



# Yorkshire Building Society

(Incorporated in England under the Building Societies Act 1986)

**£150,000,000 5.649 per cent. Permanent Interest Bearing Shares**

**Issue Price: 100 per cent.**

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority** and **FSMA** respectively) for the issue of £150,000,000 5.649 per cent. Permanent Interest Bearing Shares (the **PIBS**), comprising 3,000 PIBS of £50,000 each of Yorkshire Building Society (the **Society**) to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for the PIBS to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. References in this Prospectus to PIBS being listed (and all related references) shall mean that such PIBS have been admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market and have been admitted to the Official List. The London Stock Exchange's Gilt Edged and Fixed Interest Market is a regulated market for the purposes of the Investment Services Directive 93/22/EC.

Attention is drawn to the description in "Certain Provisions of the Act and Requirements of the Supervisory Authority" on page 25 of this document of the ways in which a building society can, without the consent of holders of permanent interest bearing shares, amalgamate with or transfer its rights and obligations to another building society or a company pursuant to the relevant legislation.

It is anticipated that the PIBS will be issued in registered form on 27 March 2006, conditionally upon the PIBS being listed, which is expected to occur on 27 March 2006. The listing of the PIBS will be expressed as a percentage of their principal amount.

**The PIBS will be deferred shares in the Society for the purposes of section 119 of the Building Societies Act 1986, as amended (the Act), and will not be protected deposits for the purposes of the Financial Services Compensation Scheme established under FSMA.**

The PIBS will not be withdrawable at the option of the PIBS holders and will be repayable at the option of the Society on 27 March 2019 or any Interest Payment Date (as defined in "Special Conditions of Issue of the PIBS – Interest" on page 14 of this document) thereafter or in certain limited circumstances, as described in "Special Conditions of Issue of the PIBS – Repayment" on page 17 of this document, in each case subject to the consent of the Financial Services Authority or any successor body performing for the time being the same or similar functions in relation to building societies (or, in the event that the Society transfers its business to a company under section 97 of the Act, companies of that nature) in the United Kingdom (the **Supervisory Authority**).

The PIBS are expected to be rated Baa1 by Moody's Investors Service, Inc., BBB+ by Standard & Poor's and A by Fitch Ratings Limited. Moody's Investors Service, Inc. define a Baa1 rating as medium-grade obligations subject to moderate credit risk and which may possess certain speculative characteristics; the modifier 1 indicates a high-range ranking within the Baa generic rating category. Standard & Poor's define a BBB+ rating as an obligation exhibiting adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation than for an obligation with a higher rating. The modifier + indicates a high-range ranking within the BBB generic rating category. Fitch Ratings Limited define an A rating as denoting a low expectation of credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The PIBS will be in registered form and will be represented by a Global PIBS Certificate (the **Global PIBS Certificate**) which will be registered in the name of a nominee for a common depository on behalf of Euroclear Bank S.A./N.V., as operator of the Euroclear System (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) on or about 27 March 2006. For so long as the PIBS are represented by the Global PIBS Certificate and Euroclear and Clearstream, Luxembourg so permit, interests in the PIBS shall be tradeable in minimum nominal amounts of £50,000 and integral multiples of £1,000 thereafter, subject in each case to investors holding a minimum interest of £50,000. The Global PIBS Certificate will only be exchangeable for definitive PIBS Certificates in certain limited circumstances as described under "Summary of Provisions relating to the PIBS while represented by the Global PIBS Certificate" on page 23 of this document.

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

## Managers

**Barclays Capital**

**UBS Investment Bank**

*This document comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC (the **Prospectus Directive**) and for the purpose of giving information with regard to the Society and its subsidiary undertakings (together the **Group**) and the PIBS. The Society accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Society, which has taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “Documents Incorporated by Reference” on page 8 of this document). This Prospectus shall be read and construed on the basis that such documents are incorporated in and form part of this Prospectus.*

*No person is authorised to give any information or to make any representation not contained in this document and any information or representation not contained in this document must not be relied upon as having been authorised by the Society or any Manager (as defined under “Marketing Arrangements” on page 35 of this document). Neither the delivery of this document nor any subscription, sale or purchase made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Society since the date of this document.*

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

*This document does not constitute an offer of, or an invitation by or on behalf of the Society or the Managers to subscribe for or purchase, any of the PIBS. The distribution of this document and the offering of the PIBS in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Society and the Managers to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offering and sales of the PIBS and on distribution of this document, see “Marketing Arrangements” on page 35 of this document.*

*In connection with the issue of the PIBS, UBS Limited (or persons acting on behalf of it) may over-allot PIBS (provided that the aggregate principal amount of the PIBS allotted does not exceed 105 per cent. of the aggregate principal amount of the PIBS) or effect transactions with a view to supporting the market price of the PIBS at a level higher than that which might otherwise prevail. However, there is no assurance that UBS Limited (or persons acting on behalf of it) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the PIBS is made, and if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the PIBS and 60 days after the date of the allotment of the PIBS.*

*In this document, unless otherwise specified or the context otherwise requires, references to **pounds, pence, sterling, £ and p** are to the currency of Great Britain and Northern Ireland (the **United Kingdom**).*

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

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## RISK FACTORS

*Investors should understand the risks of investing in the PIBS before they make their investment decision. They should make their own independent decision to invest in the PIBS and decide whether an investment in such PIBS is appropriate or proper based upon their own judgment and upon advice from such advisers as they consider necessary.*

*PIBS held through an account with Euroclear and Clearstream, Luxembourg will be registered in the name of a nominee for Euroclear and Clearstream, Luxembourg (the **Nominee**). For so long as the PIBS are so held, the Nominee shall be the PIBS holder for those PIBS for the purposes of the Special Conditions of Issue of the PIBS (the **Conditions**), rather than the investors holding the beneficial interests in the PIBS through Euroclear and Clearstream, Luxembourg (see “Summary of Provisions relating to the PIBS while represented by the Global PIBS Certificate” on page 23 of this document).*

*Such investors will be subject to the same risks set out below as the PIBS holder (as defined in the Conditions) save where their rights are more restricted as a result of their holding PIBS through Euroclear and Clearstream, Luxembourg (see (h) Rights, below). Other than where defined in the Conditions, references in this document to “PIBS holders” and “holders of PIBS” shall include references to such investors holding beneficial interests in the PIBS through Euroclear and Clearstream, Luxembourg, as well as holders of PIBS in definitive form.*

### **Factors which are material for the purpose of assessing the risks associated with the PIBS**

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

(a) **Permanence**

The PIBS will not be withdrawable at the option of the PIBS holders and will be repayable at the option of the Society on 27 March 2019 or any Interest Payment Date (as defined in “*Special Conditions of Issue of the PIBS – Interest*”) thereafter or in certain limited circumstances, as described in “*Special Conditions of Issue of the PIBS – Repayment*”, in each case subject to the permission of the Supervisory Authority. The Society is under no obligation to the investor to seek the Supervisory Authority’s permission to repay the PIBS and the Supervisory Authority has complete discretion as to whether to give such permission. There is no expectation of repayment unlike normal investment accounts where the Society must return the capital investment (plus any accrued interest) to the investor as and when they demand it (subject, of course, to the stated period of notice and other terms applicable to that particular account).

(b) **Liquidity**

In order to realise its capital investment in the PIBS, an investor must either go to an established secondary market or look to make a private sale. There is **no guarantee that the investor will be able to liquidate its investment in the PIBS** for cash either because the future liquidity of the secondary market is not guaranteed and/or the investor may be unable to find any potential private purchasers. Therefore, there is a risk that an investor cannot realise its investment in the PIBS when it wishes to do so.

(c) **Capital value of investment**

As the capital value of the PIBS will vary with market interest rates, the market perception of the value of the Society and the availability of purchasers, there is a **real chance that the investor will make a capital loss** when it comes to sell its PIBS.

(d) **Subordination**

The PIBS are subordinated to all other liabilities of the Society other than liabilities in respect of other deferred shares (as defined in the Rules). In a winding-up or dissolution of the Society, the claims of the PIBS holders will rank behind all other creditors of the Society and the claims of Members holding shares (other than deferred shares, as so defined) as to principal and interest. Investors should be aware that this subordination is a primary factor behind the higher interest rate

that is paid on the PIBS when compared to other investment products. The higher interest reflects the fact that there is a higher risk involved with this investment.

(e) **Investor protection**

Unlike normal building society investment products, the PIBS are not protected deposits for the purposes of the Financial Services Compensation Scheme.

(f) **Payments of interest may be required to be missed**

Interest in respect of the PIBS will not be payable where to make payment would result in the Society's capital falling below prescribed levels, as more fully explained in Condition 4.3(a) in "*Special Conditions of Issue of the PIBS – Interest*". Interest for missed payments is not cumulative and, in these circumstances, if the Society does not make an interest payment, or reduces such interest payment, in respect of the PIBS, such interest not paid, or so reduced will be cancelled.

(g) **Payments of interest may be voluntarily missed**

Interest in respect of the PIBS may also be cancelled or reduced on the passing of a resolution of the board of directors (the **Board**) of the Society to that effect, subject to the further obligations of the Society, including the obligation to issue further PIBS to the PIBS holders, as more fully explained in Condition 4.3(b) in the "*Special Conditions of Issue of the PIBS – Interest*".

(h) **Rights**

The rights of the PIBS holders are markedly different from those of shareholders in a company, e.g. as to voting rights and protection of minorities. For example, as indicated in paragraph 6 on page 10 of this document, each PIBS holder only has one vote at general meetings of the Society, irrespective of the number of PIBS it holds, whereas shareholders at a general meeting of a company would normally have one vote on a poll for each ordinary share held.

