersey shall be dissolved and the amount per Preferred Security to which holders of Preferred Securities will be entitled as a Liquidation Distribution will be as described above.

Halifax Group will undertake in the Guarantee that, so long as any of the Preferred Securities is outstanding, unless Halifax Group itself is in liquidation, Halifax Group will not permit, or take any action to cause, the liquidation, dissolution or winding-up of the General Partner or Halifax Euro Jersey otherwise than with the prior written approval of the FSA (if then required) and all Holders.

Limitations on Redemption and Liquidation Payments: .... The Preferred Securities may only be redeemed and a Liquidation Distribution may only be paid in the event of the dissolution of Halifax Euro Jersey (except following any liquidation, dissolution or winding-up of Halifax Group) if the Optional Redemption Price, Capital Redemption Price or, as the case may be, Liquidation Distribution payable is funded (a) by payments received that have themselves been funded by Halifax Group from an issue of Replacement Capital (as defined under "Description of the Preferred Securities") and/or (b) by a payment received by Halifax Euro Jersey from Halifax Group upon the redemption from Distributable Profits of redeemable preference shares issued by Halifax Group against payment to it by the General Partner.

Regulatory Event and Substitution:................ If Halifax Group's total capital ratio declines below any minimum requirement then prescribed by the FSA for all banks in the U.K. (currently 8 per cent.), or on the involuntary dissolution of Halifax Euro Jersey (in circumstances when

Halifax Group is not itself insolvent or in liquidation) the General Partner shall take all reasonable steps to cause the substitution for the Preferred Securities of fully-paid preference shares issued directly by Halifax Group having in all material respects equivalent terms (including terms as to non-cumulative distributions and status) to those of the Preferred Securities and the Guarantee taken together, all as more fully described under "Description of the Preferred Securities".

Halifax Group will also undertake in the Guarantee that, so long as any of the Preferred Securities is outstanding, it will take all reasonable steps to ensure that, as from the date of its annual general meeting to be held in 2000, it will have a sufficient number of authorised but unissued preference shares to enable the substitution at any time in full of all outstanding Preferred Securities and that all corporate authorisations are in place to allot and issue the same.

Voting Rights: .... Save as specified below, holders of the Preferred Securities will not be entitled to receive notice of, attend or vote at any meeting of partners of Halifax Euro Jersey. If Distributions have not been paid by Halifax Euro Jersey in full and/or Halifax Group has not made payments in respect thereof under the Guarantee for a Distribution Period beginning prior to the Distribution Re-Set Date or for any four consecutive Distribution Calculation Periods (each as defined under "Description of the Preferred Securities"), as the case may be, Holders of the Preferred Securities together with the holders of any other preferred securities of Halifax Euro Jersey having the right to vote in such event are entitled to elect a special representative to enforce their statutory rights. Such special representative shall, subject to the terms of such other preferred securities, vacate office if for a Distribution Period beginning prior to the Distribution Re-Set Date or for any four consecutive Distribution Calculation Periods, Distributions are made by Halifax Euro Jersey in full or payments by Halifax Group under the Guarantee in respect thereof are made in full, all as more fully described under "Description of the Preferred Securities".

Form of the Preferred Securities: .... The Preferred Securities will be in registered form. On or about 9 December 1999, a single certificate in respect of the Preferred Securities will be deposited with HSBC Bank plc (the "Common Depositary") as common depositary for Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear system ("Euroclear") and Cedelbank. Such certificate will be issued, and the Preferred Securities will be registered, in the name of MSS (Common Depositary) Nominees Limited, as nominee for the Common Depositary. For so long as the Preferred Securities are deposited and registered as described above, book-entry interests in the Preferred Securities will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Cedelbank.

If (a) either or both of Euroclear and Cedelbank is or are closed for business for a continuous period of 14 days (other than for the purposes of a public holiday) or announces an intention permanently to cease business or (b) as a result of a change in law, transfer duties or similar taxes become payable on transfers of the Preferred Securities in Euroclear and/or Cedelbank, a number of Preferred Securities corresponding to its book-entry interest in the Preferred Securities represented by the certificate held by the Common Depositary referred to above will be transferred to each holder of an interest in the Preferred Securities whose name is notified by a holder of such interest to Halifax Euro Jersey. Each such holder will be registered as a Holder of the Preferred Securities in the register maintained by or on behalf of Halifax Euro Jersey, and will receive a certificate made out in its name. Other than in the circumstances referred to in this paragraph, definitive certificates will not be available to Holders of the Preferred Securities.

The Preferred Securities may only be transferred in a minimum amount of €50,000 and in integral multiples of €1,000 thereafter.

Governing Law:	The Limited Partnership Agreement establishing Halifax Euro Jersey will be governed by, and construed in accordance with, the laws of Jersey. The Guarantee will be governed by, and construed in accordance with, English law.
Listing:	Application has been made for the Preferred Securities to be listed on the Luxembourg Stock Exchange.

INVESTMENT CONSIDERATIONS

Prospective investors should consider carefully the following information in conjunction with the other information contained in this Offering Circular before purchasing any Preferred Securities.

Risk Associated with Halifax Group's Financial Condition

An investment in the Preferred Securities will have substantially the same risks and rewards as an investment in non-cumulative perpetual preference shares issued directly by Halifax Group having the same liquidation preference and rate of distribution as the Preferred Securities. It is expected that Halifax Euro Jersey's sole source of funds to pay Distributions on the Preferred Securities will be payments which it receives under the Notes, see "Description of the Preferred Securities". The Preferred Securities are guaranteed on a subordinated basis by Halifax Group pursuant to the terms of the Guarantee. Accordingly, if Halifax Group's financial condition were to deteriorate, Halifax Euro Jersey and the Holders might suffer direct and materially adverse consequences, including non-payment of Distributions on the Preferred Securities.

Distributions Not Cumulative

Distributions on the Preferred Securities are not cumulative. As set out in "Description of the Preferred Securities", Distributions on the Preferred Securities will be paid on each Distribution Payment Date out of interest received by Halifax Euro Jersey under the Notes and from other resources legally available, if any, unless Halifax Group has insufficient Distributable Profits to enable Halifax Euro Jersey to pay Distributions on the Preferred Securities (and in respect of any Parity Securities) or such payment would result in Halifax Group breaching minimum U.K. banking capital adequacy requirements. If Distributions on the Preferred Securities for any Distribution Period are not paid, the Holders will not be entitled to receive such Distributions whether or not funds are or subsequently become available.

Perpetual nature of the Preferred Securities

The Preferred Securities have no fixed final redemption date and Holders have no rights to call for the redemption of the Preferred Securities.

No operating history

Halifax Euro Jersey is a newly established limited partnership with no operating history and no revenues to date.

Holding company structure

The Guarantor is the holding company for the Group and does not carry on any operating activities nor, save for its shareholding interests in other Group companies, does it have any material assets. In servicing its obligations the Guarantor will rely primarily on cashflows, chiefly dividend payments and loan repayments from its subsidiaries. The ability of such subsidiaries to make such payments will be affected by the obligations of such subsidiaries to their creditors and claims in relation to the Guarantee against the cashflows and assets of such subsidiaries will be effectively subordinated to the claims of such creditors. The ability of such subsidiaries to pay dividends will also be subject to applicable law and in addition may be subject to restrictions and limitations imposed in various financing agreements.

HALIFAX GROUP EURO FINANCE (JERSEY) L.P.

Introduction

Halifax Group Euro Finance (Jersey) L.P. was registered in Jersey on 8 December 1999 under the Limited Partnerships (Jersey) Law 1994 for an unlimited duration, with Halifax Group Management (Jersey) Limited as the general partner, MSS (Common Depositary) Nominees Limited as the initial limited partner and Halifax plc, a wholly owned subsidiary of Halifax Group, as the parent limited partner holding the preferential rights. Halifax Group Management (Jersey) Limited, MSS (Common Depositary) Nominees Limited and Halifax plc have entered into a limited partnership agreement dated the date hereof (the "Limited Partnership Agreement") for the purpose of establishing Halifax Euro Jersey. Halifax Euro Jersey is not a legal entity separate from its partners.

Provided that limited partners do not become involved with the management of the limited partnership other than in the circumstances provided for in the Limited Partnership Agreement (see "Description of the Preferred Securities" for a summary), the liability of the limited partners for the debts or obligations of the limited partnership will be limited to the amount which they have contributed or agreed to contribute to the partnership.

The registered office of Halifax Euro Jersey is 22 Grenville Street, St Helier, Jersey JE4 8PX.

Principal Activity

Halifax Euro Jersey was established for the sole purpose of raising finance for the Group. It has carried out no operations since its registration other than in relation to the creation of the Preferred Securities and the Preferential Rights (as defined in "Description of the Preferred Securities"). The capital contributions to be made by the limited partners will be on-lent within the Group to generate revenues to fund distributions on the Preferred Securities.

Management

Halifax Euro Jersey will be operated by the general partner, Halifax Group Management (Jersey) Limited, which is a wholly owned subsidiary of Halifax Group. The general partner's registered office is 22 Grenville Street, St Helier, Jersey JE4 8PX. No holder of a Preferred Security may participate in the management of Halifax Euro Jersey. Halifax Group has undertaken in the Guarantee to ensure that the general partner will at all times be a directly or indirectly wholly owned subsidiary of Halifax Group.

Capital Contributions

Save for the initial capital contribution and such other capital contributions as may be made by the general partner from time to time to meet certain operating expenses of the partnership, the initial capital contribution by Halifax plc and the capital contribution of €415,000,000 to be made by the limited partners in relation to the Preferred Securities, there is intended to be no other capital contribution to Halifax Euro Jersey.

Indebtedness

Since the date of its registration, Halifax Euro Jersey has not had any loan capital outstanding, has not incurred any borrowings, has had no contingent liabilities, has not granted any guarantees and does not intend to have outstanding any such loan capital, incur any such borrowings, have any such contingent liabilities or grant any such guarantees. The General Partner will undertake not to incur any indebtedness in the name of Halifax Euro Jersey other than the costs and expenses incidental to paying the registrar and paying agency charges in respect of the Preferred Securities and the administration of Halifax Euro Jersey.

USE OF PROCEEDS

The net proceeds of the offering of the Preferred Securities, which are expected to amount to approximately €410,850,000, will be utilised within the Group to provide capital to Clerical Medical Group Holdings Limited, a wholly owned subsidiary of Halifax Group, for use in the development of that business. The Managers will receive fees and commissions as set out under "Subscription and Sale" below.

HALIFAX GROUP CAPITALISATION

The following table sets out, on an unaudited consolidated basis, the shareholders' funds and subordinated liabilities of Halifax Group:

	As at 30 June 1999 (unaudited)
	(in millions of £)
Shareholders' funds[1]	
Called up share capital (ordinary shares of 20p each)	450
Profit and loss account[2]	5,606
Total shareholders' funds	6,056
Undated subordinated liabilities[3]	324
Term subordinated debt	2,438
Total Capitalisation	8,818

Notes:

(1) The authorised share capital of Halifax Group is £1,660,000,000 divided into 3,300,000,000 ordinary shares of 20p each and 1,000,000,000 Preference Shares of £1 each.

(2) Amounts denominated in currencies other than Sterling are represented by Sterling equivalent amounts calculated using the appropriate spot exchange rates prevailing on the date as at which the table is prepared.

(3) Upon the conversion of Halifax Building Society to Halifax plc on 2 June 1997, the three classes of Permanent Interest Bearing Shares ("PIBS") which made up the subscribed capital of Halifax Building Society were replaced by three series of perpetual subordinated bonds which are undated subordinated liabilities of Halifax plc. Upon acquisition by Halifax plc of Birmingham Midshires Building Society ("Birmingham Midshires") on 19 April 1999, the PIBS which made up the subscribed capital of Birmingham Midshires were replaced by perpetual subordinated bonds which are undated subordinated liabilities of Halifax plc. 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.

(4) Halifax plc issued 800,000,000 Non-cumulative Fixed Rate Sterling Preference Shares of £1 each of which 198,065,600 were issued to former members of Birmingham Midshires on 19 April 1999 with the balance issued to Halifax Group on 1 June 1999.

(5) Halifax Group, which became the new holding company of the Group on 1 June 1999, was previously dormant. It therefore had no distributable profits at 31 December 1998. Its future distributable profits are dependent upon, principally, the receipt of dividends paid out of the distributable profits of its wholly owned subsidiary, Halifax plc, which were £6,153 million at 31 December 1998.

(6) Save for the issue of the Preferred Securities and the contemporaneous issue of the Sterling Preferred Securities by Halifax Group Sterling Finance (Jersey) L.P. there has been no material change in the capitalisation of Halifax Group since 30 June 1999.

HALIFAX GROUP

Introduction

The Group comprises Halifax Group plc ("Halifax Group") (the holding company for the Group), Halifax plc (the successor company to Halifax Building Society) and a number of subsidiaries principally carrying on personal financial services business.

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. In 1995 Halifax Building Society merged with the Leeds Permanent Building Society and in December 1996 Halifax Building Society acquired the business of Clerical Medical and General Life Assurance Society ("Clerical Medical"). On 2 June 1997, Halifax Building Society transferred its business to Halifax plc and was granted authorisation under Section 8 of the Banking Act 1987 and Halifax Building Society ceased to exist. In April 1999, Halifax plc completed the acquisition of Birmingham Midshires which was the U.K.'s fifth largest building society. Birmingham Midshires operates as a division of Halifax plc under its own name. On 1 June 1999, pursuant to a court approved Scheme of Arrangement, Halifax Group plc became the parent company of Halifax plc. Halifax Group holds all of the issued ordinary shares in Halifax plc.

The Business

The Group's products and services can be categorised into five key business sectors:

— Retail Operations comprising Mortgages, Liquid Savings and Retail Banking

— Consumer Credit

— Personal Lines Insurance

— Long Term Savings and Protection

— Group Treasury

Summary of Profit before Tax

The following table sets out a summary of the Halifax Group's profits before tax across key business sectors:

	Six months to 30 June 1999	*Twelve months to 31 December 1998*
	(in millions of £)	
Retail Operations	616	1,226
Consumer Credit	28	41
Personal Lines Insurance	75	148
Long Term Savings and Protection	97	160
Group Treasury	106	135
Group items	(37)	(5)
Total	885	1,705

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

Mortgages, Liquid Savings and Retail Banking

Mortgages

The Group's activity in the U.K. mortgage market is dominated by residential mortgage lending. The 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 and pension mortgages. As at 30 June 1999 the Group was the largest residential mortgage lender in the U.K. with an estimated 15 per cent. share of the gross lending market and a pipeline of outstanding mortgage offers amounting to some £ 3.1 billion.

The Group also offers its range of products to those wishing to re-mortgage their homes and re-mortgages accounted for 24 per cent. of gross lending in the six months ended 30 June 1999.

Liquid Savings

At 30 June 1999, the Group had retail savings balances amounting to approximately £82.1 billion representing an estimated 15 per cent. of total U.K. Household Sector Liquid Assets. Halifax Group provides a range of retail savings accounts including card based savings accounts and ISAs. The Halifax Group also offers its customers a range of offshore deposit accounts through Halifax International (Jersey) Limited and Halifax International (Isle of Man) Limited.

Retail Banking

Retail banking includes the Halifax Current Account and Cardcash account. At 30 June 1999, the total number of cheque book accounts was approximately 2.11 million and the total number of Cardcash accounts was 1.75 million.

Consumer Credit

Consumer credit includes secured and unsecured personal loans and credit cards. At 30 June 1999, the Group had unsecured personal loan accounts with total outstanding balances of over £1.2 billion and secured personal loans with total outstanding balances of approximately £609 million.

The Group offers three credit cards, Halifax Visa Card, Halifax Visa Charity Card and the Halifax Gold Card. As at 30 June 1999, the number of Halifax plc credit cards in issue exceeded 1.1 million cards, with total balances of approximately £600 million.

Personal Lines Insurance

Personal lines insurance encompasses household (buildings and contents), creditor (mortgage and loan repayment), motor and travel insurance risks. Whilst the Group designs, prices and markets its household products it does not carry underwriting risk which is passed to a third party insurance carrier. At 30 June 1999, the Group had approximately 2.5 million personal lines insurance policies in issue.

Long Term Savings and Protection

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 personal financial advisers. The Group also provides customers with independent financial advice through Halifax Independent Financial Advisers Limited. Clerical Medical distributes its products largely through independent financial advisers.

The Group had funds under management of £28.3 billion at 30 June 1999 compared with £24.6 billion at 30 June 1998.

Group Treasury

Group Treasury supports the Group by managing liquidity, interest rate and currency risks and contributes to the profitability of the Group through a range of financing and investment activities in the wholesale markets. Group Treasury continues to develop its derivatives business in order to manage efficiently the Group's off balance sheet exposure and is also expanding its structured finance business in the areas of asset finance, commercial property and housing finance and private finance initiative.

Other activities of the Group

Halifax Direct

Halifax Direct is the principal telephone service operation of Halifax plc. 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. Almost 45 per cent. of Halifax plc's current account customers are now registered to conduct their business through the direct telephone channel.

Internet

The Group has announced its intention to launch a new internet-led venture to target non-Halifax plc customers. The new venture intends to offer innovative products which utilise the potential of screen-based technologies and the telephone. The business will focus on banking, consumer lending, protection and investment products.

Estate Agency

At 30 June 1999, the Group had a network of 545 estate agency outlets operated by Halifax Estate Agency Limited, which, as well as selling over 38,000 properties, originated some 7.7 per cent. of Halifax plc mortgages by value which completed during the year ended 31 December 1998.

Halifax Share Dealing

Halifax Share Dealing Limited was established to support the conversion process of Halifax Building Society and expanded its service during 1998 to provide execution only dealing services in the shares of most U.K. companies listed on the London Stock Exchange. Telephone, internet and postal services are provided.

Overseas Subsidiaries

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

Joint Ventures

At the end of 1998, Halifax plc completed the acquisition of a 50 per cent. shareholding in Lex Vehicle Leasing (Holdings) Limited, the U.K.'s largest car and van contract hire company for a consideration of £162.5 million. The acquisition provides an opportunity to participate in the growing motor vehicle contract hire market and complements the asset finance activities within Group Treasury.

In January 1999, Halifax plc announced a proposed 50:50 joint venture with Cetelem S.A., a major participant in the European consumer credit market. A new company, Halifax Cetelem Credit Limited, commenced trading in September 1999 focusing on the retail point of sale consumer credit market in the U.K.

Board of Directors

The Directors of Halifax Group, their responsibilities and their principal outside activities are as follows:

Director's name	*Responsibilities*	*Principal outside activities*
The Lord Stevenson of Coddenham	Chairman	Pearson plc (Chairman), Lazard Partners Limited (Director), Lazard Brothers & Co. Limited (Director), The Whitehall Trust Limited (Director), St James's Place Capital plc (Director), The British Council (Director), Glyndebourne Productions Ltd. (Director), Cloaca Maxima Limited (Director), The Tate Gallery Foundation (Chairman), The Economist Newspapers Ltd (Director), British Sky Broadcasting Group plc (Director), Manpower Inc (Director), J. Rothschild Assurance Holdings plc (Director), AerFi Group plc (Chairman), English Partnerships (Chairman), AerFi International Ltd (Director)
John Lockhart Wood	Vice Chairman	Bibby Line Group Ltd. (Director), Harrowden Developments Limited (Director)
Jeffrey Michael Blackburn	Vice Chairman	Jacobs Holdings plc (Director), Town Centre Securities plc (Deputy Chairman), DFS plc (Director), The Duke of Edinburgh's Award (Director), George Wimpey plc (Director), Gifts in Kind U.K. Limited (Director)
Roger Fawcett Boyes	Group Finance Director	None
James Robert Crosby	Chief Executive	None
Michael Henry Ellis	Chief Operating Officer	Halifax Pension Nominees Limited (Director)
Grenville John Folwell	Deputy Chief Executive	Public Private Partnerships Programme Ltd. (Director), Broadfold Hall Limited (Director), Institute of Public Finance Limited (Chairman)
John Arthur Lee	Personnel and Communications Director	Halifax Pension Nominees Limited (Director), Brathay Hall Trust (Director), Project Challenge Limited (Director), Common Purpose U.K. (Director)
Andrew Hedley Hornby	Chief Executive Halifax Retail	None
The Lord Chadlington	Non-executive Director	International Public Relations plc (Chairman)
Roy John Chapman	Non-executive Director	Eurotunnel plc (Director), Eurotunnel SA (Director), Eurotunnel Trustees Limited (Chairman), 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), Halifax Pension Nominees Limited (Chairman)
Anthony Laurie Coleby	Non-executive Director	Anglo Irish Bank Corporation plc (Director)
Duncan George Robin Ferguson	Non-executive Director	Bacon and Woodrow (Senior partner)

Director's name	*Responsibilities*	*Principal outside activities*
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)
John Percival Leighfield	Non-executive Director	TMA Ventures Ltd (Director), RM plc (Chairman), IMPACT Programme Limited (Director), Synstar International Ltd (Director), Magdalen College School Oxford Limited (Director), St. Catherine's Court (Fowey) Limited (Director), ITNTO (Director), The JNT Association Limited (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), Wessex Water Services Limited (Director)
Phillip Edward Yea	Non-executive Director	Investcorp (Director)

The business address of each of the Directors referred to above is Halifax Group plc, Trinity Road, Halifax, West Yorkshire HX1 2RG.

DESCRIPTION OF THE PREFERRED SECURITIES

The Preferred Securities are limited partnership interests in Halifax Euro Jersey. The following summary should be read in conjunction with, and is subject to the terms of, the Limited Partnership Agreement (as defined below) a copy of which is available as described under "General Information".

1. Definitions

In this Description of the Preferred Securities, except to the extent that the context otherwise requires:

"Agent Bank" means HSBC Bank plc;

"Calculation Agent" means Citibank, N.A.;

"Capital Redemption Date" means any date designated for optional redemption of the Preferred Securities as described under paragraph 4.4 below;

"Capital Redemption Price" means, in respect of each Preferred Security, the higher of (a) the liquidation preference of €1,000 per Preferred Security and (b) the price, expressed as a percentage (rounded to three decimal places, 0.0005 being rounded upwards), at which the gross redemption yield (as calculated by the Calculation Agent) on the Preferred Securities, if they were to be purchased at such price on the third dealing day prior to the date fixed for redemption, would be equal to the gross redemption yield on such dealing day of the Reference Bond plus 0.5 per cent., on the basis of the middle market price of the Reference Bond prevailing at 11.00 a.m. (Central European time) on such dealing day as determined by the Calculation Agent, plus any due and accrued but unpaid Distribution calculated from (and including) the immediately preceding Distribution Payment Date (or, if none, 9 December 1999) to (but excluding) the relevant Capital Redemption Date and any Halifax Euro Jersey Additional Amounts payable thereon;

"Determination Date", in relation to a Distribution Calculation Period, means the second TARGET Business Day prior to 9 December 2011 and every 9 March, 9 June, 9 September and 9 December in each year thereafter;

"Distributable Profits" means at any time the profits then available for distribution as defined by section 263(3) of the U.K. Companies Act 1985 of Halifax Group;

"Distributions" means the non-cumulative distributions in respect of the Preferred Securities as described under paragraph 2 below;

"Distribution Calculation Period" means each Distribution Period from and including the Distribution Period beginning on (and including) the Distribution Re-Set Date;

"Distribution Calculation Period Date" means 9 December 2011 and every 9 March, 9 June, 9 September and 9 December in each year thereafter;

"Distribution Determination Date" means the day ten London Business Days prior to each Distribution Payment Date on which Halifax Group will determine whether sufficient Distributable Profits exist to allow a payment of some or all of the relevant Distribution;

"Distribution Payment Date" means 9 December in each year up to and including the Distribution Re-Set Date and thereafter every 9 March, 9 June, 9 September and 9 December in each year, commencing on 9 December 2000;

"Distribution Period" means the period from (and including) 9 December 1999 to (but excluding) the first Distribution Payment Date and each period thereafter from (and including) one Distribution Payment Date to (but excluding) the next following Distribution Payment Date;

"Distribution Re-Set Date" means the Distribution Payment Date falling on 9 December 2011;

"euro" and "€" mean the currency introduced at the start of the third stage of European and Economic Monetary Union pursuant to the Treaty and the smallest subdivision of which shall be one hundredth of a euro or "cent";

"Euro-zone" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty;

"Fixed Distribution Rate" means, in respect of the period from (and including) 9 December 1999 to (but excluding) 9 December 2011, 7.627 per cent. per annum;

"Floating Distribution Rate" means, in respect of a Distribution Calculation Period, the percentage rate of three-month EURIBOR plus 2.875 per cent. per annum calculated in the manner described in paragraph 2.3 below;

"FSA" means the Financial Services Authority in the U.K. and shall include any successor organisation responsible for the supervision of banks in the U.K.;

"General Partner" means Halifax Group Management (Jersey) Limited, a Jersey incorporated directly or indirectly wholly owned subsidiary of Halifax Group;

"Group" means Halifax Group together with its Subsidiaries;

"Guarantee" means the subordinated guarantee in respect of the Preferred Securities to be executed by Halifax Group on 9 December 1999 as a deed poll;

"Halifax Euro Jersey" means Halifax Group Euro Finance (Jersey) L.P., a Jersey limited partnership registered on 8 December 1999, established under the Law, as it may from time to time be constituted but not being a legal entity separate from its partners;

"Halifax Euro Jersey Additional Amounts" means the additional amounts which may be payable in respect of the Preferred Securities as described under paragraph 6;

"Halifax Group" means Halifax Group plc and its successors and assigns;

"Holder" means, in respect of each Preferred Security, each person registered on the Register as the limited partner holding such Preferred Security at the relevant time;

"Involuntary Dissolution" means, in respect of Halifax Euro Jersey, a dissolution by court order pursuant to the Law;

"Jersey" means the Island of Jersey;

"Jersey Tax" means any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Jersey or by any authority therein or thereof having power to tax;

"Junior Share Capital" means the ordinary shares of Halifax Group, together with any other securities expressed to rank junior to the most senior preferred or preference shares of Halifax Group whether issued directly or by Halifax Group or by a Subsidiary benefiting from a guarantee or support agreement expressed to rank junior to the Guarantee;

"Law" means the Limited Partnerships (Jersey) Law 1994;

"Limited Partnership Agreement" means an agreement dated the date hereof between the General Partner, the Parent Limited Partner and the initial limited partner establishing Halifax Euro Jersey;

"Liquidation Distribution" means a liquidation preference of €1,000 per Preferred Security plus (a) any due and accrued but unpaid Distribution calculated from (and including) the immediately preceding Distribution Payment Date (or, if none, 9 December 1999) to (but excluding) the date of payment, and (b) any Halifax Euro Jersey Additional Amounts, in each case in cash only;

"London Business Day" means a day other than a Saturday or Sunday on which banks are open for business in London;

"Notes" means the cumulative €415,000,000 Fixed to Floating Rate Subordinated Extendable Maturity Notes 2048 issued by Halifax Group or any successor security issued with the prior written consent of the FSA (if then required);

"Office" means the registered office of Halifax Euro Jersey for the time being in accordance with the Limited Partnership Agreement;

"Optional Redemption Date" means (a) in the case of optional redemption pursuant to paragraph 4.2, any Distribution Calculation Period Date or (b), prior to 9 December 2011, any date and thereafter any Distribution Payment Date designated for redemption for tax reasons of the Preferred Securities as described under paragraph 4.3;

"Optional Redemption Price" means €1,000 per Preferred Security plus (a) any due and accrued but unpaid Distribution calculated from (and including) the immediately preceding Distribution Payment Date (or, if none, 9 December 1999) to (but excluding) the relevant Optional Payment Date and (b) any Halifax Euro Jersey Additional Amounts payable thereon;

"Parent Limited Partner" means Halifax plc or any other holder of the Preferential Rights from time to time;

"Parity Securities" means any preference shares or preferred securities (other than the Preferred Securities) either (a) issued directly by Halifax Group (and ranking *pari passu* with Halifax Group's obligations under the Guarantee) or (b) issued by any Subsidiary (and entitled to the benefit of the Guarantee or any other guarantee or support agreement ranking *pari passu* with the Guarantee);

"Paying and Transfer Agent" means Kredietbank S.A. Luxembourgeoise or such other entities as are appointed by the General Partner on behalf of Halifax Euro Jersey and notified to the Holders as described under paragraph 10;

"Permitted Reorganisation" means a solvent reconstruction, amalgamation, reorganisation, merger or consolidation, with the prior approval of the Holders of not less than two-thirds of outstanding Preferred Securities, whereby all or substantially all the business, undertaking and assets of Halifax Group are transferred to a successor entity, which assumes all the obligations under the Guarantee;

"Preferential Rights" means the limited partnership interests in Halifax Euro Jersey held by the Parent Limited Partner and entitling the holder thereof to receive in preference to the rights of Holders all amounts received by Halifax Euro Jersey in excess of those required to make payments in respect of the Preferred Securities by reason of the provisions of paragraphs 2.4, 2.6, 3.1 or 4.5 other than any amounts to be used by the General Partner in subscribing for Substituted Preference Shares in accordance with paragraph 5 or in relation to the acquisition of redeemable preference shares as referred to in paragraph 4.5;

"Preferred Capital Contribution" means, in relation to the Preferred Securities, the aggregate contribution to the assets of Halifax Euro Jersey (being a whole multiple of €1,000) paid in cash by the Holders;

"Preferred Security" means an interest of a Holder in Halifax Euro Jersey attributable to each €1,000 of the Preferred Capital Contribution;

"Reference Bond" means, in relation to any Capital Redemption Price calculation, the 5⅜ per cent. Bundesobligationen due January 2010, or if such bond is no longer in issue, such other European government bond as the Calculation Agent may, with the advice of the Reference Dealers, decide to be appropriate;

"Reference Dealer" means three brokers of, and/or market makers in, European government bonds selected by the Calculation Agent;

"Register" means the register of Holders maintained outside the U.K. on behalf of Halifax Euro Jersey under the Law;

"Registrar" means HSBC Bank International Limited or such other entity appointed by Halifax Euro Jersey having its office outside the U.K. and notified to the Holders as described under paragraph 10;

"Regulatory Event" means Halifax Group's total capital ratio declines below any minimum requirement then prescribed by the FSA for all banks in the U.K.;

"Relevant Proportion" means (a), in relation to any partial payment of a Distribution on a Preferred Security, the amount of Distributable Profits on the Distribution Determination Date divided by the sum of (i) the amount originally scheduled to be paid by way of Distributions on the Preferred Securities on the relevant Distribution Payment Date and (ii) the amount of any distributions or dividends originally scheduled to be payable to holders of Parity Securities on the relevant Distribution Payment Date, converted where necessary into the same currency in which Distributable Profits are reported by Halifax Group and (b), in relation to any partial payment of any Liquidation Distribution on a Preferred Security, the amount available for any such payment divided by the sum of (i) the full Liquidation Distributions before any reduction or abatement in respect of the Preferred Securities and (ii) the amount of the full liquidation distribution before any reduction or abatement in respect of any Parity Securities, converted where necessary into the same currency in which liquidation payments are made to creditors of the Halifax Group;

"Replacement Capital" means any (a) ordinary shares of Halifax Group, (b) preferred or preference shares of Halifax Group or (c) preference shares or preferred securities or other securities issued by any Subsidiary entitled to the benefit of a guarantee or support agreement from Halifax Group expressed to rank *pari passu* with or junior to the Guarantee and qualifying to be accounted for as a minority interest under generally accepted accounting practice in the U.K. as at the date hereof, made for the purpose of funding any Optional Redemption Price, Capital Redemption Price or, as the case may be, Liquidation Distribution pursuant to paragraph 4.5;

"Restricted Person" means a person to whom Substituted Preference Shares will not be available for issue being (a) Euroclear, Cedelbank, First Chicago Clearing Center or any other person providing a clearance service within Section 96 of the Finance Act 1986 of the U.K. or any nominee thereof or (b) a person, or nominee or agent for a person, whose business is or includes issuing depositary receipts within Section 93 of the Finance Act 1986 of the U.K., in each case at any time prior to the "abolition day" as defined in Section 111(1) of the Finance Act 1990 of the U.K.;

"Special Representative" means the representative of the Holders as described under paragraph 8;

"Stock Exchange" means the Luxembourg Stock Exchange or such other stock exchange approved by the General Partner on which the Preferred Securities (or any Substituted Preference Shares) may be listed from time to time;

"Subsidiary" means any entity which is for the time being a subsidiary undertaking of Halifax Group (within the meaning of the English Companies Acts 1985 and 1989);

"Substituted Preference Shares" means the preference shares issued by Halifax Group in substitution for the Preferred Securities and the Guarantee as described under paragraph 5;

"TARGET" means the Trans European Real-Time Gross Settlement Express Transfer (TARGET) System;

"TARGET Business Day" means a day on which TARGET is operating;

"Tax Event" means (a) any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of Jersey or the U.K. or any political sub-division or taxing authority of Jersey or the U.K., (b) any amendment to, or change in, an interpretation or application of any such laws or regulations by any legislative body, court, governmental agency or regulatory authority (including the enactment of any legislation, any judicial decision or any regulatory determination), (c) any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the theretofore generally accepted position in relation to similar transactions or (d) any action taken by any governmental agency or regulatory authority, which amendment or change is enacted, promulgated, issued or effective or which interpretation or pronouncement is issued or announced or which action is taken, in each case on or after 9 December 1999, and as a result of which there is more than an insubstantial risk that (i) Halifax Group will not obtain relief for the purposes of U.K. corporation tax for any payment of interest in respect of the Notes or (ii) Halifax Euro Jersey will be liable to U.K. tax on its profits or Halifax Group, Halifax Euro Jersey or the General Partner shall become liable to account for tax in respect of all or any part of the profits of Halifax Euro Jersey which are distributed to a Holder or (iii) to the extent that the Notes are owned by Halifax Euro Jersey, Halifax Group is or would be required to withhold or deduct tax in respect of interest payments made in respect of or in connection with such Notes;

"Treaty" means the Treaty establishing the European Community, as amended from time to time; and

"U.K." means the United Kingdom of Great Britain and Northern Ireland.

2. Distributions

2.1 Subject as provided by the Law and in paragraph 2.4, non-cumulative distributions ("Distributions") on the Preferred Securities will accrue from 9 December 1999 and shall be payable annually in arrear on each Distribution Payment Date up to, and including, the Distribution Re-Set Date and thereafter quarterly in arrear on each Distribution Payment Date. Distributions will be calculated in accordance with the Fixed

Distribution Rate in respect of Distribution Payment Dates up to (and including) the Distribution Re-Set Date and thereafter in accordance with the Floating Distribution Rate, in the manner described in paragraphs 2.2 and 2.3, respectively. On the Distribution Re-Set Date and every quarter thereafter, the General Partner will, so long as the Preferred Securities are listed on the Luxembourg Stock Exchange, notify the Luxembourg Stock Exchange of the Floating Distribution Rate, Distribution Calculation Period and the amount of Distribution for that period.