In addition, these rights will be more restricted for so long as the PIBS are represented by the Global PIBS Certificate, as described in paragraph 4 on page 24 of this document.

(i) **Amalgamation of the Society and transfer of its engagements**

If the Society amalgamates with, or transfers all or part of its engagements to, another building society, the PIBS will not become repayable as a consequence thereof, but will become deferred shares in that society. If the Society transfers the whole of its engagement to any other body, the transfer will incorporate arrangements to secure that the PIBS are effectively converted into perpetual subordinated debt of that body, and do not become repayable other than at the option of that body on 27 March 2019 or any Interest Payment Date (as defined in *Special Conditions of Issue of the PIBS – Interest*) thereafter or in certain limited circumstances, as described in "*Special Conditions of Issue of the PIBS – Repayment*", in each case subject to the permission of the Supervisory Authority.

(j) **Credit ratings may not reflect all risks**

The credit ratings assigned to the PIBS by Moody's Investor Service, Inc., Standard & Poor's and by Fitch Ratings Limited may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the PIBS. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the relevant rating agency at any time.

(k) **Taxation of Interest**

Because the PIBS will be listed on a recognised stock exchange, interest will be paid without withholding or deduction for tax under current law. Nevertheless, tax may be withheld or deducted if there is a change of law or if the PIBS cease to be listed on a recognised stock exchange.

(l) **No limitation on issuing debt or senior or *pari passu* securities**

There is no restriction on the amount of debt which the Society may issue which ranks senior to the PIBS or on the amount of securities which the Society may issue which rank senior to, or *pari passu* with, the PIBS. The issue of any such debt or securities may reduce the amount recoverable by PIBS holders in the event of a winding-up of the Society and/or may increase the likelihood of a cancellation of payments under the PIBS.

(m) **Legal investment considerations may restrict certain investments**

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) PIBS are legal investments for it, (2) PIBS can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any PIBS. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of PIBS under any applicable risk-based capital or similar rules.

(n) **European Monetary Union**

If the United Kingdom joins the European Monetary Union there is no assurance that this would not adversely affect investors in the PIBS. It is possible that the United Kingdom may become a participating Member State and that the euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of any PIBS denominated in sterling may become payable in euro (ii) the law may allow or require the PIBS to be re-denominated into euro and additional measures to be taken in respect of such PIBS; and (iii) there may no longer be available published or displayed rates for deposits in sterling used to determine the rates of interest on such PIBS or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the PIBS.

(o) **Change of law**

The conditions of the PIBS are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

(p) **Investment Considerations Relating to Denominations**

The PIBS are issued in the denomination of £50,000. However, for so long as the PIBS are represented by the Global PIBS Certificate, and Euroclear and Clearstream, Luxembourg so permit, the PIBS shall be tradeable in minimum nominal amounts of £50,000 and integral multiples of £1,000 thereafter. However, if definitive PIBS Certificates are required to be issued following Euroclear and Clearstream, Luxembourg ceasing to operate (as described further in “Summary of provisions relating to the PIBS while represented by the Global PIBS Certificate” on page 23 of this document) they will only be printed and issued in nominal amounts of £50,000. Accordingly, if definitive PIBS Certificates are required to be issued, a holder who does not have an integral multiple of £50,000 in his account with Euroclear and Clearstream, Luxembourg at the relevant time will not receive all of his entitlement in the form of definitive PIBS Certificates unless and until such time as his entitlement becomes an integral multiple of £50,000. Until that time (or such time as Euroclear and Clearstream, Luxembourg are re-opened for business), the entitlement of each holder, to the extent that it represents an excess over an integral multiple of £50,000, will be represented by a definitive PIBS Certificate or Certificates representing all such entitlements, held by a nominee selected by the Society to hold the definitive PIBS Certificate(s) and the entitlements thereunder on behalf of such holders.

**Factors that may affect the Society’s ability to fulfil its obligations under the PIBS**

*The Society believes that the following factors may affect its ability to pay interest, any principal to be paid in accordance with the Special Conditions of Issue of the PIBS or other amounts on or in connection with the PIBS. Most of these factors are contingencies which may or may not occur and the Society is not in a position to express a view on the likelihood of any such contingency occurring.*

*The Society also believes that the factors described below represent the principal risks relating to the Society, but the Society may be unable to pay interest, any principal to be paid in accordance with the Special Conditions of Issue of the PIBS or other amounts on or in connection with any PIBS for other reasons and the Society does not represent that the statements below regarding the risks of holding any PIBS, in relation to the Society, are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.*

Investors’ attention is drawn to the following factors that may affect the Society’s ability to fulfil its obligations under the PIBS:



(a) **United Kingdom Housing Market**

One of the Society's primary activities is mortgage lending in the United Kingdom with loans secured against residential property. A downturn in the United Kingdom economy could have a negative effect on the housing market particularly if this results in an increased level of unemployment or significantly higher interest rates. Property prices may fall and could result in losses being incurred by lenders on loans that have defaulted. This could have consequences for the Society's funding costs and credit ratings if there was deemed to be a material deterioration in the quality of the mortgage portfolio.

(b) **Personal Financial Services Market**

The United Kingdom housing and savings markets are competitive. Developments in this market and increased competition could in turn have an adverse effect on the Society's financial position.

(c) **Regulation**

The Society is regulated by the Financial Services Authority. The Financial Services Authority regulates the sale of residential mortgages and general insurance products. The regulatory regime requires the Society to be compliant across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Society fails to be compliant with relevant regulations, there is a risk of an adverse impact on the business due to sanctions, fines or other action imposed by the regulatory authorities.

The Financial Services Authority and other bodies could impose further regulations or obligations in relation to current and past dealing with retail customers. As a result, the Society may incur costs in complying with these regulations or obligations relating to our business, including potential compensation and costs relating to sales advice given to retail customers.

(d) **Business Risks**

Control of business risks is one of the most important risk factors for financial institutions. Business risks include credit, liquidity, operational and market risk. Failure to control these risks can result in material adverse effects on the Society's financial performance and reputation.

(e) **Basel Capital Requirements Directive**

The Basel Committee has issued proposals for reform of the 1988 Capital Accord and has proposed a framework, which places enhanced emphasis on market discipline and sensitivity to risk. The Society cannot predict the precise effects of the potential changes that might result from implementation of the proposals on its own financial performance. Prospective investors in the PIBS should consult their own advisers as to the consequences for them of the potential application of the New Basel Capital Accord proposals.

## **DOCUMENTS INCORPORATED BY REFERENCE**

The Annual Reports and Accounts for the financial years ended 31 December 2004 and 31 December 2005, which contain the audited consolidated and non-consolidated financial statements of the Society for the financial years ended 31 December 2004 and 31 December 2005 respectively, together with the auditors' reports thereon, which have previously been published and have been approved by the Financial Services Authority or filed with it, shall be deemed to be incorporated in, and to form part of, this Prospectus save that any statement contained herein or in a document which is incorporated by reference herein, shall be deemed to be modified or superseded for the purposes of this Prospectus to the extent that a statement contained herein or in any document which is subsequently incorporated by reference herein by way of a supplement prepared in accordance with section 87(G) of the FSMA modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Any information which is incorporated by reference in documents which are deemed to be incorporated in, and to form part of, this Prospectus, shall not form part of this Prospectus for the purposes of the Prospectus Directive.

Copies of all documents incorporated by reference in this Prospectus can be obtained from the Society's website at [www.ybs.co.uk](http://www.ybs.co.uk) and copies may be obtained, free of charge, from the principal office of the Society and from the specified office of the Registrar. The Prospectus is also available for viewing at the Market News section of the London Stock Exchange website ([www.londonstockexchange.com/en-gb/pricesnews/marketnews](http://www.londonstockexchange.com/en-gb/pricesnews/marketnews)).

In the event of any significant new factor, material mistake or inaccuracy relating to the information included in this Prospectus which is capable of affecting the assessment of any PIBS arising between the date of this Prospectus and the commencement of dealings in the PIBS following their listing on the London Stock Exchange, the Society will prepare and publish a supplement to this Prospectus. In addition, the Society has undertaken to the Managers in the Subscription Agreement to comply with section 87(G) of the FSMA and the prospectus rules in that regard.



## **OVERVIEW OF CERTAIN PROVISIONS OF THE RULES OF THE SOCIETY AND THE ACT RELATING TO THE PIBS**

The rights and restrictions attaching to the PIBS will be governed by the Rules, certain provisions of the Act and the Conditions set out on pages 12 to 22 of this document. Set out below is an overview of the key provisions of the Rules and certain provisions of the Act insofar as they might affect the rights of the PIBS holders, together with certain explanatory notes which are italicised. Terms defined in the Rules will, unless the context otherwise requires, have the same meanings when used in this summary.

### **1. General**

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

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

*PIBS held through an account with Euroclear and Clearstream, Luxembourg will be registered in the name of the Nominee who shall be the PIBS holder for those PIBS for the purposes of the Conditions, and not the investors holding the beneficial interests in the PIBS through Euroclear and Clearstream, Luxembourg. Except to the extent that an investor holding beneficial interests in the PIBS through Euroclear and Clearstream, Luxembourg is a member of the Society in some other capacity, such investor will not be a member of the Society by virtue of his investment in the PIBS and will not directly be bound by the Rules and the Memorandum or by the Act. Investors holding the beneficial interests in the PIBS through Euroclear and Clearstream, Luxembourg accounts shall, save in respect of voting rights and demutualisation and/or merger rights as described in "Summary of Provisions Relating to the PIBS while represented by the Global PIBS Certificate – (4) Membership rights whilst the PIBS are held through Euroclear and Clearstream, Luxembourg" on page 24 of this document, be entitled to the same rights as the registered PIBS holder in respect of their beneficial interests, in accordance with the rules of Euroclear and Clearstream, Luxembourg.*

### **2. Register**

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

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

*The Society has appointed The Bank of New York as its registrar for the PIBS issue.*

### **3. PIBS Certificate**

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

Each PIBS holder entered into the records of the Society who has not previously requested to be supplied by the Society with a PIBS Certificate shall within one month after making a written request to the Society be supplied by the Society with a PIBS Certificate.