2.2 Subject to the Law and paragraph 2.4, the Distributions payable on any Distribution Payment Date up to (and including) the Distribution Re-Set Date will be payable at the Fixed Distribution Rate on the amount of the liquidation preference of €1,000 per Preferred Security. The amount of Distribution payable for any period of less than one year ending prior to the Distribution Re-Set Date will be calculated on the basis of the actual number of days elapsed divided by the actual number of days in the relevant Distribution Period.

2.3 Subject to the Law and paragraph 2.4, the Distributions in respect of each Distribution Calculation Period will be payable quarterly in arrear on the relevant Distribution Payment Date at the Floating Distribution Rate on the amount of the liquidation preference of €1,000 per Preferred Security. If any Distribution Payment Date after the Distribution Re-Set Date would otherwise fall on a day which is not a TARGET Business Day, it shall be postponed to the next day which is a TARGET Business Day. The amount of Distribution payable for each Distribution Calculation Period and for any period less than a Distribution Calculation Period beginning on or after the Distribution Re-Set Date will be calculated on the basis of the actual number of days elapsed divided by 360 and rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

2.3.1 The Floating Distribution Rate from time to time in respect of the Preferred Securities will be determined for each Distribution Calculation Period in accordance with the following provisions:

(a) On the Determination Date the Agent Bank will record the offered rate (expressed as a rate per annum) for three-month euro deposits (notwithstanding that such Distribution Calculation Period happens to fall short of or exceed three months) as at 11.00 a.m. (Central European time) on such Determination Date, as displayed on the display designated as page "248" on the Bridge/Telerate Monitor (or such other page or pages as may replace it for the purpose of displaying such information). The Floating Distribution Rate for such Distribution Calculation Period shall be such offered rate, as determined by the Agent Bank plus 2.875 per cent.;

(b) If such offered rate does not so appear, or if the relevant page is unavailable, the Agent Bank will, on such date, request the principal Euro-zone office of four major banks in the Euro-zone interbank market (the "Reference Banks") to provide the Agent Bank with its offered quotation to leading banks in the Euro-zone inter bank market for three-month euro deposits as at 11.00 a.m. (Central European time) on the Determination Date in question. If at least two of the Reference Banks provide the Agent Bank with such offered quotations, the Floating Distribution Rate for such Distribution Calculation Period shall be the rate determined by the Agent Bank to be the arithmetic mean (rounded, if necessary, up to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of such offered quotations plus 2.875 per cent.;

(c) If on any Determination Date to which the provisions of sub-paragraph (b) above apply, one only or none of the Reference Banks provides the Agent Bank with such a quotation, the Floating Distribution Rate for that Distribution Calculation Period shall be the rate which the Agent Bank determines to be the aggregate of 2.875 per cent. and the arithmetic mean (rounded, if necessary, up to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of the euro lending rates which leading banks in the Euro-zone selected by the Agent Bank are quoting, on the relevant Determination Date, to leading European banks for a period of three months, except that, if the banks so selected by the Agent Bank are not quoting as mentioned above, the Floating Distribution Rate shall be either (i) the Floating Distribution Rate in effect for the last preceding Distribution Calculation Period to which one of the preceding sub-paragraphs of this paragraph shall have applied or (ii) if none, the Fixed Distribution Rate;

2.3.2 Halifax Euro Jersey shall cause notice of the Floating Distribution Rate determined in accordance with this paragraph 2.3 to be given to the Holders in accordance with paragraph 10 as soon as practicable after its determination but in any event not later than the fourth business day thereafter;

2.3.3 Halifax Euro Jersey may from time to time replace the Agent Bank by another leading investment, merchant or commercial bank. If the appointed office of the Agent Bank is unable or unwilling to continue to act as the Agent Bank or (without prejudice to paragraph 2.3.2) failed duly to determine the Floating Distribution Rate in respect of any Distribution Calculation Period as provided in paragraph 2.3, Halifax Euro Jersey shall forthwith appoint another leading investment, merchant or commercial bank to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

2.3.4 All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this paragraph 2.3 by the Agent Bank shall (in the absence of wilful default, bad faith or manifest error) be binding on Halifax Euro Jersey, Halifax Group, the Agent Bank and all Holders and (in the absence as aforesaid) no liability to the Holders, Halifax Group or Halifax Euro Jersey shall attach to the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions.

2.4 Distributions on the Preferred Securities will be non-cumulative and will accrue on a day by day basis. Distributions on the Preferred Securities will be payable out of Halifax Euro Jersey's own legally available resources on each Distribution Payment Date. Notwithstanding the existence of resources legally available for distribution by Halifax Euro Jersey, neither Halifax Euro Jersey nor Halifax Group will pay any Distributions or make any payment in respect of Distributions (including any Halifax Euro Jersey Additional Amounts) under the Preferred Securities or the Guarantee:

2.4.1 to the extent that such payment, together with the amount of any distributions or dividends scheduled to be paid to holders of Parity Securities on the relevant Distribution Payment Date would exceed Distributable Profits on such date; or

2.4.2 even if Distributable Profits are sufficient, to the extent that such payment in respect of the Preferred Securities and/or Parity Securities would breach or cause a breach of the U.K. banking capital adequacy requirements then applicable to Halifax Group.

2.5 Halifax Group has covenanted in the Guarantee in favour of Holders that, in the event that any Distribution is not paid in full as a result of paragraph 2.4, it will not make or pay any distribution or dividend and, where applicable, will procure that no such distribution or dividend is made or paid on any Parity Security (otherwise than in relation to *pro rata* payments as provided in paragraph 2.6 below) or Junior Share Capital, until such time as payment in full of Distributions has been resumed.

2.6 If, whether by reason of the provisions of paragraph 2.4 above or any equivalent article or term of a Parity Security, Distributions are not paid in full on the Preferred Securities or dividends or other distributions are not paid in full on any Parity Securities, but there are sufficient Distributable Profits so as to allow payment of part of any Distribution, then each Holder will be entitled to receive the Relevant Proportion of any such Distribution. The entitlement of the Holders to payment by Halifax Euro Jersey or Halifax Group of the balance of any Distributions not paid by reason of paragraph 2.4 above shall lapse following payment of such Relevant Proportion, and no payment in respect of any such unpaid Distributions shall be made at any time by Halifax Euro Jersey or Halifax Group in such circumstances.

2.7 On each Distribution Determination Date, Halifax Group will determine whether sufficient Distributable Profits exist to allow a payment of some or all of the relevant Distribution. In the event that any Distribution cannot be paid in full, Halifax Group will notify or procure notification to the Stock Exchange, the General Partner and the Paying and Transfer Agent and to Holders, in accordance with paragraph 10, of the amount, if any, to be paid in respect of that Distribution.

2.8 Save as described above, Holders will have no right to participate in the profits of Halifax Euro Jersey and in particular will have no rights to receive from Halifax Euro Jersey amounts in excess of Distributions due and payable under the Preferred Securities. In the event that any amounts received by Halifax Euro Jersey exceed the amount (if any) then due by way of distribution under the Preferred Securities, the amount of such excess will be paid to the Parent Limited Partner and Holders will have no rights in respect thereof.

2.9 Without prejudice to the provisions of paragraph 9, the liability of a Holder to contribute to the debts or obligations of Halifax Euro Jersey (if any) is (subject to the Law) not to exceed the amount of that Holder's Preferred Capital Contribution.

3. Liquidation Distributions

3.1 Without prejudice to paragraph 8.6, in the event of the commencement of any dissolution (other than an Involuntary Dissolution) of Halifax Euro Jersey, the Holders at that time will be entitled, subject as set out in paragraph 4.5, to receive the Liquidation Distribution, in respect of each Preferred Security held, out of the assets of Halifax Euro Jersey available for distribution to such Holders under the Law.

Such entitlement will arise (a) after any payments due to the holders of the Preferential Rights and (b) before any distribution of assets is made to the General Partner or the holders of any type of interest in Halifax Euro Jersey ranking junior as regards participation in assets to the Preferred Securities, but such entitlement will rank equally with the entitlement of the holders of other preferred securities, if any, of Halifax Euro Jersey ranking *pari passu* with the Preferred Securities as regards participation in assets of Halifax Euro Jersey.

Notwithstanding the availability of sufficient assets of Halifax Euro Jersey to pay any Liquidation Distribution to the Holders, if, at the time such Liquidation Distribution is to be paid, proceedings have been commenced for the voluntary or involuntary liquidation, dissolution or winding-up of Halifax Group other than pursuant to a Permitted Reorganisation, the Liquidation Distribution per Preferred Security paid to Holders thereof shall not exceed the amount per security that would have been paid as a liquidation distribution out of the assets of Halifax Group (after payment in full in accordance with English law of all creditors of Halifax Group, including any holders of subordinated debt but excluding holders of any liability expressed to rank *pari passu* with or junior to the Guarantee) had the Preferred Securities and all Parity Securities been preference shares issued by Halifax Group with equivalent rights of participation in the capital of Halifax Group and ranked (a) junior to all liabilities of Halifax Group including subordinated liabilities and for the avoidance of doubt all subordinated liabilities expressed to rank ahead on a winding-up of all shares of Halifax Group (in each case other than any liability of Halifax Group referred to in (b) or (c) and any other liability expressed to rank *pari passu* with or junior to the Guarantee), (b) *pari passu* with the most senior preference shares, if any, issued by Halifax Group and any guarantee or support agreement of Halifax Group ranking *pari passu* with the Guarantee and (c) senior to Junior Share Capital.

3.2 If the Liquidation Distribution and any other such liquidation distributions cannot be made in full by reason of the limitation described in paragraph 3.1 above or any equivalent article or term of a Parity Security, but there are funds available for payment so as to allow payment of part of the Liquidation Distribution, then each Holder will be entitled to receive the Relevant Proportion of the Liquidation Distribution. After payment of all Liquidation Distributions, as adjusted if applicable, the Holders will have no right or claim to any of the remaining assets of Halifax Euro Jersey or Halifax Group.

3.3 In the event of an order being made for the liquidation, dissolution or winding-up of Halifax Group other than pursuant to a Permitted Reorganisation or Halifax Group is declared insolvent, Halifax Euro Jersey shall be dissolved (by delivery by the General Partner of a statement of dissolution in accordance with the Law) and the amount per Preferred Security to which Holders shall be entitled as a Liquidation Distribution will be as set out in paragraphs 3.1 and 3.2 above.

4. Redemption and Purchase

4.1 The Preferred Securities have no fixed final redemption date and Holders have no rights to call for the redemption of the Preferred Securities.

4.2 The Preferred Securities are redeemable, at the option of the General Partner, subject to the Law, paragraph 4.5 below and to the prior written consent of the FSA (if then required), in whole, but not in part, on any Optional Redemption Date upon not less than 30 nor more than 60 days' notice to the Holders specifying the Optional Redemption Date (which notice shall be irrevocable), each to be redeemed at the Optional Redemption Price on the specified Optional Redemption Date. Upon the expiry of such notice, Halifax Euro Jersey shall be bound to redeem the Preferred Securities accordingly by payment of an amount equal to the Optional Redemption Price.

4.3 If at any time prior to the Distribution Re-Set Date (a) Halifax Euro Jersey is or would be required to pay Halifax Euro Jersey Additional Amounts or, on making payment under the Guarantee, Halifax Group is required to pay Additional Amounts (as defined in the Guarantee), in either such case as a result of a change in, or amendment to, the laws or regulations of Jersey or the U.K., as the case may be, or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 9 December 1999 or (b) there is a Tax Event, the effect of which in either case cannot be avoided by Halifax Euro Jersey or Halifax Group taking reasonable measures available to it, then the Preferred Securities will be redeemable, at the option of the General Partner, at their Optional Redemption Price, subject to the Law, paragraph 4.5 below and the prior written consent of the FSA (if then required), in whole, but not in part, at any time prior to the Distribution Reset Date upon not less than 30 nor more than 60 days' notice to the Holders specifying the Optional Redemption Date (which notice shall be irrevocable). Prior to the publication of any notice of redemption pursuant to the foregoing, the General Partner shall deliver to the Registrar and the Paying and Transfer Agent a certificate signed by two Directors of Halifax Group stating that Halifax Euro Jersey is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of Halifax Euro Jersey so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that, in the case of (a), Halifax Euro Jersey or Halifax Group has or will become obliged to pay such Halifax Euro Jersey Additional Amounts or, as the case may be, Additional Amounts as a result of such change or amendment or, in the case of (b), a Tax Event has occurred. Upon the expiry of such notice, Halifax Euro Jersey shall be bound to redeem the Preferred Securities accordingly by the payment of the Optional Redemption Price, in accordance with and subject to the Law.

4.4 If at any time prior to the Distribution Re-Set Date (a) the FSA determines that the Preferred Securities no longer qualify as Tier 1 regulatory capital for U.K. banking capital adequacy purposes on a consolidated basis the effect of which cannot be avoided by Halifax Euro Jersey or Halifax Group taking reasonable measures available to it or (b) for any reason other than a Tax Event, there is more than an insubstantial risk that Halifax Group will not obtain relief for the purposes of U.K. corporation tax for any payment of interest in respect of the Notes, then the Preferred Securities will be redeemable, in whole, but not in part, at the option of the General Partner at the Capital Redemption Price, subject to the Law, paragraph 4.5 below and the prior written consent of the FSA (if then required), at any time prior to the Distribution Re-Set Date upon not less than 30 nor more than 60 days' notice to the Holders specifying the Capital Redemption Date (which notice shall be irrevocable) and the method of calculating the applicable Capital Redemption Price (together with details as to calculation thereof). Prior to the publication of any notice of redemption pursuant to the foregoing, the General Partner shall deliver to the Registrar and the Paying and Transfer Agent a certificate signed by two Directors of Halifax Group stating that Halifax Euro Jersey is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of Halifax Euro Jersey so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to that effect. Upon the expiry of such notice, Halifax Euro Jersey shall be bound to redeem the Preferred Securities accordingly by the payment of the Capital Redemption Price in accordance with and subject to the Law.

4.5 The Preferred Securities may only be redeemed pursuant to paragraph 4.2, 4.3 or 4.4 and a Liquidation Distribution may only be paid pursuant to paragraph 3.1 or 3.2 in the event of the dissolution of Halifax Euro Jersey (except following any liquidation, dissolution or winding-up of Halifax Group) if the Optional Redemption Price, Capital Redemption Price or, as the case may be, Liquidation Distribution (or the Relevant Proportion) payable is funded (a) by payments received that have themselves been funded by Halifax Group from an issue of Replacement Capital and/or (b) by a payment received by Halifax Euro Jersey from Halifax Group upon the redemption from Distributable Profits of redeemable preference shares issued by Halifax Group against payment to it by the General Partner.

4.6 Under existing FSA requirements, neither Halifax Euro Jersey nor Halifax Group may redeem or purchase any Preferred Securities unless the FSA gives its prior written consent. The FSA may impose conditions on any such redemption or purchase.

5. Substitution for Preference Shares

As soon as reasonably practicable following the occurrence of a Regulatory Event or the Involuntary Dissolution of Halifax Euro Jersey (in circumstances where Halifax Group is itself not insolvent or in liquidation), the General Partner shall take all reasonable steps to cause the substitution for the Preferred Securities of fully-paid preference shares issued directly by Halifax Group (the "Substituted Preference Shares") the terms of which provide the Holder in all material respects the same economic rights and benefits (including those relating to non-cumulative distributions and status) as are attached to the Preferred Securities and the Guarantee taken together. Halifax Group has undertaken in the Guarantee that prior to the issue of any Substituted Preference Shares, application will be made for their admission to listing on the Stock Exchange. Halifax Group has undertaken in the Guarantee that as soon as practicable after a Regulatory Event or the Involuntary Dissolution of Halifax Euro Jersey in circumstances where Halifax Group is itself not insolvent or in liquidation, it will give written notice to the Holders enclosing a substitution confirmation (the "Substitution Confirmation") which each Holder will be required to complete. To receive Substituted Preference Shares in respect of some or all of its holding of Preferred Securities, each Holder must deliver to the Paying and Transfer Agent a Substitution Confirmation together with the certificate representing its holding of Preferred Securities or other evidence of entitlement satisfactory to the General Partner. Any such substitution shall be effected subject in each case to any applicable fiscal laws or other laws or regulations. Halifax Group has undertaken in the Guarantee that following such substitution, each Substituted Preference Share allotted will rank for any dividend from the immediately preceding Distribution Payment Date and will have no entitlement to any accrued Distribution or any other payment on the Preferred Securities. In the case of a partial substitution of a Holder's Preferred Securities the Paying and Tansfer Agent will notify the Registrar and the General Partner who shall amend the record of the Holder's interest in Halifax Euro Jersey on the Register accordingly. On allotment in full of such Substituted Preference Shares the Holder shall cease to be a limited partner of Halifax Euro Jersey.