Save as aforesaid, nothing in the Rules requires a PIBS to be evidenced by a PIBS Certificate or other written instrument.

#### **4. Replacement of a PIBS Certificate**

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

*Notice to be given by a PIBS holder of the loss of his PIBS Certificate shall be given to the Registrar in addition to the Society. The Registrar shall be able to set conditions as to evidence and indemnity as set out above in addition to the Board and payment of any exceptional costs of the Registrar shall also be payable in addition to those of the Society, in the circumstances set out above.*

#### **5. Transfers**

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

The registration of transfers of the PIBS may be suspended at such times and for such periods as the Board may determine, but not for more than 30 days in the year, and notice of such suspension shall be given by advertisement in at least one national daily newspaper.

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

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

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

For so long as the PIBS are represented by the Global PIBS Certificate, beneficial interests in the PIBS held through accounts with Euroclear and/or Clearstream, Luxembourg will be evidenced by, and transfers thereof will be affected only through, records maintained in book-entry form by Euroclear and Clearstream, Luxembourg in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg.

#### **6. Meetings**

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

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

- (a) being an Individual, he is not a minor on the voting date or, where he is voting by proxy, on the date of the meeting at which the resolution is intended to be moved; and
- (b) in the case of a joint Shareholding, he is the Representative Joint Shareholder; and
- (c) he was entered in the PIBS Register as the holder of PIBS:
  - (i) at the end of the last Financial Year before the voting date; or

- (ii) if the voting falls during that part of the Financial Year which follows the conclusion of the Annual General Meeting commenced in that year, at the beginning of the period of 56 days immediately preceding the voting date for Members voting in person at a special general meeting or a postal ballot,
- as the case may be; and
- (d) he has not ceased to be a PIBS holder at any time between the time referred to in (c)(i) or (ii) above (as applicable) and the voting date.

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

## **7. Winding-up and dissolution**

Upon the winding-up of the Society, or upon it being dissolved by consent, any surplus remaining after payment in full of the Society's creditors and repayment to Members (including holders of deferred shares in the Society (which term, where used in this section 7, shall include the PIBS)) of the amount of their Shares (together with interest due thereon) according to their priority under their respective terms and conditions of issue, shall be applied as follows:

- (a) up to 20 per cent. to holders of all or some of the deferred shares in the Society. The proportion (if any) of such 20 per cent. to which any particular issue of deferred shares is entitled shall be set forth in the terms and conditions of issue of that issue of deferred shares (*see note below which describes the way in which the Society has determined the exercise of this discretion*); and
- (b) the remainder among Qualifying Members (other than holders of deferred shares) in proportion to the value of their Shareholdings.

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

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

For the purposes of these provisions of the Rules, **Qualifying Members** means Persons who hold Shares on the date of commencement of the dissolution or winding-up.

## **8. Disputes and legal proceedings**

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

## **9. Unclaimed interest**

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

## SPECIAL CONDITIONS OF ISSUE OF THE PIBS

*The following are the special conditions of issue of the PIBS in the form in which, subject to the removal of the wording in italics which does not form part of the special conditions, they will appear on the reverse of each PIBS Certificate:*

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

*While PIBS are held on behalf of investors through an account with Euroclear and Clearstream Luxembourg, PIBS will be registered in the name of the Nominee. The Nominee shall be the PIBS holder for all of the PIBS for the purposes of the Conditions, and not the investors holding beneficial interests in the PIBS through Euroclear and Clearstream, Luxembourg. The investors holding the beneficial interests in PIBS through Euroclear and Clearstream, Luxembourg accounts shall, save in respect of voting and other members' rights and the method of calculating their entitlement to Payment PIBS, as described in "Summary of provisions relating to the PIBS while the PIBS are represented by the Global PIBS Certificate" on page 23 of this document, be entitled to the same rights as the PIBS holder in respect of their beneficial interests, in accordance with the rules of Euroclear and Clearstream, Luxembourg.*

### 1. GENERAL

- 1.1 The **Society** means Yorkshire Building Society.
- 1.2 The **PIBS** means £150,000,000 5.649 per cent. Permanent Interest Bearing Shares of the Society and, unless the context otherwise requires, includes any Payment PIBS issued pursuant to Condition 4.3 and any further permanent interest bearing shares issued pursuant to Condition 11 and forming a single series with the PIBS.
- 1.3 **PIBS holder** means a Person whose name and address is entered in the PIBS Register as the holder of PIBS or, in the case of a joint holding of PIBS, the first person whose name is entered in the PIBS Register in respect of the joint holding of the PIBS.
- 1.4 **PIBS Register** means the records of the Society maintained for the purposes of the PIBS.
- 1.5 **Registrar** means The Bank of New York or such other registrar appointed by the Society from time to time in respect of the PIBS.
- 1.6 **Business Day** means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London.
- 1.7 Terms defined in the Rules of the Society for the time being (the **Rules**) will, unless the context otherwise requires, have the same meanings when used in these Conditions.
- 1.8 The PIBS:
  - (a) are deferred shares for the purposes of section 119 of the Building Societies Act 1986, as amended (the **Act**);
  - (b) are not protected deposits for the purpose of the Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000;
  - (c) are not withdrawable; and
  - (d) are permanent interest bearing shares for the purposes of the Rules.
- 1.9 The expressions **Creditors** and **Relevant Supervisory Consent** shall have the meanings given thereto in Condition 5.

- 1.10 Upon a transfer of PIBS by a PIBS holder the Society will procure that the new PIBS holder is issued with a certificate in respect of each holding of PIBS (a **PIBS Certificate**) within 14 days after the lodgement of the instrument of transfer if he holds his PIBS in certificated form. The PIBS Certificate will be made available at the offices of the Registrar.
- 1.11 The PIBS may be held jointly by up to four Persons.
- 1.12 Rights to Conversion Benefits to which a PIBS holder may become entitled to by reason of his holding of PIBS shall not be required to be assigned to a charity nominated by the Society pursuant to any scheme for charitable assignment established by the Society for the time being. In the event that a PIBS holder is a Member of the Society other than by reason of its holding in PIBS and has made a declaration to assign any Conversion Benefits to a charity, that assignment declaration shall not apply to Conversion Benefits derived from his holding of PIBS. If there is a conflict between these Conditions and any other provisions for the assignment of Conversion Benefits to which a Member is subject, then these Conditions shall prevail in relation to Conversion Benefits derived from PIBS held by any PIBS holder, whenever the assignment is made. For these purposes, **Conversion Benefits** shall mean any benefits under the terms of any future transfer of the Society's business to a company and if the Society merges with any building society, **Society** shall, after the date of such merger, extend to such other society.

## 2. FORM AND DENOMINATION

The PIBS are in registered form and are available and transferable in accordance with the Rules in amounts and integral multiples of £50,000.

No legal transfer of a PIBS shall be valid unless made in the form endorsed on the PIBS Certificate or in such other form as the board of directors of the Society (the **Board**) may agree, which form shall be presented to the Registrar. Legal title to the PIBS will pass upon registration of such transfer in the PIBS Register and the Registrar shall, on behalf of the Society, issue a PIBS Certificate in respect of such holding (which will be made available at the offices of the Registrar).

*Beneficial interests in the PIBS held through Euroclear and Clearstream, Luxembourg will be evidenced by, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream, Luxembourg in accordance with the applicable procedures for Euroclear and Clearstream, Luxembourg.*

## 3. PIBS REGISTER

- 3.1 The Society has appointed the Registrar to act as registrar in respect of the PIBS under the terms of a registrar agreement (the **Registrar Agreement**) dated 27 March 2006 and made between the Society and the Bank of New York, as Registrar. PIBS holders are deemed to have notice of all the provisions of the Registrar Agreement applicable to them.
- 3.2 Pursuant to the Registrar Agreement, the Society shall procure that the Registrar maintains the PIBS Register, in which shall be entered the name and address of each PIBS holder. Each PIBS holder shall notify the Registrar immediately of any change of name or address and shall produce such evidence of change of name or address as the Registrar may reasonably require.
- 3.3 A PIBS holder must provide the Registrar with a written order containing such instructions and other information as the Society and the Registrar may require to complete, execute and deliver a PIBS Certificate to such PIBS holder. On receipt of such documents, the Society shall instruct the Registrar to arrange for the authentication of, and the Registrar to deliver to, or to the order of, the person or persons named in such written order of a PIBS Certificate, registered in the name or names requested by such person or persons.
- 3.4 Transfers and other documents or instructions relating to or affecting the title of any PIBS shall be recorded in the PIBS Register. No charge shall be made in respect of any entry in the PIBS Register. The PIBS Register shall be maintained at the principal office of the Registrar or at such other place as the Society and the Registrar shall agree.



- 3.5 The Society shall procure that the Registrar shall, on behalf of the Society, issue a PIBS Certificate in respect of each holding of all PIBS held by each PIBS holder (or, in the case of a joint holding, to the joint holder whose name appears first in the PIBS Register in respect of such joint holding) within 14 days after one is requested.
- 3.6 No person shall have any right to enforce any term or condition of the PIBS under the Contracts (Rights of Third Parties) Act 1999.