Halifax Group has undertaken in the Guarantee that it will pay any taxes or capital duties or stamp duties payable in the U.K. or Jersey arising on the allotment and issue of the Substituted Preference Shares other than to Restricted Persons. Halifax Group will not be obliged to pay and each Holder delivering Preferred Securities and a duly completed Substitution Confirmation to the Paying and Transfer Agent must pay any other taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on the relevant substitution. Halifax Group will not be obliged to pay and each Holder must pay all, if any, taxes arising by reference to any disposal or deemed disposal of a Preferred Security in connection with such substitution. Substituted Preference Shares will not be allotted to Restricted Persons.

The General Partner will use all reasonable endeavours to procure that certificates (if any) for Substituted Preference Shares issued on substitution will be despatched by mail free of charge (but uninsured and at the risk of the person entitled thereto) within one month after receipt of a duly completed Substitution Confirmation. Upon an Involuntary Dissolution of Halifax Euro Jersey, Holders will have no further rights, title or interest in or to Preferred Securities except the right to have their respective Preferred Securities substituted in the manner described above. Notwithstanding the foregoing, if Substituted Preference Shares are required to be issued, Holders will continue to be entitled to receive Distributions and/or a Liquidation Distribution in respect of the Preferred Securities until such time as notice is given by Halifax Group in accordance with paragraph 10 that Substituted Preference Shares are available for issue upon substitution and thereafter Holders will have no further rights, title or interest in or to their Preferred Securities except to have them substituted in the manner described above.

6. Halifax Euro Jersey Additional Amounts

All payments in respect of the Preferred Securities by Halifax Euro Jersey will be made without withholding or deduction for, or on account of, any Jersey Tax, unless the withholding or deduction of such Jersey Tax is required by law. In the event of such withholding or deduction, each Holder will be entitled to receive, as further distributions, such additional amounts ("Halifax Euro Jersey Additional Amounts") as may be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Preferred Securities in the absence of such withholding or deduction; except that no such Halifax Euro Jersey Additional Amounts will be payable to a Holder (or to a third party on his behalf) with respect to any Preferred Security to the extent that such Jersey Tax is imposed or levied by virtue of such Holder (or the beneficial owner) of such Preferred Security having some connection with Jersey, other than being a Holder (or beneficial owner) of such Preferred Security, and except that Halifax Euro Jersey's obligations to make any such payments are subject to the Law and to the limitations provided in paragraphs 2.4, 3.1 and 3.2.

7. Payments

7.1 Distributions will be payable on the relevant Distribution Payment Date or (where any Distribution Payment Date is not a TARGET Business Day) on the next TARGET Business Day (without interest in respect of such delay) to the Holders of record as they appear on the Register on the relevant record date, which will be five TARGET Business Days prior to the relevant Distribution Payment Date.

8.6 Subject to the Law, Halifax Euro Jersey may not be voluntarily dissolved by the General Partner or the holder of the Preferential Rights whilst any Preferred Security is outstanding, unless all the Holders and the General Partner have approved such resolution. Such approval shall not be required if the dissolution of Halifax Euro Jersey is proposed or initiated because of the liquidation, dissolution or winding-up of Halifax Group or the General Partner.

8.7 Any Preferred Security or any such other preferred security referred to in paragraph 8.2 outstanding at such time that is owned by Halifax Group, or any entity of which Halifax Group, either directly or indirectly, owns 20 per cent. or more of the voting shares or similar ownership interests, shall not carry a right to vote in a meeting of Holders or at any meeting called to vote for the election of a Special Representative pursuant to paragraph 8.2 and shall, for voting purposes, be treated as if it were not outstanding other than in the case of paragraph 8.6 above.

8.8 The General Partner will cause a notice of any meeting at which Holders are entitled to vote and any other voting forms to be mailed to each Holder. Each such notice will include a statement setting forth (a) the date, time and place of such meeting, (b) a description of any resolution to be proposed for adoption at such meeting on which such Holders are entitled to vote and (c) instructions for the delivery of proxies.

9. Covenant of the General Partner

The General Partner will undertake not to incur any indebtedness in the name of Halifax Euro Jersey other than costs and expenses incidental to maintaining the registrar and paying and listing agents in respect of the Preferred Securities and the administration of Halifax Euro Jersey.

10. Notices

All notices to the Holders will be mailed to the Holder of record and, so long as the Preferred Securities are listed on the Stock Exchange and the rules of the Stock Exchange so require, published in a leading Luxembourg daily newspaper which is expected to be the *Luxemburger Wort.*

11. Transfers and Form

The Preferred Securities will be in registered form. On or about 9 December 1999, a single certificate representing the Preferred Securities will be deposited with HSBC Bank plc (the "Common Depositary") as common depositary for Euroclear and Cedelbank. The Preferred Securities will be registered in the name of MSS (Common Depositary) Nominees Limited, as nominee for the Common Depositary. For so long as the Preferred Securities are deposited and registered as described above, book-entry interests in the Preferred Securities will be shown on, and transfers of such interests will be effected only through, records maintained by Euroclear and Cedelbank.

If (a) either or both of Euroclear and Cedelbank is or are closed for business for a continuous period of 14 days or more (other than for the purposes of a public holiday) or announces an intention permanently to cease business or (b) as a result of a change in law, transfer duties or similar taxes become payable on transfers of the Preferred Securities in Euroclear and/or Cedelbank, a number of Preferred Securities corresponding to its book-entry interest in the Preferred Securities represented by the certificate held by the Common Depositary referred to above will, subject to such reasonable requirements as the General Partner may require, be transferred to each holder of an interest in the Preferred Securities whose name is notified by a holder of such interest to Halifax Euro Jersey, and each such holder will be registered as a Holder in the Register and receive a certificate made out in its name. Other than in the circumstances referred to in this paragraph, definitive certificates will not be available to Holders.

If definitive certificates are made available in respect of Preferred Securities they will be available from the Registrar and from the Paying and Transfer Agent at its offices in Luxembourg, and will be posted to the relevant Holders at the address shown in the Register or, as applicable, in the relevant instrument of transfer within three London Business Days of issue, by uninsured post at the risk of such Holders. Transfers of Preferred Securities if represented by definitive certificates may be effected by presentation of the relevant certificate (with the transfer certificate relating thereto duly completed on behalf of the transferor and transferee) at the specified office of the Registrar or the Paying and Transfer Agent. The Preferred Securities may only be transferred in a minimum amount of €50,000 and integral multiples of €1,000 thereafter. Where a Holder transfers some only of the Preferred Securities represented by any such certificate he shall be entitled to a certificate for the balance without charge.

12. Replacement of Certificates

If a certificate is damaged or defaced or alleged to have been lost, stolen or destroyed, a new certificate representing the same Preferred Securities may be issued on payment of such fee and on such terms (if any) as to evidence and indemnity and the payment of out-of-pocket expenses as the General Partner may think fit and on payment of the costs of the General Partner incidental to its investigation of the evidence and, if damaged or defaced, on delivery up of the old certificate at the office of the Paying and Transfer Agent in Luxembourg.

13. Prescription

Unclaimed Distributions, Optional Redemption Price, Capital Redemption Price and Liquidation Distribution will be prescribed after ten years in accordance with Jersey law.

14. Governing Law

The Limited Partnership Agreement shall be governed by, and construed in accordance with, Jersey law, however, determinations in respect of amounts of Distributable Profits shall be made subject to English law.

TAXATION

General

Prospective investors should inform themselves as to the tax consequences within the countries of their residence and domicile of the acquisition, holding or disposal of Preferred Securities. The comments below are of a general nature based on law and practice as at the date hereof in each jurisdiction referred to and do not constitute tax or legal advice. They relate only to the position of persons who are the beneficial owners of their Preferred Securities and may not apply to certain classes of persons such as dealers. Any holders who are in doubt as to their personal tax position should consult their professional advisers. In assessing their tax position investors should note that Halifax Euro Jersey is a Jersey limited partnership and not a legal entity separate from its partners.

Jersey Taxation

Holders of Preferred Securities (other than residents of Jersey) are not subject to any tax in Jersey in respect of the holding, exchange, sale or other disposal of the Preferred Securities. Distribution payments may be made by Halifax Euro Jersey without withholding or deduction for, or on account of, and without, any payment of Jersey income tax.

No stamp duties are payable in Jersey on the acquisition, ownership, exchange, sale or other disposal of Preferred Securities. Probate or Letters of Administration may be required to be obtained in Jersey on the death of a holder of a Preferred Security with an estate in Jersey, including Preferred Securities. Stamp duty is payable in Jersey on the registration of such Probate or such Letters of Administration on the value of the deceased's estate in Jersey.

United Kingdom Taxation

Classification of Halifax Euro Jersey

Halifax Group has been advised that Halifax Euro Jersey should be classified as a partnership for U.K. tax purposes. It is possible, however, that the Inland Revenue may seek to treat U.K. investors in Halifax Euro Jersey as holding interests in a "unit trust scheme" and/or an "offshore fund". Prospective investors should take their own advice on the implications of these alternative classifications of Halifax Euro Jersey and are strongly recommended to take independent professional advice on their tax position in respect of the Preferred Securities (and in respect of the exchange of Preferred Securities for Substituted Preference Shares, if any).

Distributions on Preferred Securities

Payments of Distributions made by a paying agent outside the U.K. to the Common Depositary for Euroclear and Cedelbank may be made without withholding for or on account of U.K. tax.

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

Although a liability to U.K. stamp duty would arise on an agreement to transfer or a transfer of Preferred Securities which is executed in the U.K. or which relates, wherever executed, to any property situate in, or to any matter or thing done or to be done in, the U.K., it is not likely that any such duty will need to be paid in practice.

No liability to SDRT will arise in respect of agreements to transfer Preferred Securities.

Elections have been made under Section 97A of the Finance Act 1986 in respect of any charge to SDRT which would otherwise arise on the issue of the Preferred Securities.

Proposed EU Directive on the Taxation of Savings Income

In May 1998, the European Commission presented to the Council of Ministers of the European Union a proposal to oblige Member States to adopt either a "withholding tax system" or an "information reporting system" in relation to interest, discounts and premiums. It is unclear whether this proposal will be adopted, and if it is adopted, whether it will be adopted in its current form. The "withholding tax system" would require a paying agent established in a Member State to withhold tax at a minimum rate of 20 per cent. from any interest, discount or premium paid to an individual resident in another Member State unless such an individual presents a certificate obtained from the tax authorities of the Member State in which he is resident confirming that those authorities are aware of the payment due to that individual. The "information reporting system" would require a Member State to supply, to the other Member States, details of any payment of interest, discount or premium made by paying agents within its jurisdiction to an individual resident in another Member State. For these purposes, the term "paying agent" is widely defined and includes an agent who collects interest, discounts or premiums on behalf of an individual beneficially entitled thereto. If this proposal is adopted, it will not apply to payments of interest, discounts and premiums made before 1 January 2001.

SUBSCRIPTION AND SALE

Under a Subscription Agreement (the "Subscription Agreement") dated 8 December 1999, Lehman Brothers International (Europe) and UBS AG, acting through its division Warburg Dillon Read, (the "Managers") have agreed to subscribe for the Preferred Securities at a price of €1,000 per Preferred Security. The Managers will receive a combined selling, management and underwriting commission of €10 per Preferred Security. The Managers are entitled to terminate the Subscription Agreement in certain circumstances before the issue of the Preferred Securities.

United States

The Preferred Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

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

United Kingdom

Each Manager has represented and agreed that:

(a) it has not offered or sold, and prior to the expiry of six months from the Closing Date will not offer or sell, any Preferred Securities in the U.K. except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the U.K. within the meaning of the Public Offers of Securities Regulations 1995;

(b) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Preferred Securities in, from or otherwise involving the U.K.; and

(c) it has only issued or passed on and will only issue or pass on in the U.K. any document received by it in connection with the issue of the Preferred Securities to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 and is also a permitted person of a kind described in the Financial Services (Promotion of Unregulated Schemes) Regulations 1991 or is a person to whom the document may otherwise lawfully be issued or passed on.

General

No action has been or will be taken by Halifax Euro Jersey, Halifax Group or any of the Managers that would permit a public offering of the Preferred Securities, or the possession or distribution of this Offering Circular, or any amendment or supplement thereto, or any other offering material relating to the Preferred Securities, in any country or jurisdiction where action for that purpose is required. Accordingly, the Preferred Securities may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

GENERAL INFORMATION

1. Listing

Application has been made to list the Preferred Securities on the Luxembourg Stock Exchange. The quotation on the Luxembourg Stock Exchange of the Preferred Securities will be expressed in euro as a percentage of the liquidation preference of €1,000 per Preferred Security in each case. For listing purposes, the Preferred Securities will be considered as debt securities. At the date hereof it is not intended to list the Preferred Securities on any other stock exchange.

As required by Luxembourg law, a *notice légale* in connection with the application for listing of the Preferred Securities on the Luxembourg Stock Exchange will be filed, together with copies of the Limited Partnership Agreement, with the Registrar of the District Court in Luxembourg prior to the listing of the Preferred Securities, and copies thereof may be obtained on request, against payment of the customary charges.

The Luxembourg Listing Agent will serve as intermediary between the Luxembourg Stock Exchange and persons connected with the issuance and listing of the Preferred Securities for so long as the Preferred Securities remain listed on the Luxembourg Stock Exchange.

2. Authorisations

The execution of the Limited Partnership Agreement to establish Halifax Euro Jersey has been duly authorised by a resolution of the Board of Directors of the General Partner passed on 7 December 1999.

The entering into of the Guarantee by Halifax Group was duly authorised by a resolution of the Board of Directors of Halifax Group passed on 17 November 1999 and a resolution of a duly authorised committee of the Board of Directors of Halifax Group passed on 8 December 1999.

All consents, approvals, authorisations or other orders of all regulatory authorities required by Halifax Euro Jersey and/or Halifax Group under the laws of Jersey and the U.K. have been given for the issue of the Preferred Securities and for Halifax Euro Jersey and Halifax Group, as the case may be, to undertake and perform their respective obligations under each of the Limited Partnership Agreement, the Subscription Agreement, the Agency Agreement, the Preferred Securities and the Guarantee.

3. Clearing

The Preferred Securities have been accepted for clearance through Euroclear and Cedelbank.

ISIN: GB0058322420

Common Code: 10509742

4. No material change

Save as described herein, there has been no significant change in the financial or trading position of Halifax Group or the Group since 31 December 1998 or of Halifax Euro Jersey since its establishment and no material adverse change in the financial position or prospects of Halifax Group or the Group since 31 December 1998 or of Halifax Euro Jersey since the date of its establishment.

5. Documents for inspection

Copies of the following documents will be available for inspection at (and, in the case of 6(c) and (d) for collection (free of charge) from) the offices of the Luxembourg listing agent, Kredietbank S.A. Luxembourgeoise, shown on the back page of this Offering Circular during normal business hours for so long as the Preferred Securities are outstanding and at the registered offices of Halifax Euro Jersey and Halifax Group:

(a) the Limited Partnership Agreement;

(b) the memorandum and articles of association of Halifax Group;

(c) the audited consolidated accounts and the annual reports of Halifax plc for the financial years ended 31 December 1997 and 31 December 1998 and the interim consolidated results of Halifax plc for the six months ended 30 June 1998 and the interim consolidated results of Halifax Group for the six months ended 30 June 1999;

(d) the consents and authorisations referred to in paragraph 2 above;

(e) the Guarantee;

(f) the Agency Agreement; and

(g) the Subscription Agreement.

For so long as the Preferred Securities are listed on the Luxembourg Stock Exchange, the most recently published consolidated and non-consolidated audited annual financial statements and consolidated unaudited semi-annual interim financial statements of Halifax Group, and the most recently published audited annual accounts of Halifax Euro Jersey, will also be available at the offices of Kredietbank S.A. Luxembourgeoise in Luxembourg, currently as shown on the back page of this Offering Circular. Halifax Group does not publish non-consolidated interim financial statements. The first annual accounts of Halifax Euro Jersey are expected to be prepared for the period commencing on 8 December 1999 and ending on 31 December 1999. Halifax Euro Jersey does not publish interim accounts.

6. Litigation

There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Halifax Group is aware) which may have or have had during the year prior to the date hereof a significant effect on the financial position of Halifax Euro Jersey, Halifax Group or the Group.

7. Auditors

The auditors of Halifax Group are KPMG Audit plc ("KPMG Audit"), registered auditors. KPMG Audit have made reports under Section 235 of the United Kingdom Companies Act 1985 (the "Companies Act") on the statutory accounts of Halifax plc for the three years ended 31 December 1998 which were not qualified (within the meaning of Section 262 of the Companies Act) and did not contain a statement made under Section 237(2) or Section 237(3) of the Companies Act. KPMG Audit have given their written consent to the inclusion in this Offering Circular of their report in the form and context in which it is included.

No accounts of Halifax Euro Jersey have yet been audited. KPMG have been appointed as auditors of Halifax Euro Jersey in Jersey.

8. Notices

Notices to the holders of Preferred Securities, including notices for meetings of holders of the Preferred Securities and payments of distributions or other amounts in relation to the Preferred Securities will be published, for so long as the Preferred Securities are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, in a leading Luxembourg daily newspaper (which is expected to be the *Luxemburger Wort*).

FINANCIAL STATEMENTS

Index:

(1) Audited consolidated financial statements of Halifax plc for the years ended 31 December 1997 and 1998; and

(2) Extracts from the interim unaudited consolidated results of Halifax Group for the six months ended 30 June 1999.

2. **Interim Results**

The following financial information has been extracted from the unaudited consolidated financial statements for the six months ended 30 June 1999 of Halifax Group plc.