#### 4. INTEREST

- 4.1 The rate of interest payable on the PIBS (the **Rate of Interest**) from the date of their issue will be determined in accordance with this Condition 4. The Rate of Interest on the PIBS from and including 27 March 2006 (the **Issue Date**) to but excluding the Reset Date shall be 5.649 per cent. per annum payable, subject as set out below, in arrear by half-yearly instalments on 27 March and 27 September in each year, commencing on 27 September 2006 (each a **Fixed Rate Interest Payment Date**). Thereafter the Rate of Interest shall be calculated in accordance with paragraph 4.2 below payable, subject as set out below, quarterly in arrear on 27 March, 27 June, 27 September and 27 December in each year (together with each **Fixed Rate Interest Payment Date** each, an **Interest Payment Date**) commencing on 27 June 2019. The period from and including the Issue Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next succeeding Interest Payment Date is called an **Interest Period**. If any Interest Payment Date falling after the Reset Date would otherwise fall on a date which is not a Business Day, it will be postponed to the next Business Day unless it would thereby fall into the next calendar month, in which case it will be brought forward to the preceding Business Day and the Interest Period shall be extended or shortened accordingly. Interest on the PIBS is non-cumulative.

Up to the Reset Date, where it is necessary to calculate an amount of interest in respect of any PIBS for a period which is not an Interest Period, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Interest Payment Date to (but excluding) the date on which the relevant interest is payable, divided by the product of (a) the actual number of days in the period from (and including) such Interest Payment Date to (but excluding) the next scheduled Interest Payment Date and (b) two.

All amounts of interest due on each PIBS will be rounded upwards, if necessary, to the nearest penny.

- 4.2 (a) The Rate of Interest payable in respect of the PIBS from and including the Reset Date will be the Screen Rate plus the Margin (the **Floating Rate of Interest**) as determined by such leading bank or investment banking firm in London as shall be appointed by the Society (the **Agent Bank**). If on any Interest Determination Date the Screen Rate is unavailable, the Agent Bank will request the Reference Banks to provide it with the rate at which deposits in sterling are offered by each of them to prime banks in the London interbank market for three months at approximately 11.00 a.m. (London time) on the Interest Determination Date in question.
- (b) If on any Interest Determination Date the Screen Rate is unavailable and at least two of the Reference Banks provide such rates to the Agent Bank, the Floating Rate of Interest for the relevant Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) as established by the Agent Bank of such rates, plus the Margin.
- (c) If on any Interest Determination Date the Screen Rate is unavailable and fewer than two rates are provided to the Agent Bank as requested, the Floating Rate of Interest for the relevant Interest Period will be the arithmetic mean of the rates quoted by major banks in the London interbank market selected by the Agent Bank, at approximately 11.00 a.m., London time, on the Interest Determination Date in question for loans in sterling to leading European banks for a period of three months commencing on the first day of such Interest Period, plus the Margin. If the Floating Rate of Interest cannot be determined in accordance with the above provisions, the Floating Rate of Interest shall be the Rate of Interest determined as at the last preceding Interest Determination Date.



- (d) After the Reset Date, whenever it is necessary to compute an amount of interest in respect of any PIBS for a period other than an Interest Period, such interest shall be calculated on the basis of the actual number of days in such period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366.
- (e) As soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, the Agent Bank shall determine the Floating Rate of Interest for the relevant Interest Period and calculate the amount of interest payable on each £50,000 principal amount of PIBS on each Interest Payment Date (the **Floating Interest Amount**). The Floating Interest Amount shall be determined by applying the Floating Rate of Interest to each £50,000 principal amount of PIBS, multiplying the sum by the actual number of days in the Interest Period concerned divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards). The Society shall cause the Floating Rate of Interest and the Floating Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Registrar as soon as practicable after their determination and calculation and shall procure that the Registrar gives notice thereof to the PIBS holders.
- (f) The Society may from time to time appoint any leading bank or investment banking firm in London (as determined by the Society) as the Agent Bank in substitution for any existing Agent Bank. In the event of the appointed office of the Agent Bank being unable or unwilling to continue to act as the Agent Bank, the Society shall forthwith appoint the London office of such other leading bank or investment banking firm in London to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.
- (g) All notifications, opinions, advice, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4.2 by the Agent Bank shall (in the absence of wilful default, bad faith or manifest error) be binding on the Society, the Agent Bank, the Registrar and all PIBS holders and (in the absence as aforesaid) no liability shall attach to the Agent Bank in connection with the exercise or non-exercise of its powers, duties and discretions.

For the purpose of these Conditions:

**Interest Determination Date** means, in respect of any Interest Period commencing on or after the Reset Date, the first day prior to the start of that Interest Period.

**Margin** means 2.04 per cent. per annum.

**Reference Banks** means the principal London office of each of four major banks engaged in the London interbank market selected by the Agent Bank.

**Reset Date** means 27 March 2019.

**Screen Rate** means in respect of any Interest Period the rate for three month deposits in Sterling which appears on Telerate Page 3750 (or such replacement page on that service which displays that information) at 11.00 a.m. (London time) on the Interest Determination Date for that Interest Period.

- 4.3 (a) If, on any day within the 30 days preceding a scheduled Interest Payment Date, the Board:
- (i) after consultation with the Supervisory Authority (as defined below) and having taken appropriate legal advice, is of the opinion that on the relevant date, the Society is, or payment of the relevant interest payment will result in the Society being, or there is a reasonable likelihood that payment of the relevant interest payment will in the foreseeable future result in the Society being, in non compliance with its Applicable Regulatory Capital Requirements; and
  - (ii) passes a resolution cancelling or, as the case may require, reducing the interest to such extent as may be necessary to secure that, in the opinion of the Board (after consultation with the Supervisory Authority and having taken appropriate legal advice), such payment would not cause or contribute to such non-compliance,

then the Society shall, as soon as practicable, give notice to all PIBS holders of such resolution in accordance with Condition 12, and such interest payment or part thereof, as the case may be, shall not be made. On the passing of a resolution cancelling or reducing an interest payment, each PIBS holder shall cease to have any right to the interest for that period so cancelled or, as the case may be, any interest other than the reduced amount payable in accordance with that resolution.

For the purpose of these Conditions:

**Applicable Regulatory Capital Requirements** means any requirements contained in Capital Regulations for the maintenance of capital from time to time applicable to the Society.

**Capital Regulations** means at any time the regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the Supervisory Authority.

**Supervisory Authority** means the Financial Services Authority (or any successor body performing for the time being the same or similar functions in relation to building societies (or, in the event that the Society transfers its business to a company under section 97 of the Act, companies of that nature) in the United Kingdom).

- (b) If, in circumstances other than as set out in Condition 4.3(a) above, on any day within the 30 days preceding a scheduled Interest Payment Date, the Board passes a resolution cancelling or reducing the interest payable on such Interest Payment Date, then the Society shall:
- (i) as soon as practicable, give notice to all PIBS holders of such resolution in accordance with Condition 12 and that such interest payment (or part of it) shall not be made in cash;
  - (ii) appoint an independent investment bank (the **Independent Investment Bank**), contact details of which shall be included in the notice, to determine, as at a date no later than 10 days preceding the Interest Payment Date or, where the Board passes a resolution later than such date, on the day which is two Business Days following such resolution (the **Scrip Determination Date**), the number of further PIBS (**Payment PIBS**) required to be issued; and
  - (iii) unless prevented for legal, regulatory or other reasons, make such interest payment by the delivery in accordance with this Condition 4.3(b) of the Payment PIBS to, or to the order of, the holders of PIBS on such Interest Payment Date or, where the resolution of the Board cancelling or reducing the interest payable was passed not more than four Business Days before such Interest Payment Date, on the day which is four Business Days after the passing of such resolution.

The number of Payment PIBS required to be issued in accordance with the above will be such number of PIBS as, in the determination of the Independent Investment Bank, will on the Scrip Determination Date have an aggregate market value of as near as practicable to, but not less than, the relevant amount of interest which the Board has resolved will not be paid in cash. The Independent Investment Bank shall owe no client duties to the holders of the PIBS. To the extent that any PIBS holder's entitlement to Payment PIBS does not result in a round number of Payment PIBS, such holder's entitlement shall be rounded up to the nearest whole Payment PIBS.

*While PIBS are held on behalf of investors through an account with Euroclear and Clearstream, Luxembourg, any such investor's entitlement to Payment PIBS which does not result in a round number of £1,000 fractions of Payment PIBS will be rounded up to the nearest £1,000 as described in "Summary of provisions relating to the PIBS while the PIBS are represented by the Global PIBS Certificate" on page 23 of this document.*

*Whilst Condition 4.3(b) entitles the Society in its sole discretion to cancel, in whole or in part, any scheduled interest payment to be made in cash (as required by current policy of the Supervisory Authority) and instead to make such interest payment by the delivery of Payment PIBS, it is the Society's intention not to cancel any part of a scheduled interest payment to be made in cash other than in the circumstances described in Condition 4.3(a).*

- (c) If the Board passes a resolution cancelling or requiring a reduction in the interest payment on an Interest Payment Date pursuant to Condition 4.3(b) and the Society is unable, whether for legal, regulatory or other reasons, to issue Payment PIBS on the date specified in Condition 4.3(b)(iii), then:
- (i) the Society shall not pay any interest or dividend on any other class of deferred shares (as defined in the Act) of the Society (other than any class of deferred shares the terms of which do not provide for the Board to be able to cancel any interest or dividend payment at its discretion), for a period of 12 months following the passing of such resolution; and
  - (ii) the Society shall, as soon as reasonably practicable, notify each stock exchange on which it has any securities (including the PIBS) for the time being listed, of the passing of the resolution by the Board (together with a list of the Board members and their titles) and the cancellation (in whole or in part) of the relevant interest payment.