HALIFAX GROUP PLC

1. **Consolidated Profit and Loss Account**

	6 months to		
	30 June 1999 (unaudited)	*30 June 1998 (unaudited)*	*Year to 31 December 1998 (audited)*
	(in millions of £)		
Interest receivable:			
– Interest receivable and similar income arising from debt securities	636	798	1,530
– Other interest receivable and similar income	3,376	3,542	7,449
Interest payable	(2,796)	(3,154)	(6,613)
Net interest income	1,216	1,186	2,366
Fees and commissions receivable	378	355	711
Fees and commissions payable	(70)	(52)	(83)
Other operating income	100	76	164
Operating income	1,624	1,565	3,158
Administrative expenses:			
– Exceptional	(147)	—	—
– Ongoing	(607)	(571)	(1,180)
Depreciation	(75)	(79)	(148)
Goodwill amortisation	(4)	—	—
Provisions for bad and doubtful debts	(59)	(50)	(96)
Provisions for contingent liabilities and commitments	—	(22)	(29)
Operating profit	732	843	1,705
Share of operating profit in joint ventures	6	—	—
Profit on ordinary activities before tax	738	843	1,705
Tax on profit on ordinary activities	(272)	(268)	(534)
Profit on ordinary activities after tax	466	575	1,171
Minority interests (non-equity)	(4)	—	—
Profit attributable to shareholders	462	575	1,171
Dividends	(169)	(162)	(489)
Profit retained for the period	293	413	682
Underlying earnings per share(p)*	25.7	23.1	47.5
Basic earnings per share(p)	19.3	23.1	47.5
Diluted earnings per share(p)	19.3	23.0	47.4

Notes:

* excluding exceptional items and goodwill amortisation

There were no material gains or losses in any of the periods under review other than the profit shown above.

Further details of the calculation of earnings per share are given in section 5.3.

The investment in joint ventures comprises: £34m for the acquisition of the entire share capital of Lex Vehicle Leasing (98) Ltd (LVL98) which held 30% of the share capital of Lex Vehicle Leasing (Holdings) Ltd (LVLH); £84m for the settlement of liabilities in LVL98 relating to the 30% shareholding; and £45m to acquire a further 20% holding of LVLH.

	1998 £m	1997 £m
d Financing		
Repurchase of share capital	(750)	–
(Redemption)/issue of subordinated liabilities	(50)	350
Statutory cash bonus	–	(15)
	(800)	335
e Analysis of the balances of cash as shown in the balance sheet		
Cash and balances at central banks	247	486
Loans and advances to other banks repayable on demand	1,860	1,738
	2,107	2,224

The Group is required to maintain balances with the Bank of England which, at 31 December 1998, amounted to £119m (1997: £279m).

	1998 £m	1997 £m
Analysis of the changes in cash		
Opening cash	2,224	2,865
Cash flow	(117)	(641)
Closing cash	2,107	2,224

	Share capital and share premium £m	Subordinated liabilities £m
f Analysis of changes in financing during the year		
Balances at 1 January 1997	–	1,543
Net inflow of cash from financing	–	350
Share capital issued on conversion/to the QUEST	574	–
Other movements	–	13
Balances at 31 December 1997	574	1,906
Net outflow of cash from financing	–	(50)
Repurchase of share capital	(18)	–
Share capital issued to the QUEST	50	–
Balances at 31 December 1998	606	1,856

39 Proposed Acquisition of Birmingham Midshires Building Society

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 would acquire the business of Birmingham Midshires subject to the approval of Birmingham Midshires' members and various regulatory bodies. On 11 December 1998 the investing and borrowing members of Birmingham Midshires gave their approval. The proposed consideration of £750m will be paid in cash to those qualifying persons who are eligible, under the terms of the Building Societies Act, to receive cash and in the form of preference shares to those qualifying persons who are ineligible to receive cash under the Act. It is proposed that these distributions will be made to Birmingham Midshires' eligible investing members and borrowers and certain other stakeholders, in accordance with the terms of the distribution scheme which have been determined by the Board of Birmingham Midshires. Vesting Day is expected to be 19 April 1999.

40 Post Balance Sheet Events

On 21 January 1999 the Halifax announced a proposed joint venture with Cetelem SA, a wholly owned subsidiary of the French banking group Paribas. A new company, Halifax Cetelem Finance Ltd in which the Halifax and Cetelem are equal shareholders, is expected to commence trading in the third quarter of 1999 and will market its products and services under a new brand. Products will be designed to offer credit for the purchase of consumer durable goods with a focus on the point of sale retail market. The new company will be managed jointly by the Halifax and Cetelem. Both parties will provide a nominal amount of capital at inception.

On 17 February 1999, the Directors of Halifax plc resolved to seek shareholder approval for a proposed restructuring of Halifax plc involving the creation of a new listed holding company and the return of approximately £1.5bn of surplus capital in the form of cash to ordinary shareholders. The restructuring is subject to a number of conditions including the approval of the holders of ordinary shares in Halifax plc and the High Court. The proposal also requires Inland Revenue clearance.

The proposed restructuring will be effected by a Scheme of Arrangement under which the ordinary shares of Halifax plc are exchanged for a combination of shares in the new listed company plus cash. Subject to the conditions being met, it is expected that the Scheme will become effective in mid-1999. The number of ordinary shares to be issued by the new listed holding company will be set to facilitate comparability of financial measures per share with existing ordinary shares of Halifax plc.

Shortly after the Scheme becomes effective, it is proposed that the new listed holding company will, in order to ensure normal tax consolidation, subscribe for new preference shares in Halifax plc.

41 Related Party Transactions

i) Transactions with joint ventures
Balances outstanding between the Group and joint ventures as at 31 December 1998 are set out in note 16.

ii) Transactions with Birmingham Midshires
Subject to the approval of various regulatory bodies (note 39), the assets and liabilities of Birmingham Midshires will be acquired by Halifax plc on 19 April 1999.

Transactions with Birmingham Midshires have arisen during the year in the normal course of business at market rates. At the year end included within Loans and Advances to Banks is £79m due from Birmingham Midshires (1997: £41m).

42 Notes to the Consolidated Cash Flow Statement

	1998 £m	1997 £m
Gross cash flows		
a Returns on investments and servicing of finance		
Interest paid on subordinated liabilities	(175)	(149)
b Capital expenditure and financial investment		
Purchase of investment securities	(60,764)	(59,479)
Sale and maturity of investment securities	54,286	54,437
Purchase of tangible fixed assets	(139)	(247)
Sale of tangible fixed assets	28	23
	(6,589)	(5,266)
c Acquisitions and disposals		
Investment in subsidiary undertakings	–	2
Investment in joint ventures	(163)	–

ii) Currency risk

No analysis of the Group's foreign net investments has been provided on the grounds of materiality.

The total currency exposure arising on the monetary assets and liabilities held in the non-trading book amounted to £3m at 31 December 1998. This figure takes into account the effect of any currency swaps and forward contracts entered into to manage these currency exposures.

iii) Trading results

No analysis of dealing profits by financial instrument is presented on the grounds of materiality. No details are provided of the highest, lowest, average and balance sheet date exposure of the trading book to market price risk due to the immaterial levels of trading instruments held during the year.

37 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 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	4.00
Investment return	8.25
Salary escalation	6.00
Pension increases*	4.00
Dividend increases	4.00

*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% 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 projected unit method of valuation has been adopted and the valuation has been prepared on the basis of market values of assets and liabilities.

The pension cost for accounts purposes has been calculated using the same assumptions as those adopted for the 1997 valuation, with the exception of the long term rate assumed for equity dividend increases which has been increased from 4.0% to 4.25%.

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 1998 was £20m (1997: £17m). Included in Prepayments and accrued income (note 22) is a pension prepayment of £51m (1997: £61m) 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 review as at 31 December 1998 estimated the present value of the accumulated other post-retirement benefit obligations at £26m for the Group (1997: £25m). The main financial assumption used was that over the long term the rate of increase in health care costs would be 8.25% per annum, being 4.25% per annum higher than the rate of inflation. The charge for the year ended 31 December 1998 for other post-retirement benefits was £3m (1997: £3m). Included in provisions for liabilities and charges (note 29) is £21m (1997: £18m) which represents the accrued amount for other post-retirement benefits.

38 Transactions with Directors and Other Officers

The aggregate amounts outstanding at 31 December 1998 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	Amount £000
Directors		
Loans	6	533
Credit card accounts	7	11
Officers		
Loans	24	2,562
Credit card accounts	11	21

The credit card balances disclosed above for Directors and other 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.

Trading Derivatives

	1998				1997			
	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	100	–	1	1	772	–	1	1
Financial futures	297	–	–	6	350	–	–	–
	397	–	1	7	1,122	–	1	1
Amount included in other assets or other liabilities	–	–	1	1	–	–	1	1

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:

	1998		1997	
	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	13,830	77	7,526	150
In more than one year but not more than five years	23,693	335	6,388	108
In more than five years	4,619	471	2,944	148
	42,142	883	16,858	406

Details of the interest rate risk and currency risk on the non-trading investments held at 31 December 1998 are set out below:

i) Interest rate risk

The following table provides an analysis of the repricing periods of assets and liabilities (excluding the trading book) at 31 December 1998:

	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Non-interest bearing £m	Total £m
Assets:							
Treasury bills and other eligible bills	1,919	39	–	–	–	–	1,958
Loans and advances to banks	8,097	1,392	817	6	–	536	10,848
Loans and advances to customers	65,461	335	1,759	16,023	1,496	–	85,074
Debt securities	13,858	2,183	2,418	4,323	660	–	23,442
Other assets	–	–	–	–	–	3,756	3,756
Total assets	89,335	3,949	4,994	20,352	2,156	4,292	125,078
Liabilities:							
Deposits by banks	7,590	486	538	6	–	406	9,026
Customer accounts	78,268	2,140	1,661	2,884	–	–	84,953
Debt securities in issue	8,099	1,149	2,688	2,090	2,363	–	16,389
Other liabilities	–	–	–	–	–	5,705	5,705
Subordinated liabilities	281	–	–	–	1,575	–	1,856
Shareholders' funds	–	–	–	–	–	7,149	7,149
Total liabilities	94,238	3,775	4,887	4,980	3,938	13,260	125,078
Off balance sheet items	3,775	(2,714)	1,587	(4,178)	1,530	–	–
Interest rate sensitivity gap	(1,128)	(2,540)	1,694	11,194	(252)	(8,968)	–
Cumulative gap	(1,128)	(3,668)	(1,974)	9,220	8,968	–	–

Instruments have been allocated to time bands by reference to the earlier of the next interest rate repricing date and the maturity date.

The table takes account of derivative financial instruments whose effect is to alter the interest basis of non-trading book assets and liabilities.

33 Memorandum Items – Contingent Liabilities

	1998 £m	1997 £m
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	649	–

The above guarantee was terminated on 12 January 1999 and related to the acquisition of 50% of the share capital of Lex Vehicle Leasing (Holdings) Ltd.

34 Memorandum Items – Commitments

	1998 £m	1997 £m
Forward asset purchases and forward deposits placed	310	208
Undrawn formal standby facilities, credit lines and other commitments to lend:		
Over one year	674	385
One year or less	3,477	2,038
	4,461	2,631

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

35 Leasing Commitments

Annual commitments under non-cancellable operating leases

	1998		1997	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases which expire:				
Within one year	3	1	3	2
In more than one year but not more than five years	6	19	7	16
In more than five years	62	1	54	–
	71	21	64	18

36 Derivatives and Other Financial Instruments

At 31 December 1998, the contract or underlying principal amounts of derivative financial instruments, together with their risk weighted amounts and replacement costs, were:

Non-Trading Derivatives	1998			1997		
	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	4,753	97	235	4,131	61	84
Forward foreign exchange	5,861	19	35	4,500	28	93
	10,614	116	270	8,631	89	177
Interest rate contracts:						
Interest rate swaps	18,646	116	436	7,488	85	223
Forward rate agreements	6,100	13	38	382	–	1
Caps and floors	6,682	36	139	357	1	5
Financial futures	39,985	–	–	1,700	–	–
	71,413	165	613	9,927	86	229

The shares held by the QUEST at 31 December 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 31 December 1998, options to acquire 32.9m Halifax plc shares were outstanding under the Halifax plc Sharesave Scheme 1997 which are exercisable by employees of the Group at a price of £5.79 or £5.80 at various dates up to the year 2006.

During the year ended 31 December 1998 the Company repurchased ordinary shares with a nominal value of £18m at a total cost of £750m (being £745m value of shares and £5m costs) which has been charged against profit and loss account reserves.

Share Premium Account

	£m
At 1 January 1997	–
Arising on share issue to the QUEST	70
At 31 December 1997	70
Arising on share issue to the QUEST	49
At 31 December 1998	119

Capital Redemption Reserve

	£m
At 1 January 1998 and 1 January 1997	–
Repurchase of shares	18
At 31 December 1998	18

Profit and Loss Account

	£m
At 1 January 1997	6,605
Profit retained for the financial year	650
Statutory cash bonus paid	(15)
Share capitalisation	(574)
Goodwill arising on transfer of long term assurance business	(21)
Foreign currency translation differences on subsidiary undertaking	(4)
At 31 December 1997	6,641
Profit retained for the financial year	682
Repurchase of shares	*(750)*
Shares issued to the QUEST	(50)
Foreign currency translation differences on subsidiary undertaking	2
At 31 December 1998	6,525

The cumulative amount of goodwill resulting from acquisitions in earlier financial years, which has been deducted from Group profit and loss account reserves, is £470m (1997: £470m).

Of the total Group profit and loss account reserves at 31 December 1998, £371m (1997: £183m), 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.

32 Non-Sterling Assets and Liabilities

At 31 December 1998 the aggregate amount of all assets and liabilities included in the balance sheet denominated in a currency other than sterling was as follows:

	1998 £m	1997 £m
Assets	13,536	8,595
Liabilities	15,020	9,541

The amounts disclosed above do not equate to the Group's exposure to currency risk. The Group's currency positions are substantially hedged by off-balance sheet instruments (note 36).

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 10½% 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, which were issued in April 1997, 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% perpetual subordinated bonds, 30 January 2022 and, in the case of the 8¾% perpetual subordinated bonds, 14 September 2023, to redeem some or all of the bonds at their principal value plus any accrued and unpaid interest. The Company may not exercise this redemption option or purchase any of its undated subordinated debt without the consent of the Financial Services Authority. The 13⅝% bonds carry no optional redemption clauses. 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.

The subordinated liabilities, which have a nominal value of £1,850m as disclosed above, were valued by reference to market prices at £2,530m as at 31 December 1998.

	1998 £m	1997 £m
Dated subordinated liabilities are repayable as follows:		
In one year or less, or on demand	–	50
In more than five years	1,581	1,581
	1,581	1,631

31 Capital and Reserves

Called Up Share Capital

	Preference Shares of £1 each £m	Ordinary Shares of 20p each £m
Authorised share capital		
At 31 December 1997	–	660
At 31 December 1998	1,000	660

	Ordinary shares £m
Allotted, called up and fully paid share capital	
At 1 January 1997	–
Issued in respect of conversion	502
Issued to the Halifax plc Qualifying Employee Share Ownership Trust ("the QUEST")	2
At 31 December 1997	504
Issued to the QUEST	1
Repurchase of shares	(18)
At 31 December 1998	487

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 trust, the Company is empowered to finance the acquisition of shares by the QUEST. On 11 March 1998 the Company provided £50m for this purpose and 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 31 December 1998 was 14.4m which had a market value of £123m. 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 the share premium account has been increased by the excess of the subscription price over nominal value which amounts to £49m.

27 Other Liabilities

	1998 £m	1997 £m
Short positions – Government debt securities	96	24
Settlement balances	286	148
Corporation tax	268	519
Dividends payable	340	441
Other liabilities	405	459
	1,395	1,591

28 Accruals and Deferred Income

	1998 £m	1997 £m
Accrued interest	3,481	3,434
Other	733	345
	4,214	3,779

29 Provisions for Liabilities and Charges

	Pension review provision £m	Other post-retirement benefits and unfunded pensions £m	Reorganisation costs provision £m	Conversion costs provision £m	Total £m
At 1 January 1997	–	19	241	116	376
Charged in year	–	3	–	18	21
Utilised in year	–	–	(108)	(134)	(242)
At 31 December 1997	–	22	133	–	155
Transfer	15	–	–	–	15
Charged in year	29	4	–	–	33
Utilised in year	(8)	–	(99)	–	(107)
At 31 December 1998	36	26	34	–	96

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. The transfer relates to amounts previously held in accruals and deferred income to meet the costs of phase 1.

In addition, a provision of £35m (1997: £30m) to cover direct and indirect costs arising from the pensions review is included in the long term assurance business.

30 Subordinated Liabilities

	1998 £m	1997 £m
Dated		
10½% Subordinated sterling bonds 1998	–	50
8¾% Subordinated sterling bonds 2006	400	400
Floating rate subordinated sterling notes 2009	75	75
Step-up callable floating rate subordinated sterling notes 2012	200	200
11% Subordinated sterling bonds 2014	250	250
10½% Subordinated sterling bonds 2018	150	150
9⅜% Subordinated sterling bonds 2021	500	500
Unamortised premiums, discounts and issue costs	6	6
	1,581	1,631
Undated		
12% Sterling Perpetual Subordinated Bonds	100	100
8¾% Sterling Perpetual Subordinated Bonds	100	100
13⅝% Sterling Perpetual Subordinated Bonds	75	75
	1,856	1,906

The long term assurance assets attributable to policyholders comprise:

	1998 £m	1997 £m
Investments	18,938	16,039
Value of in-force policies	857	748
Net current assets/(liabilities)	258	(102)
	20,053	16,685
Long term assurance business attributable to shareholders	(921)	(744)
Long term assurance assets attributable to policyholders	19,132	15,941
Long term assurance liabilities attributable to policyholders	19,132	15,941

Derivatives (options and futures) are used for efficient portfolio management of the long term business and to match obligations to policyholders. These derivatives are included in investments at market value.

24 Deposits by Banks

	1998 £m	1997 £m
Repayable on demand	3,341	1,289
Repayable with agreed maturity dates or periods of notice:		
In not more than three months	5,062	3,740
In more than three months but not more than one year	855	178
In more than one year but not more than five years	132	163
	9,390	5,370
Included above are the following amounts which relate to items in the course of transmission to other banks	406	392

25 Customer Accounts

	1998 £m	1997 £m
Repayable on demand	77,184	73,372
Repayable with agreed maturity dates or periods of notice:		
In not more than three months	6,083	6,141
In more than three months but not more than one year	1,653	1,540
In more than one year but not more than five years	33	48
	84,953	81,101

26 Debt Securities in Issue

	1998 £m	1997 £m
Bonds and medium term notes		
Repayable:		
In one year or less, or on demand	1,330	1,538
In more than one year but not more than two years	503	1,612
In more than two years but not more than five years	1,771	1,397
In more than five years	2,518	1,674
	6,122	6,221
Other debt securities		
Repayable:		
In not more than three months	7,173	6,847
In more than three months but not more than one year	3,024	969
In more than one year but not more than two years	67	5
In more than two years but not more than five years	3	–
	10,267	7,821
Total debt securities in issue	16,389	14,042

As at 31 December 1998, debt securities with an original cost of £11,650m have been valued at £11,772m by reference to market prices. No liquid and active market exists for the other issues and therefore no market values are available.

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

	Amount provided		Amount unprovided	
	1998 £m	1997 £m	1998 £m	1997 £m
Capital allowances in advance of depreciation	(19)	(13)	–	–
Pension fund prepayment	(15)	(18)	–	–
Reorganisation costs	11	40	–	–
Other timing differences	28	13	11	11
	5	22	11	11

22 Prepayments and Accrued Income

	1998 £m	1997 £m
Accrued interest	677	404
Pension fund prepayment	51	61
Other	459	395
	1,187	860

23 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:

	1998 %	1997 %
Risk discount rate (net of tax) for traditional with profits business	9.0	10.0
Risk discount rate (net of tax) for other business	11.0	12.0
Return on equities (gross of tax)	7.0	8.5
Return on gilts (gross of tax)	5.0	6.5
Expense inflation	4.0	5.0

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 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 operating income in the consolidated profit and loss account is calculated as follows:

	1998 £m	1997 £m
Closing value of Group's interest in long term assurance business	921	744
Opening value of Group's interest in long term assurance business	744	696
Increase in value of long term assurance business	177	48
Transfer to long term assurance business	(76)	–
Transfer of long term assurance business of Clerical, Medical and General Life Assurance Society	–	24
Income after tax from long term assurance business	101	72
Taxation relating to long term assurance business (note 10)	45	31
Income before tax from long term assurance business (note 3)	146	103

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.

20 Tangible Fixed Assets and Capital Commitments

	Premises £m	Equipment £m	Total £m
Cost			
At 1 January 1997	869	476	1,345
Additions	54	193	247
Disposals	(17)	(43)	(60)
At 31 December 1997	906	626	1,532
Additions	65	74	139
Disposals	(34)	(61)	(95)
At 31 December 1998	937	639	1,576
Depreciation and provisions for diminution in value			
At 1 January 1997	308	148	456
Depreciation charged in the year	33	128	161
Disposals	(7)	(35)	(42)
At 31 December 1997	334	241	575
Depreciation charged in year	31	125	156
Disposals	(18)	(57)	(75)
At 31 December 1998	347	309	656
Net book value			
At 31 December 1998	590	330	920
At 31 December 1997	572	385	957

Included within tangible fixed assets are assets in the course of construction amounting to £28m (1997: £70m) which are not depreciated until the assets are brought into use.

	1998 £m	1997 £m
The net book value of premises comprises:		
Freeholds	464	464
Long leaseholds	25	28
Short leaseholds	101	80
Land and buildings occupied for own activities:		
Net book value at 31 December	409	448
Capital commitments for which contracts have been placed	12	23

21 Other Assets

	1998 £m	1997 £m
Settlement balances	–	167
Other assets	306	344
Deferred taxation (due after more than one year)	5	22
	311	533

Deferred taxation	1998 £m	1997 £m
At 1 January	22	72
Movement in year	(17)	(50)
At 31 December	5	22

19 Shares in Group Undertakings

The principal subsidiary undertakings of Halifax plc at 31 December 1998 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
Halifax Asset Finance Ltd	England and Wales	Leasing	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.

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 ITA;

(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.

18 Investments in Joint Ventures

	£m
At 1 January 1998	–
Additions	170
At 31 December 1998	170

The principal joint ventures of Halifax at 31 December 1998 are:

Joint venture	Nature of business	Interest in ordinary shares
Lex Vehicle Leasing (Holdings) Ltd	Vehicle leasing	50%
Warwick Leasing Ltd	Leasing	50%

All joint ventures are unlisted, registered in England and Wales, and their principal area of operation is the United Kingdom.

The Group's share of capital commitments by joint ventures is £25m (1997: £nil).

The Group's share of turnover and operating profit from joint ventures is not material.

Included within the Group's share of gross assets of joint ventures is goodwill relating to the acquisition of a joint venture as follows:

Goodwill	£m
At 1 January 1998	–
Additions	125
At 31 December 1998	125

The goodwill relates to the acquisition on 31 December 1998 of 50% of the share capital of Lex Vehicle Leasing (Holdings) Ltd and will be amortised over a period of 20 years to reflect the strategic rationale of the acquisition and the period over which economic benefits associated with the goodwill are expected to arise.

17 Debt Securities

	1998 Book value £m	1998 Market value £m	1997 Book value £m	1997 Market value £m
Investment securities				
Government securities	4,128	4,294	4,488	4,580
Other public sector securities	35	37	88	88
Bank and building society certificates of deposit	12,055	12,065	8,576	8,571
Other debt securities	7,128	7,152	4,096	4,107
	23,346	23,548	17,248	17,346
Other securities				
Government securities	431	431	24	24
Other debt securities	29	29	1	1
	460	460	25	25
Total	23,806	24,008	17,273	17,371
Debt securities analysed by listing status:				
Investment securities				
Listed on recognised UK exchange	6,132	6,307	6,371	6,469
Listed on other exchanges	4,387	4,399	2,076	2,082
	10,519	10,706	8,447	8,551
Unlisted	12,827	12,842	8,801	8,795
	23,346	23,548	17,248	17,346
Other securities				
Listed on recognised UK exchange	460	460	24	24
Unlisted	–	–	1	1
	460	460	25	25
Total	*23,806*	*24,008*	*17,273*	*17,371*

	1998 £m	1997 £m
Debt securities analysed by remaining maturity:		
Due within one year	13,797	10,150
Due one year and over	10,009	7,123
	23,806	17,273

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

	1998 Book value £m	1997 Book value £m
At 1 January	17,248	12,321
Additions	48,539	49,232
Disposals	(42,396)	(44,287)
Amortisation of premiums and discounts	(32)	(44)
Exchange adjustments	(13)	26
At 31 December	23,346	17,248

The total net book value of debt securities held for investment purposes at 31 December 1998 includes unamortised premiums less discounts of £137m (1997: £126m).

Debt securities include securities with a market value of £1,346m (1997: £1,372m) sold subject to agreement to repurchase.

15 Loans and Advances to Banks

	1998 £m	1997 £m
Repayable on demand	1,860	1,738
Other loans and advances repayable:		
In not more than three months	6,708	7,176
In more than three months but not more than one year	2,112	504
In more than one year but not more than five years	50	1
In more than five years	118	–
	10,848	9,419
Included above are the following amounts which relate to items in the course of collection from other banks	417	388

16 Loans and Advances to Customers

	1998 £m	1997 £m
Advances secured on residential properties	81,731	80,756
Other secured advances	2,046	1,659
Unsecured loans	1,851	1,528
Provisions for bad and doubtful debts	(554)	(576)
	85,074	83,367
Repayable:		
On demand or at short notice	180	129
In not more than three months	1,087	898
In more than three months but not more than one year	1,530	1,366
In more than one year but not more than five years	7,579	6,482
In more than five years	75,252	75,068
Provisions for bad and doubtful debts	(554)	(576)
	85,074	83,367

Loans and advances to customers include finance lease receivables of £87m (1997: £1m). Assets acquired in the year for letting under finance leases amounted to £84m (1997: £1m).

Included in loans and advances to customers are loans to joint ventures of £17m (1997: £nil).

	1998 £m	1997 £m
Non-performing loans and advances:		
Loans and advances three months or more in arrears	1,966	2,257
Loans and advances on properties in possession	103	140
	2,069	2,397
Provisions for bad and doubtful debts	(554)	(576)
	1,515	1,821

11 Profit for the Financial Year Attributable to Shareholders

Of the profit attributable to shareholders, £858m (1997: £886m) 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.

12 Dividends

	1998 £m	1997 £m
Ordinary shares		
Interim (paid)	165	–
Final (proposed)	327	441
Adjustment	(3)	–
	489	441

	1998 pence per share	1997 pence per share
Ordinary shares		
Interim (paid)	6.75	–
Final (proposed)	13.50	17.50
	20.25	17.50

The adjustment in 1998 resulted from the waiver of dividends by the QUEST (note 31) and the impact of the share buy-back programme, both of which took place subsequent to the dividends being accrued but before payment.

13 Earnings per Share

Earnings per share has been calculated by dividing the profit attributable to shareholders of £1,171m (1997: £1,091m) by the weighted average number of ordinary shares in issue during the year.

The weighted average number of ordinary shares used for the diluted earnings per share is calculated as follows:

	1998 millions	1997 millions
Weighted average number of ordinary shares in issue during the year	2,463	2,510
Diluting effect of options under Sharesave Scheme	9	3
Diluted weighted average number of ordinary shares	2,472	2,513

14 Treasury Bills and Other Eligible Bills

	1998		1997	
	Book value £m	Market value £m	Book value £m	Market value £m
Investment securities				
Treasury bills and similar securities	96	98	104	104
Other eligible bills	1,862	1,863	1,416	1,417
	1,958	1,961	1,520	1,521

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

	1998 £m	1997 £m
At 1 January	1,520	1,325
Additions	12,225	10,248
Disposals	(11,890)	(10,151)
Amortisation of discounts	103	98
At 31 December	1,958	1,520

Included in the above balances are:	1998 £m	1997 £m
Unamortised discounts on investment securities	10	11

8 Provisions for Bad and Doubtful Debts

Provisions have been made as follows:

	Specific £m	General £m	1998 Total £m	Specific £m	General £m	1997 Total £m
At 1 January	355	221	576	399	227	626
Amounts written off during the year	(84)	(34)	(118)	(126)	(26)	(152)
Charge for the year						
– provisions	99	25	124	98	20	118
– recoveries	(19)	(9)	(28)	(16)	–	(16)
	80	16	96	82	20	102
At 31 December	351	203	554	355	221	576
Provisions at 31 December can be analysed as follows:						
– residential property and other advances secured on land	198	200	398	246	218	464
– unsecured loans	153	3	156	109	3	112
	351	203	554	355	221	576

9 Profit on Ordinary Activities Before Tax

	1998 £m	1997 £m
Profit on ordinary activities before tax is stated after crediting:		
Profits less losses on disposal of investment securities	124	17
Profit on ordinary activities before tax is stated after charging:		
Mortgage incentives	577	595
Interest payable on subordinated liabilities	172	164
Rental of premises	67	56
Hire of equipment	25	20
Remuneration of auditors and their associates (including VAT) for:		
Audit services	1.5	1.2
Non-audit services	2.9	2.8
Non-audit services comprise the following:		
Regulatory reporting	0.9	0.4
Tax services	0.2	0.6
Consultancy	1.2	0.7
Other	0.6	1.1
Total non-audit services	2.9	2.8

Non-audit fees of £1.1m have also been incurred in the year ended 31 December 1998 relating to acquisitions.

10 Tax on Profit on Ordinary Activities

	1998 £m	1997 £m
The charge for the year, based on a corporation tax rate applicable to the year of 31.0% (1997: 31.5%) comprises:		
UK corporation tax	472	459
Tax relating to change in value of long term assurance business (note 23)	45	31
Deferred taxation	17	50
	534	540

7.6.3 Interest in Shares under Qualifying Employee Share Ownership Trust

The Executive Directors were discretionary beneficiaries under the Halifax plc Qualifying Employee Share Ownership Trust and, as such, were each treated as at 31 December 1998 as being interested in the 14,432,826 ordinary shares held by the trustee of that trust. The shares held in the trust are used to satisfy the exercise of rights granted under the Halifax plc Sharesave Scheme.

7.6.4 Halifax plc Sharesave Scheme

The Halifax plc Sharesave Scheme was founded in August 1997 and its first operation started from that date. It was available to all employees eligible at that time, which was the majority of employees. A second operation of the arrangement started in August 1998.

About 80 per cent. of those eligible participate in 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 at a fixed price (£5.80 for the arrangement which started in 1997 and £5.79 for the arrangement which started in 1998).

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:

	Year ended 31.12.97						Projected entitlement	
	Granted in year	Exercised in year	At 1.1.98	Granted in year	Exercised in year	At 31.12.98	Date from which exercisable	Expiry date
Executive Directors								
J M Blackburn	2,974	–	2,974	–	–	2,974	1.9.2002	1.3.2003
R F Boyes	3,362	–	3,362	–	–	3,362	1.9.2004	1.3.2005
J R Crosby	2,974	–	2,974	–	–	2,974	1.9.2002	1.3.2003
M H Ellis	2,974	–	2,974	–	–	2,974	1.9.2002	1.3.2003
G J Folwell	1,681	–	1,681	–	–	1,681	1.9.2000	1.3.2001
J A Lee	3,362	–	3,362	–	–	3,362	1.9.2004	1.3.2005
J R Miller	2,974	–	2,974	–	–	2,974	1.9.2002	1.3.2003

The projected entitlements for Mr J M Blackburn will, to the extent not exercised, lapse six months after the Effective Date. The projected entitlements for Mr J R Miller will lapse when he leaves the Company.

The Market price of the shares at 31 December 1997 was £7.54, at 31 December 1998 was £8.53 and the range during the year has been £6.78 to £9.77.

7.6.5. 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 17 February 1999, the date of approval of this Annual Report and Accounts.

7.7 Post Balance Sheet Event

This note reflects the position for the year ended 31 December 1998. It includes details of Directors' share interests including those under bonus schemes, qualifying share trusts and sharesave schemes, in relation to shares in Halifax plc. It does not take account of the proposed return of capital and reorganisation of Halifax plc, other than in the arrangements for Mr J M Blackburn to exercise rights under the Sharesave Scheme as set out in 7.6.4 above.

7.5.2 J R Miller

Mr Miller, who was Housing & Technology Director until 31 December 1998, was given notice under his service contract with effect from 1 December 1998. He will remain an employee of Halifax until 30 April 1999 and then receive seven months basic salary as the balance of his contractual payment amounting to £132,708. He will participate in the Short Term and Long Term Bonus Schemes based on his executive service to 30 April 1999.

From 1 December 1999, he will receive an immediate pension based on the pension accrued in accordance with his service contract, and reduced for early payment as though he were five years older. This basis of pension provision is consistent with that applying to staff of similar age who leave Halifax under its early retirement severance arrangements. The cost of lessening the reduction for early payment of pension is £324,000.

7.6 Directors' Share Interests

7.6.1 Shares

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

	Number of shares at 31.12.98	Number of shares at 1.1.98
Chairman		
H J Foulds	1,181	1,181
Executive Directors		
J M Blackburn	8,003	7,551
R F Boyes	7,348	7,348
J R Crosby	408	400
M H Ellis	4,994	4,956
G J Folwell	2,834	2,789
J A Lee	2,276	1,499
J R Miller	3,386	2,540
Non-Executive Directors		
J L Wood	1,672	1,646
Lord Chadlington	10,281	10,281
R J Chapman	1,220	1,181
A L Coleby	205	201
N L Colne	1,716	2,091
D G R Ferguson	976	617
J A Kay	208	204
P M Leith	1,036	1,036
P L M Sherwood	–	–

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.

The Executive Directors will receive further interests in the ordinary shares of Halifax arising out of the Short Term Bonus Scheme and, potentially, the Long Term Bonus Scheme, as described in 7.2.4 and Note 1 to Table 2.

7.6.2 Long Term Bonus Scheme

The operation of the Long Term Bonus Scheme is described in 7.2.4.

Details of the ordinary shares of Halifax which have been conditionally awarded to the Directors under the Long Term Bonus Scheme are set out below:

	Conditional share Grants			
	At 1.1.98	Granted in year	At 31.12.98	Date on which conditional rights mature
Executive Directors				
J M Blackburn	–	55,774	55,774	23.3.2001
R F Boyes	–	31,496	31,496	23.3.2001
J R Crosby	–	28,871	28,871	23.3.2001
M H Ellis	–	26,246	26,246	23.3.2001
G J Folwell	–	31,496	31,496	23.3.2001
J A Lee	–	26,246	26,246	23.3.2001
J R Miller	–	28,871	28,871	23.3.2001

The shares granted in the year were granted at £7.62, the average market price in the ten business days ending on 31 December 1997. The proportion of shares released, if any, will be determined early in 2001 in the light of Halifax's performance, relative to a comparator group of companies, over the period 1998-2000.