4.4 Any amount representing principal of or interest on a PIBS in respect of which no cheque or warrant has been cashed and no payment claimed shall cease to be payable after 12 years from the due date and shall revert to the Society.

## 5. REPAYMENT

5.1 The PIBS constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no specified final maturity.

5.2 The Society may, having obtained Relevant Supervisory Consent (as defined below) and having given not less than 30 nor more than 60 days' notice to the PIBS holders in accordance with the Conditions, which notice shall be irrevocable, elect to repay all, but not some only, of the PIBS on the Reset Date or on any Interest Payment Date thereafter at their principal amount together, subject to Conditions 4.3(a) and 4.3(b), with any interest accrued to but excluding the date of repayment (the **Optional Redemption Amount**).

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

For the purposes of these Conditions,

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

**Relevant Supervisory Consent** means consent by the Supervisory Authority to the relevant repayment or (as referred to in Condition 5.8) purchase.

5.4 The claims of the PIBS holders in a winding-up or dissolution of the Society will be for the principal amount of their PIBS together, subject to Condition 4, with interest accrued to but excluding the date of repayment after all sums due from the Society to Creditors have been paid in full. The PIBS holders will not be entitled to any share in any final surplus upon a winding-up or dissolution of the Society.

5.5 Up to the Reset Date if, as a result of any change in or proposed change in, or amendment to or proposed amendment to, the laws of the United Kingdom or any political subdivision or authority thereof having power to tax, or any change in or proposed change in the application of official or generally published interpretation of such laws, or 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 previously generally accepted position in relation to similar transactions or which differs from any specific written confirmation given by a tax authority in respect of the PIBS, which change becomes, or would become, effective, or in the case of a change or proposed change in law if such change is enacted (or, in the case of a proposed change, is expected to be enacted) by Act of Parliament or made by statutory instrument, on or after 27 March 2006, the Society reasonably

determines (and in making such determination the Society shall obtain an appropriate legal opinion, a copy of which it shall provide to the Registrar) that the Society will not obtain full relief for the purposes of United Kingdom corporation tax for interest including, for the avoidance of doubt, where the payment of interest is to be satisfied by the issue of Payment PIBS pursuant to Condition 4 or, as a result of the PIBS being in issue, the Society may be unable to claim or surrender losses as group relief, and such requirement or circumstance cannot be avoided by the Society taking such measures as it (acting in good faith) deems appropriate, then the Society may, subject to having obtained Relevant Supervisory Consent (as defined above) and having given not less than 30 nor more than 60 days' notice to the PIBS holders in accordance with the Conditions, which notice shall be irrevocable, redeem at any time after the tenth anniversary of the Issue Date all, but not some only of the PIBS.

- 5.6 Up to the Reset Date if the Supervisory Authority determines that securities of the nature of, and including, the PIBS can no longer qualify as Tier 1 Capital as a result of a change in applicable regulations, then the Society may (subject to having obtained Relevant Supervisory Consent), having given not less than 30 nor more than 60 days' notice to the PIBS holders in accordance with the Conditions, which notice shall be irrevocable, redeem at any time all, but not some only, of the PIBS.
- 5.7 If the Society elects to redeem the PIBS pursuant to Condition 5.5 or 5.6 above, it shall redeem each PIBS at the higher of the following, together, subject to Conditions 4.3(a) and 4.3(b), with any interest accrued to but excluding the date of repayment:
- (a) its principal amount; and
  - (b) the Call Redemption Price.

For the purposes of these Conditions:

**Call Redemption Price** means, in respect of each PIBS, the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the gross redemption yield (as calculated by the Independent Investment Bank on the basis set out by the United Kingdom Debt Management Office in the paper "*Formulae for calculating Gilt Prices from Yields*" page 4, section One: Price/Yield Formulae "*Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date*" (published 8 June 1998 (as supplemented, amended or replaced from time to time)) on the PIBS, 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 Gilt plus 0.65 per cent. on the basis of the middle market price of the Reference Gilt prevailing at 11.00 a.m. (London time) on such dealing day as determined by the Independent Investment Bank;

**Reference Gilt** means, in relation to any calculation of the Call Redemption Price, the United Kingdom 4.75 per cent. Treasury Stock due 2020, or if such security is no longer in issue, such other United Kingdom government security as the Independent Investment Bank may, with the advice of the Reference Dealers, determine to be appropriate for determining the Call Redemption Price;

**Reference Dealers** means three brokers of gilts and/or gilt-edged market makers selected by the Independent Investment Bank in consultation with the Society, or such other three persons operating in the gilt-edged market as are selected by the Independent Investment Bank in consultation with the Society; and

**Tier 1 Capital** has the meaning given to it in the Supervisory Authority's Interim Prudential Sourcebook for Building Societies (as amended, supplemented or updated from time to time) or any successor publication replacing such guide, or is issued capital of the Society regardless of name or designation which is otherwise treated as issued tier one capital by the Supervisory Authority.

- 5.8 The Society may, having obtained prior Relevant Supervisory Consent and, for so long as the PIBS are admitted to the official list maintained by the competent authority designated under Part VI of the Financial Services and Markets Act 2000 (the **UK Listing Authority**, which expression shall include any body appointed to perform such functions under any successor legislation), and admitted to trading on the London Stock Exchange plc's Gilt Edged and Fixed Interest Market, subject to and in accordance with the requirements from time to time of the UK Listing Authority and London

Stock Exchange plc, purchase any of the PIBS. In the case of purchases by tender, tenders shall be made available to all PIBS holders alike.

- 5.9 All PIBS repaid or purchased by the Society as aforesaid shall be cancelled forthwith and such PIBS may not be reissued or resold.

## 6. PAYMENTS

All payments in respect of the PIBS will be made by sterling cheque or warrant drawn on a bank or building society in the United Kingdom, posted on the Business Day immediately preceding the relevant due date and made payable to the PIBS holders (in the case of a joint holding of PIBS, the Representative Joint Shareholder) appearing in the PIBS Register in respect of the PIBS of which he is the holder at the close of business on the fifteenth day before the relevant due date (the **Record Date**) at the addresses shown in the PIBS Register on the Record Date, or in such other manner as the Registrar shall agree with the Society. Upon application of the PIBS holder (or in the case of a joint holding of PIBS, the Representative Joint Shareholder) to the Society, in the form from time to time prescribed by the Society, not less than 10 days before the due date for any payment in respect of his PIBS, the payment may be made by transfer on the due date or, if the due date is not a Business Day, on the immediately following Business Day to a sterling account, maintained by the relevant PIBS holder, with a bank or building society in the United Kingdom.

All payments in respect of the PIBS shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law.

*For a description of applicable United Kingdom taxation considerations see "United Kingdom Taxation" on page 33.*

*Notwithstanding Condition 7, all payments in respect of interests in PIBS held through Euroclear and Clearstream, Luxembourg accounts will be credited to the cash accounts of Euroclear and Clearstream, Luxembourg accountholders in accordance with each system's rules and procedures.*

## 7. REPLACEMENT OF PIBS CERTIFICATES

A PIBS holder who has lost a PIBS Certificate shall immediately give notice in writing of such loss to the Society at its Principal Office and to the Registrar at its specified office. If a PIBS Certificate is damaged or alleged to have been lost, stolen or destroyed, a new PIBS Certificate representing the same PIBS shall be issued by the Registrar, on behalf of the Society, to the PIBS holder upon request, subject to delivery up of the old PIBS Certificate or (if alleged to have been lost, stolen or destroyed) subject to compliance with such conditions as to evidence and indemnity as the Board and the Registrar may think fit and to payment of any exceptional expenses of the Society and the Registrar incidental to its investigation of the evidence of such alleged loss, theft or destruction. The duplicate PIBS Certificate will be made available at the offices of the Registrar.

## 8. SUCCESSION AND TRANSFERS

- 8.1 Upon an amalgamation by the Society with another building society under section 93 of the Act or a transfer of its engagements to any extent to another building society under section 94 of the Act, the PIBS shall become deferred shares in the amalgamated or transferee building society (as appropriate) without any alteration in their terms.
- 8.2 Upon a transfer by the Society of the whole of its business to a successor in accordance with section 97 of the Act, the successor will, in accordance with section 100(2)(a) of the Act, assume as from the vesting date a liability (subject to this Condition 8.2) to every qualifying Member of the Society as in respect of a deposit made with the successor corresponding in amount to the value of the qualifying Shares held by the Member in the Society. The liability so assumed by the successor in respect of each PIBS shall be the same as the liability in respect of a non-transferable subordinated deposit bearing the same rate of interest as the PIBS ranking behind any undated subordinated debt previously issued by the Society (each a **Subordinated Deposit**). Each Subordinated Deposit will be



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

The terms of each Subordinated Deposit and the terms and conditions of the Bonds will be such as to secure in the opinion of the Board that they will be treated as capital designated perpetual subordinated debt (as referred to in Chapter CA of the Interim Prudential Sourcebook for Banks as replaced, amended or supplemented from time to time) or its equivalent (if any) as determined by the auditors of the Society for the purposes of Applicable Regulatory Capital Requirements.

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

- 8.3 The Society undertakes to procure that any amalgamation or transfer referred to in Condition 8.1 or 8.2 above will comply with the provisions of Condition 8.1 or, as the case may be, 8.2 above.