All of the shares conditionally granted under the scheme during the year will be bought in the market and will be held by a trustee until due for release to participants. The cost of these conditional grants is being charged to the profit and loss account over the three year performance period to which they relate. In 1998 £217,041 was charged to the profit and loss account. There was no charge to the profit and loss account in 1997 as the scheme did not commence until 1998.

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

Name	Age at 31.12.98	Accrued pension at 31.12.98 £	Increase in accrued pension for year to 31.12.98 £	Director's contribution in year to 31.12.98 £	Value of increase in accrued pension (less Director's contribution) £
J M Blackburn	57	205,700	30,500	8,700	431,600
R F Boyes	54	98,700	12,200	4,900	153,500
J R Crosby	42	78,900	7,100	4,500	48,000
M H Ellis	47	89,700	11,000	4,300	96,600
G J Folwell	55	134,700	10,000	4,900	125,900
J A Lee	54	84,800	14,200	4,300	180,400
J R Miller	51	75,700	9,800	4,500	104,400

The accrued pension at 31 December 1998 is:

- the pension which the Director would have been entitled to receive based on all his pensionable service, had he left on 31 December 1998;
- 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 1998 less the accrued pension at 31 December 1997;
- after allowance for RPI-linked revaluation increases to the latter pension covering the year to 31 December 1998.

The Director's contribution is:

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

The value of the increase in accrued pension 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 1998;
- exclusive of the Director's own contribution;
- calculated in accordance with actuarial guidance.

In addition to the above, the Company made contributions totalling £18,375 (1997: £17,063) to a money purchase scheme during the year in respect of one of the Executive Directors, Mr G J Folwell.

Comparative details of each Director's accrued pension benefits for the year ended 31 December 1997 are as follows:

Name	Age at 31.12.97	Accrued pension at 31.12.97 £	Increase in accrued pension for year to 31.12.97 £	Director's contribution in year to 31.12.97 £	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

7.5 Retirement Arrangements

7.5.1 J M Blackburn

Mr Blackburn, who was Chief Executive until 31 December 1998, has a service contract providing for one year's notice. That one year period runs concurrently with his period of office as a Non-Executive Vice Chairman throughout 1999. He will receive no additional compensation when his contract terminates. He will participate in the Short Term and the Long Term Bonus Schemes based on his executive service to 31 December 1998.

From 1 January 2000, he will receive an immediate pension based on the pension accrued in accordance with his service contract, but not reduced for early payment. This basis of pension provision is consistent with that applying to staff of similar age who leave Halifax under its early retirement severance arrangements. The cost of waiving the reduction for early payment of pension is £269,000.

The remainders are payable in shares which will not be released to participants until March 2002. These shares will be granted at £8.63, the average market price in the ten business days ending on 31 December 1998. The following shares will therefore be granted to participants:

J M Blackburn	11,472 shares
R F Boyes	6,453 shares
J R Crosby	5,931 shares
M H Ellis	6,453 shares
G J Folwell	6,453 shares
J A Lee	6,453 shares
J R Miller	5,931 shares

Note 2:

Non-Executive Directors retired as follows: Sir Timothy Kitson – 2 June 1997, I A Ziff – 21 April 1997, D E Cook – 21 April 1998, R N Hodge – 21 April 1998, P G Rogerson – 16 December 1998.

Note 3:

Messrs Crosby and Ellis were remunerated as Directors of Halifax from 2 June 1997 (see Note 1 to Table 1).

Note 4:

Mr Blackburn ceased to be Chief Executive of Halifax on 31 December 1998. He will serve as a Non-Executive Vice Chairman of Halifax throughout 1999. Mr Miller ceased to be an Executive Director of Halifax on 31 December 1998. He will continue to be employed by Halifax until 30 April 1999 at which time he will be paid compensation for loss of office amounting to £132,708 as specified in 7.5.2. This compensation, which is equivalent to seven months' basic salary and which is in respect of Mr Miller's services as an Executive Director, is in addition to the remuneration shown in the table.

Note 5:

Mr Crosby was appointed Chief Executive of Halifax from 1 January 1999. His basic salary from that date is £425,000. At the same date the titles of the other Executive Directors were established as follows:

R F Boyes: Group Finance Director

M H Ellis: Retail Financial Services Director

G J Folwell: Deputy Chief Executive

J A Lee: Personnel and Communications Director

Note 6:

The fees include payments in respect of services as directors of subsidiaries as follows: J L Wood £22,500 (1997: £22,500) and P L M Sherwood £22,800 (1997: £22,800).

Note 7:

The amounts include payments under the Medium Term Bonus Scheme.

Note 8:

At the end of 1997, the Medium Term Bonus Scheme terminated. The amounts approved by the Remuneration, Senior Appointments and Nominations Committee, paid in March 1998, are set out in Table 2. They related to a 23 month period, other than in respect of Messrs Crosby and Ellis, where they relate to the period after 2 June 1997. The amounts paid to them in respect of the 23 month period (which represented the full period of their membership of the scheme) were £155,833 and £147,156 for Messrs Crosby and Ellis respectively.

7.3.3 Non-Executive Directors

From 1 January 1998 the Vice Chairman's (J L Wood) annual fee was increased to £65,000 p.a. (from £52,500 p.a. which had applied from 1 January 1997). The Vice Chairman also received £22,500 for services as Chairman of Clerical Medical Investment Group Limited for the year ended 31 December 1998 (1997: £22,500).

In 1998 the annual fee payable to other Non-Executive Directors was £23,000 (1997: £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.

7.4 Pension Benefits as at 31 December 1998

For the sake of completeness, pension details for Messrs Blackburn and Miller are included in this section; their detailed individual arrangements are covered in 7.5.

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 Halifax Retirement 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 life assurance benefit of four times basic salary under the fund. Messrs Blackburn, Boyes, Crosby, Lee and Miller are entitled to a lump sum life assurance benefit of four times the statutory earnings cap under the fund.

Additional life assurance benefit 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 so that, in broad terms, the total life assurance benefit is what would have applied under the fund had the earnings cap not been in place.

Companies 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.

The share bonus accrual for the year to 31 December 1998 represents the share bonus earned under the 1998 operation of the Short Term Bonus Scheme plus the accrued conditional share grant under the 1998-2000 operation of the Long Term Bonus Scheme which is not guaranteed and is conditional on performance during 1998-2000.

7.3.2 Regulatory Presentation for Directors

Table 2 below has been prepared in accordance with regulatory requirements in respect of Directors' remuneration for the year ended 31 December 1998:

Table 2

	Notes	Salary £000	Benefits £000	*Short Term* Bonus (Note 1) £000	*Fees and* further remuneration £000	*Total year* ended 31.12.98 £000	Comparative total year *ended* 31.12.97 (Note 7) £000	Total Medium *Term Bonus* 31.12.97 (Note 8) £000
Chairman								
H J Foulds		320	–	–	–	320	265	–
Executive Directors								
J M Blackburn	4	435	23	198	–	656	823	308
R F Boyes	5	245	15	111	–	371	473	178
J R Crosby	3, 5	225	15	102	–	342	211	47
M H Ellis	3, 5	216	9	111	–	336	192	45
G J Folwell	5	245	12	111	–	368	476	178
J A Lee	5	216	16	111	–	343	395	147
J R Miller	4	225	13	102	–	340	432	161
Non-Executive Directors								
Sir Timothy Kitson, Vice Chairman	2	–	–	–	–	–	23	–
J L Wood, Vice Chairman	6	–	–	–	89	89	77	–
Lord Chadlington		–	–	–	36	36	31	–
R J Chapman		–	–	–	33	33	31	–
A L Coleby		–	–	–	35	35	29	–
N L Colne		–	–	–	31	31	33	–
D E Cook	2	–	–	–	10	10	28	–
D G R Ferguson		–	–	–	29	29	25	–
R N Hodge	2	–	–	–	14	14	39	–
J A Kay		–	–	–	32	32	35	–
P M Leith		–	–	–	30	30	26	–
P G Rogerson	2	–	–	–	42	42	40	–
P L M Sherwood	6	–	–	–	53	53	46	–
I A Ziff	2	–	–	–	–	–	8	–
Total		2,127	103	846	434	3,510	3,738	1,064

Notes to Table 2

Note 1:

The amounts approved by the Remuneration, Senior Appointments and Nominations Committee, for payment or establishment in March 1999, relate to a 12 month period and are set out in Table 2. Half the amounts shown are payable in cash in March 1999.

7.2.2 Benefits

The value of benefits provided for the year ended 31 December 1998 was £22,836. During the year, these benefits comprised the provision of a car, private medical insurance and a staff rate mortgage.

7.2.3 Short Term Bonus

The level of payments under the Short Term Bonus Scheme is dependent, for most participants, on the level of the Group's profits after tax for the year. The bonus payable under the terms of the scheme in respect of the year ended 31 December 1998 was a cash payment of £99,000, payable after the financial year end, and an equivalent value in shares (11,472 shares), which will be released in three years.

7.2.4 Long Term Bonus

No bonus is yet payable under the terms of the scheme. The proportion of shares actually released to participants under the Long Term Bonus Scheme will be dependent on the Group's annualised total shareholder return ("TSR") (defined as the gross overall return on ordinary shares of Halifax plc after all adjustments for capital actions and re-investment of dividends or other income) over three year periods, compared to the annualised weighted average TSR of a basket of 15 comparator companies over equivalent periods. All payments under the scheme are subject to performance criteria and no payments are made if Halifax's TSR falls below the weighted average TSR of the comparator companies over the three year performance period. The notional bonus accrual for 1998 which has been based on one third of the conditional share grant made under the 1998–2000 operation of the Long Term Bonus Scheme, assumes that Halifax's TSR performance during 1998–2000 will be the same as the annualised weighted average TSR of the comparator companies, and is adjusted to take account of the price of Halifax shares on 31 December 1998. On this basis, the notional bonus accrual is valued at £53,480 (6,197 shares).

7.2.5 Summary

The Chief Executive's remuneration for the year to 31 December 1998 is made up of two constituent elements, being his basic salary and benefits of £457,836 and the short term bonus, earned over 12 months, and valued at £198,000.

The notional accrued long term bonus is valued at £53,480. This is not guaranteed to be paid. Payment is dependent on Halifax's TSR performance, in relation to that of a group of comparator companies, during 1998–2000.

The aggregate of these amounts for 1998 is £709,317, an increase of 4.9% over the equivalent amount for 1997.

In addition, the Chief Executive benefits from remuneration in the form of pension benefits described in 7.4 and 7.5 below.

The Chief Executive's remuneration for the year to 31 December 1997 was also made up of two constituent elements, being his basic salary and benefits of £421,951 and the short term bonus (earned over 12 months) of £93,500.

In addition, a medium term bonus of £308,479 was paid. This bonus was earned over 23 months to 31 December 1997 and, if spread evenly over that period, the amount attributable to 1997 was £160,946.

The aggregate of these amounts for 1997 was £676,397.

7.3 Directors

7.3.1 Year on Year Comparison for Executive Directors

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

Table 1

			1998			1997
	Salary, Benefits, Annual Cash Bonus £000	**Share Bonus Accrual £000**	**Total £000**	**Salary, Benefits, Annual Bonus £000**	**Medium Term Bonus Accrual £000**	**Total £000**
J M Blackburn	557	152	709	515	161	676
R F Boyes	315	86	401	295	93	388
J R Crosby	291	79	370	267	81	348
M H Ellis	281	81	362	243	77	320
G J Folwell	312	86	398	298	93	391
J A Lee	288	81	369	248	77	325
J R Miller	289	79	368	271	84	355

Notes to Table 1

Note 1:

The remuneration of Messrs Crosby and Ellis in the year to 31 December 1997 relates to the full 12 month period. It includes remuneration for the period to 1 June 1997 during which time they were not directors of Halifax Building Society. Whilst they assumed directorship of Halifax prior to the transfer of business of Halifax Building Society to Halifax they were remunerated as Executives, and not directors, of Halifax Building Society for the period up to the conversion date of 2 June 1997.

Note 2:

Bonuses under the Medium Term Bonus Scheme, which terminated at the end of 1997, are stated on the basis that they accrued evenly over the 23 months of the scheme.

Note 3:

Bonuses under the Long Term Bonus Scheme, which started at the beginning of 1998, are stated on the basis that they accrue evenly over the 36 months of the scheme, assume that Halifax's TSR performance during 1998-2000 will be the same as the annualised weighted average TSR of the comparator companies, and are based on the price of Halifax shares on 31 December 1998.

3 Other Operating Income

	1998 £m	1997 £m
Increase in value of long term assurance business (note 23)	146	103
Other	18	21
	164	124

4 Exceptional Administrative Expenses

	1998 £m	1997 £m
Exceptional administrative expenses comprise:		
Conversion costs	–	18

The conversion costs comprise costs arising from the programme of conversion to public limited company status.

5 Ongoing Administrative Expenses

	1998 £m	1997 £m
Staff costs:		
Wages and salaries	557	514
Social security costs	43	40
Other pension costs	19	16
Other post-retirement benefits	3	3
	622	573
Other administrative expenses	558	477
	1,180	1,050

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 3).

	1998 £m	1997 £m
Wages and salaries	88	85
Social security costs	7	8
Other pension costs	1	1
	96	94

6 Staff Numbers

The average number of persons employed during the year was as follows:

	Full time		Part time	
	1998	1997	1998	1997
Principal office and administration centres	6,329	6,537	1,058	900
Branch offices	17,106	17,547	8,604	8,440
	23,435	24,084	9,662	9,340
Long term assurance business (note 5)	3,071	3,245	210	196
	26,506	27,329	9,872	9,536

7 Directors' Remuneration

7.1 Chairman

Mr H. J. Foulds was Chairman throughout both 1997 and 1998. The remuneration of the Chairman is determined by the Board as a whole. From 1 January 1998 the Chairman's annual fee was increased to £320,000 p.a. (from £265,000 p.a. which had applied from 1 January 1997) to recognise the increased responsibilities associated with the role following conversion to a public limited company. This fee is positioned at the market median for public limited companies of a size and complexity similar to that of Halifax.

7.2 Chief Executive

Mr J. M. Blackburn was Chief Executive throughout both 1997 and 1998. The remuneration of the Chief Executive, being the highest paid Director, is made up as follows:

7.2.1 Salary

Basic annual salary was increased on 1 May 1998 from £425,000 p.a. to £440,000 p.a., an increase of 3.5%.

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.

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 Group 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 (d) below.

	1998 Profit before tax £m	**1997 Profit before tax £m**
Retail Operations	1,313	1,298
Consumer Credit	44	42
Personal Lines Insurance	158	142
Long Term Savings and Protection	170	129
Group Treasury (note a)	169	94
Group Items (note a)	(149)	(56)
Profit before tax and exceptional items (note b)	1,705	1,649
Exceptional items (note c)		
– administrative expenses	–	(18)
Profit on ordinary activities before tax	1,705	1,631

	1998 Total assets (note d) £m	**1997 Total assets (note d) £m**
Retail Operations	82,144	81,144
Consumer Credit	1,965	1,554
Personal Lines Insurance	–	–
Long Term Savings and Protection	1,034	885
Group Treasury	34,868	25,132
Group Items	5,431	6,444
	125,442	115,159

Notes

a The segmental analysis has been amended to reallocate profits on disposal of British Government securities from Group Items to Group Treasury. Comparative figures have been restated accordingly. The effect of this change is to increase Group Treasury profit before tax by £97m (1997: £17m), with a corresponding reduction in Group Items profit before tax.

b 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.

c Exceptional items, being conversion costs, are the consequence of corporate decisions made at the centre, and have not therefore been allocated across business sectors.

d Interest earning 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 earning 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 1998 were £448m (1997: £326m). The net assets of the remaining businesses were £6,701m (1997: £6,889m). 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.

Securities held for trading purposes are included in the balance sheet at their current market value. Any adjustments to market value are included in the profit and loss account as they arise.

Securities sold subject to repurchase agreements are retained within the balance sheet where the Group retains substantially all of 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 substantially 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.

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 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 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, associates and joint ventures is to be capitalised in the year of acquisition and amortised over its useful economic life. As a result of the new policy, shareholders' funds are £125m higher than they would have been under the previous policy of immediate write off to profit and loss account reserves. There is no effect on the current year's results. Goodwill on acquisitions prior to 31 December 1997 amounting to £470m 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 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 for trading and non-trading purposes include interest rate swaps, cross currency swaps, futures, options, forward rate agreements and caps and floors.

Derivatives used in trading activities are included in the financial statements at market value. Changes in the market value of trading derivatives are taken directly to the profit and loss account. Non-trading derivatives are accounted for on an accruals basis in accordance with the assets or liabilities being hedged. Profits or 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.

A derivative is designated as a hedge if its purpose is to match or eliminate the risk inherent in the Group's non-trading assets, liabilities and cash flows arising from potential movements in interest rates, exchange rates and market values.

In circumstances where a non-trading derivative no longer represents a hedge, the derivative is restated at fair value with any change in its fair value being directly reported in the profit and loss account. Thereafter the derivative is transferred to the trading book and accounted for accordingly.