## **9. VARIATIONS OF THESE CONDITIONS**

- 9.1 These Conditions may only be varied by the Society with the consent in writing of the PIBS holders holding not less than three-quarters in principal amount of the PIBS for the time being outstanding or with the sanction of a resolution passed at a separate meeting of the PIBS holders held in accordance with Condition 10.
- 9.2 The Society undertakes not to initiate any change to the Rules that is both (a) inconsistent with the provisions of these Conditions and (b) materially prejudicial to the interests of the PIBS holders in that capacity.
- 9.3 These Conditions do not limit the rights of Members to change the Rules.

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

## **10. MEETINGS OF THE PIBS HOLDERS**

- 10.1 The Society alone may at any time convene a separate meeting of the PIBS holders. Every meeting shall be held at such place as the Society may approve.
- 10.2 At least 21 clear days' notice, calculated from the final date for the receipt of proxies under Condition 10.11, specifying the hour, date and place of the meeting shall be given to the PIBS holders entered in the PIBS Register 35 days prior to the date specified for the meeting by sending it by post to the addresses shown in the PIBS Register. The notice shall specify generally the nature of the business to be transacted at the meeting and the terms of any resolution to be proposed to alter these Conditions.
- 10.3 Any person (who may, but need not, be a PIBS holder) nominated in writing by the Society shall be entitled to take the chair at every meeting but if no nomination is made or if at any meeting the person nominated shall not be present within 15 minutes after the time appointed for holding the meeting, the PIBS holders present shall choose one of their number who is present to be chairman.
- 10.4 At any meeting one or more persons present in person or by proxy and holding or representing in aggregate not less than one-third of the principal amount of the PIBS for the time being outstanding shall form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum shall be present at the



commencement of business. Every question submitted to the meeting (other than the choosing of a chairman which will be decided by a simple majority) shall be decided by a poll of one or more persons present and holding PIBS or being proxies and representing in aggregate not less than three-quarters of the principal amount of the PIBS represented at such meeting voting in favour of such question.

- 10.5 If within half an hour after the time appointed for any meeting a quorum is not present, the meeting shall stand adjourned for such period, being not less than 14 days nor more than 42 days and at such place as may be appointed by the chairman and if at the adjourned meeting a quorum shall not be present within half an hour from the time appointed for the adjourned meeting, the PIBS holders present in person or by proxy at the adjourned meeting shall be a quorum.
- 10.6 Notice of any adjourned meeting shall be given in the same manner as notice of an initial meeting but as if 10 were substituted for 21 in Condition 10.2.
- 10.7 A poll shall be taken in such manner as the chairman directs and the result of the poll shall be deemed to be the resolution of the meeting.
- 10.8 The chairman may with the consent of (and shall if directed by a resolution of) the meeting adjourn any meeting from time to time and from place to place but no business shall be transacted at any adjourned meeting other than business left unfinished or not reached at the meeting from which the adjournment took place.
- 10.9 Any director or officer of the Society and its professional advisers may attend and speak at any meeting of the PIBS holders. Save as provided above, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any such meeting unless he is a PIBS holder or is a proxy thereof.
- 10.10 Subject as provided in Condition 10.9, at any meeting every PIBS holder who is present in person or by proxy shall have one vote, irrespective of the principal amount of the PIBS so held or in respect of which he is a proxy.
- 10.11 A PIBS holder entitled to attend a separate meeting of the Society:
  - (a) may appoint one Person (whether a PIBS holder or not) as his proxy to attend and, on a resolution, to vote at such meeting instead of him; and
  - (b) may direct the proxy how to vote at the meeting.

A proxy shall be appointed by an instrument in writing which shall be in such form and include such declarations as the Board may from time to time determine. The instrument shall enable the PIBS holder appointing the proxy to direct him how to vote and, if the instrument is not in the form specified by the Society or is not signed by the appointer, the appointment of the proxy shall be invalid. The appropriate forms of declaration shall, with such additional or amended wording as the Board may consider appropriate, be used in the case of a body corporate. If the appropriate declaration is not included in the instrument, the appointment of the proxy shall be invalid. The instrument appointing a proxy or a representative shall be deposited at the Principal Office not less than two clear days before the day appointed for holding the meeting, or adjourned meeting, and in default the instrument shall not be treated as valid. The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll but, save as provided by this Condition 10.11, a proxy shall have no right to speak at the meeting. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or mental disorder of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of a PIBS in respect of which the proxy is given, provided that no intimation in writing of such death, mental disorder, revocation or transfer shall have been received by the Society at its Principal Office before the commencement of the meeting or adjourned meeting at which the proxy is used.

- 10.12 Any resolution passed at a meeting duly convened and held in accordance with these provisions shall be binding upon all the PIBS holders whether or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any

resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution. Notice of any resolution duly passed by the PIBS holders shall be given in writing to each PIBS holder by the Society within 14 days of the passing of the resolution, provided that the non-publication of the notice shall not invalidate the resolution.

10.13 Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Society and any minutes purporting to be signed by the chairman of the meeting at which resolutions were passed or proceedings had shall be conclusive evidence of the matters contained in the minutes and until the contrary is proved every meeting in respect of the proceedings of which minutes have been so made and signed shall be deemed to have been duly held and convened and all resolutions passed or proceedings had to have been duly passed or had.

10.14 The accidental omission to send notice of a separate meeting or to send any document required to be sent with the notice or otherwise before the meeting to, or the non-receipt of notice of a separate meeting or any such document as aforesaid by, any person entitled to receive notices or documents shall not invalidate the proceedings at that meeting.

## **11. FURTHER ISSUES**

The Society shall be at liberty from time to time without the consent of the PIBS holders to create and issue further permanent interest bearing shares either:

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

## **12. NOTICES**

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

## **13. GOVERNING LAW**

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

## SUMMARY OF PROVISIONS RELATING TO THE PIBS WHILE REPRESENTED BY THE GLOBAL PIBS CERTIFICATE

The following is a summary of the provisions to be contained in the Registrar Agreement and in the Global PIBS Certificate which will apply to, and in some cases modify the effect of, the conditions of the PIBS while PIBS are represented by the Global PIBS Certificate:

### 1. Exchange

The Global PIBS Certificate will be exchangeable in whole but not in part (free of charge to the holder) for definitive PIBS Certificates only if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Registrar is available.

Thereupon the Nominee (acting on the instructions of one or more of the Accountholders (as defined below)) may give notice to the Society of its intention to exchange the Global PIBS Certificate for definitive PIBS Certificates on or after the Exchange Date (as defined below).

On or after the Exchange Date, the Nominee may surrender the Global PIBS Certificate to or to the order of the Registrar. In exchange for the Global PIBS Certificate, the Registrar will deliver, or procure the delivery of, definitive PIBS Certificates with denominations in integral multiples of £50,000 printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Registrar Agreement. If definitive PIBS Certificates are required to be issued, a holder who does not have an integral multiple of £50,000 in his account with Euroclear and Clearstream, Luxembourg at the relevant time will not receive all of his entitlement in the form of definitive PIBS Certificates unless and until such time as his entitlement becomes an integral multiple of £50,000. Until that time, any entitlement of each holder which represents an excess over an integral multiple of £50,000 will be represented by a definitive PIBS Certificate representing all such entitlements, held by a nominee selected by the Society to hold the definitive PIBS Certificate representing such entitlements on behalf of such holders. On exchange of the Global PIBS Certificate, the Society will procure that it is cancelled and, if the Nominee so requests, returned to the Nominee together with any relevant definitive PIBS Certificates.

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 10 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Registrar is located.

### 2. Payments

Payments due in respect of PIBS represented by the Global PIBS Certificate shall be made by the Registrar to the Nominee. A record of each payment made in respect of PIBS represented by the Global PIBS Certificate will be endorsed on the appropriate part of the schedule to the Global PIBS Certificate by or on behalf of the Registrar, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the PIBS Certificates.

Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg as the case may be, for its share of each payment made to the Nominee.

In the event that the Society issues any Payment PIBS at a time prior to the Exchange Date, such Payment PIBS shall be issued to the Nominee. The number of Payment PIBS to be issued in these circumstances shall be calculated by the Registrar on the basis of the holdings of the Accountholders (provided on an anonymous basis) as shown in the records of Euroclear and Clearstream, Luxembourg on the Record Date (as defined in Condition 6). The number of Payment PIBS required will be such number as will allow the Nominee to allocate the amount of the Payment PIBS between the Accountholders, pro rata to their holdings of PIBS, in integral multiples of £1,000 (rounded upwards to integral multiples of £1,000 as necessary).

### **3. Notices**

For so long as the PIBS are represented by the Global PIBS Certificate and such Global PIBS Certificate is held on behalf of Euroclear and Clearstream, Luxembourg, notices to Accountholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by despatch and service as required by Condition 12.

### **4. Membership rights whilst the PIBS are held through Euroclear and Clearstream, Luxembourg**

Any investors which hold their PIBS through a Euroclear or Clearstream, Luxembourg account (the **Accountholders**) will not themselves be entered on the PIBS Register as holder of the relevant PIBS. Instead, the holder entered on the PIBS Register for such PIBS shall be the Nominee and the relevant Accountholder's holding of PIBS will be registered in the internal records of Euroclear and Clearstream, Luxembourg.

This means that Accountholders will not themselves be members of the Society and, accordingly, will not be entitled to vote at any general meeting of the Society or in a postal ballot or to any other similar membership rights. Instead the members' rights attaching to the PIBS held through Euroclear and Clearstream, Luxembourg will be held by the Nominee. Such Nominee will be entered in the PIBS Register as the holder of PIBS held in this manner, and will be entitled to exercise the voting and other members' rights attributable to all those PIBS so held.

Given the difficulty of casting the vote attaching to the PIBS in a manner which reflects the view of all the relevant Accountholders and the relative insignificance of that vote in the context of all the votes which may be cast by members of the Society, the Nominee will not exercise that vote.

As Accountholders will not be members of the Society they will also not be entitled to any windfall rights (including any rights to windfall payments) arising on a demutualisation or merger of the Society. Any windfall rights arising on a demutualisation or merger of the Society will be passed instead to the Nominee, as the registered holder of the PIBS in the PIBS Register. Any windfall payment made to the Nominee arising in respect of demutualisation or merger of the Society shall be divided between Accountholders pro rata to their holdings of PIBS and passed through to each Accountholder in accordance with the procedures of Euroclear and Clearstream, Luxembourg.

### **5. Purchase and Cancellation**

Cancellation of any PIBS required by the Conditions to be cancelled following purchase of any of the PIBS by the Society will be effected by a corresponding reduction in the principal amount of the Global PIBS Certificate.

### **6. Euroclear and Clearstream, Luxembourg**

References in the Global PIBS Certificate and this summary to Euroclear and Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved for the purposes of the PIBS by the Registrar.

## **CERTAIN PROVISIONS OF THE ACT AND REQUIREMENTS OF THE SUPERVISORY AUTHORITY**

### **(a) Amalgamation**

Section 93 of the Act permits a building society to amalgamate with one or more building societies by establishing a building society as their successor. Amalgamation requires a shareholding members' resolution passed by the shareholding members of each amalgamating society and a borrowing members' resolution (each as defined in Schedule 2 to the Act) of the borrowing members of each amalgamating society and confirmation of amalgamation by the Supervisory Authority. The Act provides that on the date specified by the Supervisory Authority all of the property, rights and liabilities (which, in the case of the Society, would include the PIBS) of each of the societies shall by virtue of the Act be transferred to and vested in the successor, whether or not otherwise capable of being transferred or assigned. In the event of such an amalgamation by the Society with another building society, the PIBS would, pursuant to their terms, become deferred shares in the successor without any alteration of their terms.

### **(b) Transfer of Engagements**

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

### **(c) Transfer of Business**

Sections 97 to 102D of the Act permit a building society to transfer the whole of its business to a company which has been specially formed by the society wholly or partly for the purpose of assuming and conducting the society's business in its place or is an existing company which is to assume and conduct the society's business in its place. The transfer must be approved by a requisite shareholding members' resolution, in accordance with Schedule 2, paragraph 30(2)-(5) of the Act, passed by shareholding members and by a borrowing members' resolution passed by borrowing members and the society must obtain the confirmation of the Supervisory Authority to the transfer and its terms. If the Supervisory Authority confirms the transfer then the Act provides that on the vesting date (as defined in the Act) all of the property, rights and liabilities (which would include the PIBS) of the transferor society, whether or not capable of being transferred or assigned, shall by virtue of the Act and in accordance with the transfer regulations (then in force) be transferred to and vested in the successor. Pursuant to section 100(2)(a) of the Act, the PIBS would be converted into deposits with the successor. The terms of the PIBS provide that the deposits will be subordinated and will be applied in the subscription of perpetual subordinated bonds of the successor subject as provided therein.

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

**(d) General**

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



## YORKSHIRE BUILDING SOCIETY

### Introduction

Yorkshire Building Society's Principal Office is Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ (telephone number: 01274 740740). The Society and its subsidiaries (the **Group**) was, in terms of total assets, at 31 December 2005 the fourth largest building society in the United Kingdom with total assets of £16.3 billion.

The Society was formed in 1884 as The Bradford Self-Help Permanent Building Society. It was incorporated in England in 1885 under the Building Societies Act 1874. In 1975 it merged with the Huddersfield Building Society (incorporated in 1864) to become the Huddersfield and Bradford Building Society. The present name was adopted following a further merger with the West Yorkshire Building Society in 1982. The engagements of Haywards Heath Building Society were transferred to the Society on 31 December 1992. On 31 December 2001 the Gainsborough Building Society merged with the Society.

Except as otherwise stated, financial information contained herein is extracted from the audited consolidated annual accounts of the Society and its subsidiaries or is calculated using financial information extracted from such annual accounts.

### Constitution

The Society is regulated by the Financial Services Authority and operates in accordance with the Act and the Society's Memorandum and Rules. It is an authorised building society within the meaning of the Act and is registered with the Financial Services Authority, registered number 106085.

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

Building societies may, subject to the approval of their members (by special resolution of investing members and ordinary resolution of borrowing members) and the Financial Services Authority, transfer their business to companies incorporated under the Companies Act 1985 in a procedure commonly referred to as "conversion".

The Society's corporate strategy includes a commitment to its existing status as a mutual building society run for the benefit of its current and future members. During 1998 the Society announced the establishment of a Charitable Foundation. Since the date of its establishment, new members of the Society have to agree to assign to the Foundation their rights to any windfall benefits arising from a conversion to plc status during the period of five years from commencement of their membership. Members retain their full rights to vote on any conversion resolution during the five year assignment period.

The affairs of the Society are conducted and managed by a Board of Directors who are elected by members of the Society and who serve in accordance with the Rules of the Society. The Board is responsible to the members for the proper conduct of the affairs of the Society and appoints and supervises the senior executives of the Society who are responsible to the Board for the day-to-day management of the Society. Eligibility to vote at General Meetings is governed by the Act and the Rules of the Society.

## Board of Directors

The Directors of the Society and their responsibilities within the Society, their business occupations outside the Society (if any), their other directorships, their dates of birth and the dates that they were appointed as directors, as of the date hereof, are as set out below:

<i>Directors</i>	<i>Date of birth</i>	<i>Date of appointment as a Director</i>	<i>Business Occupation</i>	<i>Other Directorships</i>
Edmund John Seward Anderson, B.Sc, CPFA	22 December 1950	19 May 2003	Company Director	Accord Mortgages Ltd Airport Operators Association Ltd Kelda Group Plc Leeds Bradford International Airport Ltd Leeds Chamber of Commerce and Industry Leeds International Pianoforte Competition Marketing Leeds Ltd St. Gemma's Hospice
Ms Julie Margaret Baddeley, MA	21 March 1951	2 November 2001	Associate Fellow Templeton College, Oxford	ART VPS Ltd Browning Properties Ltd Chrysalis A VCT Plc Chrysalis B VCT Plc Chrysalis C VCT Plc Chrysalis VCT Plc Computerland UK Plc Department of Health Greggs Plc
Frank Blair Beckett, CA	30 October 1941	27 July 2000	Chartered Accountant (retired) and Company Director	Yorkshire Investment Services Ltd Harrogate Golf Club Ltd Paperworks (Harrogate) Ltd
Ms Mary Colette Bowe, B.Sc, M.Sc, PhD	27 November 1946	19 May 2003	Company Director	Alcohol Concern Axa Framlington Group Ltd Camden People's Theatre Morgan Stanley Bank International Ltd National Institute for Economic and Social Research Thames Water Utilities Ltd
Andrew Mark Caton, BA	27 July 1963	1 July 2004	Building Society Corporate Development Director	Accord Mortgages Ltd Yorksaf Insurance Company Ltd Yorkshire Guernsey Ltd Yorkshire Investment Services Ltd Yorkshire (YBS) Finance B.V. YBS Investments (No. 1) Ltd YBS Investments (No. 2) Ltd
Iain Charles Andrew Cornish, B.Sc	11 November 1960	1 July 2003	Building Society Chief Executive	Accord Mortgages Ltd Yorkshire Investment Services Ltd Yorkshire Key Services Ltd Yorkshire Key Services (No. 2) Ltd
Richard Harding Davey, BA	22 July 1948	27 September 2005	Company Director	Amlin Plc Severn Trent Plc
Andrew Thomas Gosling, MA, FCA	1 June 1955	1 May 2001	Building Society Finance Director	YBS Investments (No. 1) Ltd YBS Investments (No. 2) Ltd YBS Properties Ltd YBS Properties (Edinburgh) Ltd YBS Properties (York) Ltd Yorksaf Insurance Company Ltd Yorkshire Building Society Estate Agents Ltd Yorkshire Computer Services Ltd Yorkshire Guernsey Ltd Yorkshire Investment Services Ltd
Robert Bruce Jackson BA, MBA, FCIB	5 June 1951	1 May 1996	Building Society Operations Director	Yorkshire Computer Services Ltd Yorkshire Key Services Ltd Yorkshire Key Services (No. 2) Ltd Yorkshire Syndications Ltd MutualPlus Ltd
Paul Anthony Lee, MA, LL.B	26 January 1946	22 May 1998	Solicitor	AG Secretarial Ltd Barlows Plc Chepstow Trustee Ltd Exchange Productions Ltd Hopkins & Jones Ltd Inhoco Formations Ltd Leaf Properties Ltd Leaf 2 Let Ltd Royal Exchange Theatre Catering Ltd Royal Exchange Theatre Company Ltd Royal Exchange Theatre Trustees Ltd
Christopher Julian Sheridan, FCIB, MSI	18 February 1943	27 June 1995	Company Director	Alpha Bank London Ltd Arctic Services AG Francis Holland (Church of England) Schools Trust Ltd Hanover Acceptances Ltd Inspace Ltd Minerva plc Sports Road Holdings Ltd Standard Bank London Ltd
Dame Susan Myfanwy Tinson, DBE, BA	15 January 1943	1 July 1999	Media Consultant	Carlton Broadcasting Ltd Chime Communications Plc LWT Holdings Ltd St. Ives Plc
Simon Turner, B.Sc	29 November 1951	13 October 2005	Managing Director	SCM Microsystems Inc

The business address of the Society's Directors is at 1 The Embankment, Neville Street, Leeds LS1 4DW.