1.5 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. 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.

The financial statements have been prepared in accordance with the requirements of four new Financial Reporting Standards (FRS 9, 10, 11 and 14). There have been no changes to the Group's accounting policies other than those required by the adoption of FRS 9 and 10. There have been no changes to previously reported figures as a result of adopting the new standards.

Basis of Presentation of Financial Statements

The entire business of Halifax Building Society ('the Society') was transferred to the Company in accordance with the provisions of the Building Societies Act 1986 as part of the process of conversion on 2 June 1997.

The transfer to the Company of the business of the Society was accounted for in accordance with the principles of merger accounting, as if the Company had always been the parent undertaking of the Group and had always carried out the business of the Society.

The Companies Act 1985 and FRS 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 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 non-attribution of fair values has a continuing effect which the Directors consider it is not practicable to quantify.

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. 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 Joint Ventures

The Group's interest in joint ventures is stated at the Group's share of gross assets, including any related unamortised goodwill, less the Group's share of gross liabilities.

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 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.

Finance Leases

The net investment in finance leases represents total minimum lease payments less gross earnings allocated to future periods. Leasing income is credited to the profit and loss account using an actuarial method to give a constant periodic return on the net cash investment.

Securities

Securities held with the intention of use on a continuing basis are classified as investment securities and stated 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.

1.4 *Consolidated cash flow statement*

	Notes	Year ended 31 December 1998 £m	1997 £m
Net cash inflow from operating activities (see below)		9,003	4,834
Returns on investments and servicing of finance	42a	(175)	(149)
Taxation		(804)	(397)
Capital expenditure and financial investment	42b	(6,589)	(5,266)
		1,435	(978)
Acquisitions and disposals	42c	(163)	2
Equity dividends paid		(589)	–
		683	(976)
Financing	42d	(800)	335
Decrease in cash	42e	(117)	(641)

Reconciliation of operating profit to net cash inflow from operating activities

	1998 £m	1997 £m
Operating profit	1,705	1,631
Increase in prepayments and accrued income	(327)	(318)
Increase in accruals and deferred income	438	635
Provisions for bad and doubtful debts	96	102
Depreciation and amortisation	148	156
Increase in the value of long term assurance business	(101)	(72)
Interest on subordinated liabilities	172	164
Other non-cash movements	–	12
Net cash inflow from trading activities	2,131	2,310
Increase in treasury and other eligible bills	(103)	(98)
Increase in loans and advances to banks	(1,307)	(5,476)
Increase in loans and advances to customers	(1,801)	(1,718)
Increase in debt securities	(390)	(7)
Decrease/(increase) in other assets	129	(249)
Increase in deposits by banks	4,020	2,981
Increase in customer accounts	3,852	2,046
Increase in debt securities in issue	2,347	5,086
Increase in other liabilities	184	180
Decrease in provisions for liabilities and charges	(59)	(221)
Net cash inflow from operating activities	9,003	4,834

1.3 *Consolidated balance sheet*

	Notes	As at 31 December			
			1998		1997
		£m	£m	£m	£m
Assets					
Cash and balances at central banks			247		486
Treasury bills and other eligible bills	14		1,958		1,520
Loans and advances to banks	15		10,848		9,419
Loans and advances to customers	16		85,074		83,367
Debt securities	17		23,806		17,273
Investments in joint ventures:	18				
Share of gross assets		629		–	
Share of gross liabilities		(459)		–	
			170		–
Tangible fixed assets	20		920		957
Other assets	21		311		533
Prepayments and accrued income	22		1,187		860
Long term assurance business attributable to shareholders	23		921		744
			125,442		115,159
Long term assurance assets attributable to policyholders	23		19,132		15,941
Total Assets			144,574		131,100
Liabilities					
Deposits by banks	24		9,390		5,370
Customer accounts	25		84,953		81,101
Debt securities in issue	26		16,389		14,042
Other liabilities	27		1,395		1,591
Accruals and deferred income	28		4,214		3,779
Provisions for liabilities and charges	29		96		155
Subordinated liabilities	30		1,856		1,906
Equity shareholders' funds:					
Called up share capital	31	487		504	
Share premium account	31	119		70	
Capital redemption reserve	31	18		–	
Profit and loss account	31	6,525		6,641	
			7,149		7,215
			125,442		115,159
Long term assurance liabilities attributable to policyholders	23		19,132		15,941
Total Liabilities			144,574		131,100
Memorandum Items					
Contingent liabilities:					
Guarantees and assets pledged as collateral security	33		649		–
Commitments	34		4,461		2,631

1 Historical consolidated financial record of Halifax for the two years ended 31 December 1998

1.1 Consolidated profit and loss account

	Notes	1998 £m	1998 £m	1997 £m	1997 £m
Interest receivable:					
Interest receivable and similar income arising from debt securities			1,530		985
Other interest receivable and similar income			7,449		6,553
Interest payable			(6,613)		(5,223)
Net interest income			2,366		2,315
Fees and commissions receivable			711		604
Fees and commissions payable			(83)		(86)
Other operating income	3		164		124
Operating income			3,158		2,957
Administrative expenses:					
Exceptional	4	–		18	
Ongoing	5	1,180		1,050	
			1,180		1,068
Depreciation and amortisation			148		156
Provisions for bad and doubtful debts	8		96		102
Provisions for contingent liabilities and commitments	29		29		–
Profit on ordinary activities before tax	9		1,705		1,631
Tax on profit on ordinary activities	10		534		540
Profit attributable to the shareholders of Halifax plc			1,171		1,091
Dividends	12		489		441
Profit retained for the financial year	31		682		650
Basic earnings per share	13		47.5p		43.5p
Diluted earnings per share	13		47.4p		43.4p

There were no material gains or losses other than the profit shown above in either year.

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.

1.2 Reconciliation of movements in shareholders' funds

	Year ended 31 December 1998 £m	1997 £m
Profit for the financial year	1,171	1,091
Dividends	(489)	(441)
	682	650
Foreign currency translation differences on subsidiary undertaking	2	(4)
Payment of statutory cash bonus	–	(15)
Goodwill arising on transfer of long term assurance business	–	(21)
Repurchase of shares	(750)	–
Net (reduction in)/addition to shareholders' funds	(66)	610
Opening shareholders' funds	7,215	6,605
Closing shareholders' funds	7,149	7,215

Set out below is consolidated financial information relating to Halifax plc for the years ended 31 December 1997 and 1998. The information has been extracted without material adjustment from the following sources:

(i) the audited consolidated financial statements of Halifax plc for the year ended 31 December 1998; and

(ii) the audited consolidated financial statements of Halifax plc for the year ended 31 December 1997.

The consolidated financial information relating to Halifax plc does not constitute full accounts within the meaning of Section 240 of the Companies Act. Full consolidated financial statements for Halifax plc for the year ended 31 December 1997 and 1998, 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.

In this section references to the Directors are to the Directors of Halifax plc at the relevant dates, references to the Company and to Halifax are to Halifax plc and references to the Group are to Halifax plc and its subsidiary undertakings.

1. Annual Financial Statements

ACCOUNTANTS' REPORT

KPMG

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The Directors
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1 Finsbury Avenue
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8 December 1999

Dear Sirs

Halifax plc

We have examined the financial information of Halifax plc set out on pages 44 to 73 from the Offering Circular dated 8 December 1999 relating to Halifax Group Euro Finance (Jersey) L.P.'s €415,000,000 Fixed to Floating Rate Guaranteed Non-voting Non-cumulative Preferred Securities.

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board.

In our opinion the financial information is consistent with the annual accounts of Halifax plc for the year ended 31 December 1998, drawn up under Part VII of the Companies Act 1985, which we audited in accordance with Auditing Standards and on which we reported without qualification.

Yours faithfully

KPMG Audit Plc

2. Reconciliation of Movements in Shareholders' Funds

	6 months to		
	30 June 1999	*30 June 1998*	*Year to 31 December 1998*
	(unaudited)		*(audited)*
		(in millions of £)	
Profit attributable to shareholders	462	575	1,171
Dividends	(169)	(162)	(489)
	293	413	682
Foreign currency translation difference on subsidiary undertaking	(2)	—	2
Goodwill reinstatement on disposal/closure of estate agency branches	124	—	—
Return of capital to shareholders	(1,509)	—	—
Repurchase of shares	—	(518)	(750)
Other reserves arising on corporate restructuring	1	—	—
Net reduction in shareholders' funds	(1,093)	(105)	(66)
Opening shareholders' funds	7,149	7,215	7,215
Closing shareholders' funds	6,056	7,110	7,149

3. Consolidated Balance Sheet

	30 June 1999 (unaudited)	30 June 1998 (unaudited)	31 December 1998 (audited)
	(in millions of £)		
Assets			
Cash and balances at central banks	178	151	247
Treasury bills and other eligible bills	2,613	2,109	1,958
Loans and advances to banks	12,180	6,914	10,848
Loans and advances to customers	93,226	83,269	85,074
Loans and advances to customers subject to non-recourse funding	652	—	—
Non-recourse funding	(599)	—	—
	53	—	—
Debt securities	20,723	20,346	23,806
Investments in joint ventures:			
– Share of gross assets	658	—	629
– Share of gross liabilities	(488)	—	(459)
	170	—	170
Intangible fixed assets	431	—	—
Tangible fixed assets	926	934	920
Other assets	575	491	311
Prepayments and accrued income	1,068	1,044	1,187
Long term assurance business attributable to shareholders	984	850	921
	133,127	116,108	125,442
Long term assurance assets attributable to policyholders	20,380	17,903	19,132
Total assets	153,507	134,011	144,574
Liabilities			
Deposits by banks	11,197	7,045	9,390
Customer accounts	91,836	81,303	84,953
Debt securities in issue	16,494	14,117	16,389
Other liabilities	1,510	1,497	1,395
Accruals and deferred income	2,990	3,043	4,214
Provisions for liabilities and charges	83	137	96
Subordinated liabilities	2,763	1,856	1,856
Minority interests (non-equity)	198	—	—
Equity shareholders' funds:			
– Called up share capital	450	493	487
– Other reserves	—	131	137
– Profit and loss account	5,606	6,486	6,525
	133,127	116,108	125,442
Long term assurance liabilities attributable to policyholders	20,380	17,903	19,132
Total liabilities	153,507	134,011	144,574

4. Birmingham Midshires

4.1 *Financial performance*

The profit on ordinary activities before tax and exceptional items for Birmingham Midshires was as follows:

	(in millions of £)
1 January 1999 to 18 April 1999 (pre-acquisition)	32
19 April 1999 to 30 June 1999 (post-acquisition)	18
6 months to 30 June 1999	50
6 months to 30 June 1998	42
Year to 31 December 1998	88

4.2 *Fair value adjustments*

The following table summarises the effect of the acquisition of the business of Birmingham Midshires Building Society on 19 April 1999:

	Acquired book value	*Revaluation adjustments*	*Accounting policy adjustments*	*Total fair value adjustments*	*Acquired fair value*
			(in millions of £)		
Loans and advances to customers	6,833	4	(17)	(13)	6,820
Other assets	1,404	(20)	(1)	(21)	1,383
Assets acquired	8,237	(16)	(18)	(34)	8,203
Liabilities acquired	(7,857)	(20)	—	(20)	(7,877)
Net assets	380	(36)	(18)	(54)	326
Goodwill					435
Consideration					761
Satisfied by:					
Cash					552
Preference shares					198
Acquisition costs					11
					761

The fair value adjustments restate the assets and liabilities acquired to their fair value as at the date of acquisition.

The accounting policy adjustment of £17m in respect of Loans and Advances to Customers reflects the alignment of the mortgage incentives accounting policy with that of the Halifax Group.

5. Basis of Preparation

5.1 Basis of Preparation of Financial Information

Halifax Group plc was incorporated on 2 December 1997 as Valuesouth Limited and re-registered as a public limited company on 2 March 1999.

Following court approval of the scheme of arrangement of Halifax plc, on 1 June 1999 all the ordinary shares in Halifax plc were cancelled and the credit arising in the books of Halifax plc on the cancellation of ordinary shares was applied in paying up, in full at par, the same number of shares of 20p nominal value as those cancelled. These new ordinary shares in Halifax plc were issued to Halifax Group plc which holds all of the issued ordinary share capital of Halifax plc.

As consideration for the cancellation of their ordinary shares, each shareholder who had previously held shares in Halifax plc received 62 pence per share and 37 shares in Halifax Group plc for every 40 shares previously held in Halifax plc.

This share reduction and group reconstruction has been accounted for using merger accounting principles, in order to meet the overriding requirement under section 227(6) of the Companies Act 1985 for financial statements to present a true and fair view. The transaction does not meet one of the conditions for merger accounting under the Companies Act, namely that the fair value of any non-equity consideration must not exceed 10% of the nominal value of equity shares issued. However, the Directors consider that the alternative approach of acquisition accounting, with the restatement of separable assets and liabilities to fair values, the creation of goodwill and inclusion of post-reorganisation results only, would not give a true and fair view of the Group's results and financial position. The substance of the transaction was not the acquisition of a business but a group reconstruction under which a new holding company has been established with all the former ordinary shareholders of Halifax plc having the same proportionate interest in the new holding company as they had previously held in Halifax plc. The Directors consider that it is not practicable to quantify the effect of this departure from the Companies Act 1985 requirements.

The adoption of merger accounting presents Halifax Group plc as if it had always been the parent undertaking of the Group. As Halifax Group plc did not trade in the year ended 31 December 1998, the comparative results shown for the periods ended 30 June 1998 and 31 December 1998, and the financial position at those period ends, are therefore those presented previously as the audited results and position of Halifax plc, except that the share premium account and capital redemption reserve have been reclassified as other reserves.

Halifax plc previously adopted merger accounting principles in accounting for the conversion to listed company status in June 1997. This is explained fully in Halifax plc's Annual Accounts for the year ended 31 December 1997.

5.2 Accounting Policies

In preparing this financial information there have been no changes to the accounting policies previously applied by Halifax plc in preparing its Annual Accounts for the year ended 31 December 1998, except for the adoption of Financial Reporting Standard 12 for the first time. There has been no change to previously reported figures as a result of adopting this new standard.

5.3 Earnings per Share

Basic earnings per share of 19.3p for the six months to 30 June 1999 (six months to 30 June 1998 23.1p) has been calculated by dividing the profit attributable to shareholders of £462m (six months to 30 June 1998 £575m) by the weighted average number of ordinary shares in issue during the period of 2,389m (30 June 1998 2,492m).

No restatement of prior years' earnings per share is presented as the cash payment to shareholders, together with the reduction in the number of ordinary shares in issue on 1 June 1999, is deemed for this purpose to represent a repurchase of 3 shares in every 40 at market value on that date.

Underlying earnings per share has been calculated by reference to profit attributable to shareholders, excluding the post-tax impact of exceptional items and amortisation of goodwill, which for the six months to 30 June 1999 amounts to £613m (six months to 30 June 1998 £575m; year to 31 December 1998 £1,171m). This adjusted earnings per share figure has been presented because, in the opinion of the Directors, its inclusion is necessary to enable the shareholders to assess underlying trading performance.

5.4 *Statutory Accounts*

The financial information included in this announcement is unaudited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 ("the Act"). The statutory accounts of Halifax Group plc for the year ended 31 December 1998 have been filed with the Registrar of Companies for England and Wales. The Auditors were not required to report on those accounts, nor have they done so.

This financial information should also be read in conjunction with the Annual Accounts of Halifax plc for the year ended 31 December 1998 which have been filed with the Registrar. The Auditors have reported on those accounts; their report was unqualified and did not contain a statement under Section 237(2) or (3) of the Act.

5.5 *Segmental Analysis of Results*

In order to analyse net interest income 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 reduce interest rate risk in retail areas. The level of central funding takes account of the capital utilised by each business sector, calculated on the basis of regulatory requirements. Costs have been assigned to each sector based on resources consumed.

Restatement of segmental analysis

The analysis of results by business sector has been revised as follows:

The segmental results continue to reflect the capital notionally absorbed by each business sector based on the Financial Services Authority regulatory requirements. The amount of free capital allocated to business sectors has been reduced to take account of the capital management programme. This notional capital credit adjustment, previously calculated by reference to average LIBOR, now reflects the returns from the investment of Group reserves. Earnings on surplus free capital are reported within Group Items.

Continued development and refinement of the activity based costing model has resulted in a more accurate allocation of costs from central support functions (included within Group Items) to the operating business sectors.

The segmental analysis is reported on this revised basis and 1998 comparative figures have been restated accordingly. Details of the adjustments to 1998 comparative figures are set out below.

	6 months to 30 June 1998			
		Adjustments		
	As Reported	*Capital Credit*	*Cost*	*As Restated*
		(in millions of £)		
Retail operations	660	(40)	(2)	618
Consumer Credit	22	(2)	1	21
Personal Lines Insurance	75	—	(5)	70
Long term savings and protection	80	—	(6)	74
Group treasury	95	(13)	(3)	79
Group items	(89)	55	15	(19)
Profit before tax	843	—	—	843

	Year to 31 December 1998			
		Adjustments		
	As Reported	Capital Credit	Cost	As Restated
	(in millions of £)			
Retail operations	1,313	(82)	(5)	1,226
Consumer Credit	44	(5)	2	41
Personal Lines Insurance	158	—	(10)	148
Long term savings and protection	170	—	(10)	160
Group treasury	169	(27)	(7)	135
Group items	(149)	114	30	(5)
Profit before tax	1,705	—	—	1,705

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