## Management

Whilst the Society's Board of Directors is responsible for strategy and policy, implementation of policy and day-to-day management is delegated to the following senior executives:

I. C. A. Cornish, B.Sc	<i>Chief Executive</i>
A. M. Caton, BA	<i>Corporate Development Director</i>
A. T. Gosling, MA, FCA	<i>Finance Director</i>
R. B. Jackson, BA, MBA, FCIB	<i>Operations Director</i>
I. J. Bullock, B.Sc, FIA	<i>General Manager Sales &amp; Marketing</i>
R. D. Court, BA	<i>General Manager Human Resources</i>
D. J. Davies, BEng, CEng, MIMechE,	<i>General Manager Organisational Development</i>
J. Warden, BA, ACA, MBA	<i>General Manager Business Performance</i>

Mr P. A. Lee, one of the directors of the Society, is also the senior partner of Addleshaw Goddard, legal advisers to the Society on a range of matters, including the issue of the PIBS. Addleshaw Goddard receives fees for such advice, in accordance with the Society's normal business practice. Save for these arrangements, there exist no potential conflicts of interest between (i) any duties owed to the Society by any member of the Board of Directors or any of the senior executives listed above and (ii) their private interests and/or other duties.

## Business and Strategy of the Society

The Society's principal purpose is to maximise the long-term value that it provides to a growing number of members. The primary markets in which the Society operates are retail deposit taking, residential mortgage lending and the sale of related insurance products. The core strategy of the Society is to focus on the achievement of sustainable levels of growth in its core lending and deposit taking markets. The Society views its mutual status, its ability to offer consistently competitive products, its cost efficiency and its strong capital position as factors supporting the delivery of this strategy.

The Society operates across a number of distribution channels including its national network of branches, the internet and post. The Group distributes its mortgages to members via the Society and through the intermediary market via its wholly owned subsidiary Accord Mortgages Ltd.

Further details of the Society's strategy, and the steps being taken by the Group to implement the strategy, are set out in the Annual Report and Accounts of the Society for the financial year ended 31 December 2005, which are incorporated by reference in this Prospectus.

The other purposes and powers of the Society are specified in its Memorandum.

## International Financial Reporting Standards

With effect from 1 January 2005 the Group has been required to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS). Previously the Group had prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Principles.

In preparing the comparative information for 2004 the Group has adjusted amounts previously reported in the annual accounts which had been prepared in accordance with the reporting standards in force at the time. Additional adjustments were made to the balance sheet at 1 January 2005 to reflect the adoption of International Accounting Standard (IAS) 32 and IAS 39. The Group has applied IAS 1 'Presentation of Financial Statements' in presenting the annual accounts and reconciliations. Certain items have been reclassified under IFRS to comply with the new presentation requirements.

## Group Income

The total Interest Receivable for the year ended 31 December 2005 amounted to £803.8 million. The Net Interest Income was £156.4 million and Other Income (primarily from Commission Receivable) was £35.3 million giving a total of £191.7 million. After deducting administrative expenses, depreciation, amortisation and impairment, the operating profit before tax was £69.5 million. Operating profit before tax for the two month period ended 28 February 2006 was £14.67 million, as against £13.673 million for the two month period ended 28 February 2005 (Source: unaudited management accounts).

## Group Lending

Group Lending can be summarised as follows:

	2005	2004	2003
	£'000	£'000	£'000
Average balance outstanding .. .. .	11,659,869	11,017,166	10,491,123
Interest earned .. .. .	601,416	545,864	501,263
Average yield (%) .. .. .	5.2	5.0	4.8

Where the amount of an advance exceeds 75 per cent. of the value of the property, the Group obtains insurance cover in relation to this excess amount through its offshore captive insurance company, Yorksafe Insurance Company Ltd.

## Mortgage Losses

The following table shows for the two years ended 31 December 2004 and 2005 charges for impairment of loans and advances to customers for the year as a percentage of mortgage balances net of impairment provisions:

	31 December	
	<i>Charge for provisions for losses on loans and advances to customers as a percentage of mortgage balances (%)</i>	<i>Mortgage balances at end of year (£'000)</i>
2004 .. .. .	(0.0042)	11,225,908
2005 .. .. .	0.0025	12,093,900

## Liquidity

Building societies are required to hold a proportion of their assets in a readily realisable form. At 31 December 2005 the Group held cash and authorised investments of £3,926.4 million, being 26.0 per cent. of total shares and borrowings.

The types of investment in which building societies may invest funds are laid down in rules and guidance issued by the Financial Services Authority.

## Group Reserves

At the end of 2005 and 2004 the gross and free capital ratios of the Society for the purposes of the Building Societies (Accounts and Related Provisions) Regulations 1998 were as follows:

	31 December	
	2005	2004
Gross capital as a percentage of shares and borrowings .. .. .	6.4	6.5
Free capital as a percentage of shares and borrowings .. .. .	5.9	6.0

Gross capital represents the Group's general reserve (£852 million at the end of 2005) plus the existing subordinated debt of £108.6 million and free capital represents the gross capital less the book value of fixed assets plus the impairment provision.

## Funding Activities

Savings from the personal sector are the primary source of funds for the building society industry. However, since 1981 societies have been permitted to raise funds from the wholesale money markets, principally in the form of certificates of deposit, time deposits, loans from banks and note issues.

The proportion of shares and borrowings not in the form of shares held by individuals at 31 December 2005 was 32.4 per cent. compared with the statutory limit of 50 per cent.

The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

The wholesale funding of the Group at 31 December 2005 and 2004 was:

	<i>31 December</i>	
	<i>2005</i>	<i>2004</i>
	<i>£m</i>	<i>£m</i>
Amounts owed to credit institutions .. .. .	471.7	185.9
Certificates of Deposit .. .. .	149.5	260.7
Commercial Paper .. .. .	614.7	534.2
Fixed and Floating Rate Notes .. .. .	2,014.1	1,884.7
Other Deposits .. .. .	530.1	584.7
	<u>3,780.1</u>	<u>3,450.2</u>

The retail funding of the Group at 31 December 2005 and 2004 was:

	<i>31 December</i>	
	<i>2005</i>	<i>2004</i>
	<i>£m</i>	<i>£m</i>
Shares .. .. .	10,202.4	9,631.1
Deposits .. .. .	1,119.8	891.2
	<u>11,322.2</u>	<u>10,522.3</u>

The Rules of the Society provide that the Board may limit the amount which may be withdrawn from the Society in respect of any shares. Higher rates of interest are generally paid for larger investments in tiered or fixed rate accounts especially where there are restrictions against early withdrawal. Investing shareholders and borrowers automatically become members of the Society and such membership ceases on withdrawal in full of funds by investing shareholders or redemption of all loans by borrowers. Depositors do not become members of the Society on making deposits.

### Other Activities

Aside from its core activities, the Society operates the following key subsidiary companies:

- Yorkshire Guernsey Limited is an offshore deposit taking company. The Society was the first building society to launch an off-shore operation in Guernsey, specifically to offer gross interest accounts to investors.
- The Society's domestic mortgage indemnity captive insurance company, Yorksafe Insurance Company Ltd, is also based in Guernsey.
- The Society's business to business subsidiary Yorkshire Key Services Ltd was established during 2001 to sell the Society's systems platform.
- Yorkshire Investment Services Ltd was established in 2001 taking advantage of the Society's treasury infrastructure and capital strength to invest in structured assets.
- Accord Mortgages Ltd was established in 2003, to deal with borrowers introduced through financial intermediaries. It is now well established as a significant force in the intermediary market.

The Society is a member of LINK Interchange Network Limited providing 24-hour service through Automated Teller Machines in the United Kingdom.

## **REASONS FOR THE ISSUE AND USE OF PROCEEDS**

The net proceeds of the issue of the PIBS (estimated to be approximately £148,725,000) will be used by the Society to strengthen its capital base and to continue the ongoing development of the Society's business. The net proceeds will be treated for capital adequacy purposes as tier one capital.



## UNITED KINGDOM TAXATION

*The following applies only to persons who are the beneficial owners of PIBS and is a summary of the Society's understanding of current law and practice in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Society) to whom special rules may apply. **Prospective investors who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position, should seek their own professional advice.***

### A. Interest on the PIBS

#### 1. *Payment of interest on the PIBS*

Payments of interest on the PIBS may be made without deduction of or withholding on account of United Kingdom income tax provided that the PIBS continue to be listed on a "recognised stock exchange" as defined in section 841 of the Income and Corporation Taxes Act 1988 (the **1988 Act**) and continue to carry a right to interest. The London Stock Exchange is a recognised stock exchange for these purposes. Under HM Revenue & Customs (**HMRC**) published practice, securities will be treated as listed on the London Stock Exchange if they are admitted to listing on the Official List maintained by the UK Listing Authority and admitted to trading on the London Stock Exchange. Provided, therefore, that the PIBS remain so listed, interest on the PIBS will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the PIBS may also be paid without withholding or deduction on account of United Kingdom tax where it is paid to a person who belongs in the United Kingdom for United Kingdom tax purposes and, at the time the payment is made, the Society reasonably believes (and any person by or through whom interest on the PIBS is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the PIBS on account of United Kingdom income tax at the lower rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to an investor, HMRC can issue a notice to the Society to pay interest to the investor without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Investors who are individuals may wish to note that the HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to, or receives interest for the benefit of, an individual. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of other jurisdictions.

#### 2. *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required from 1 July 2005 to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments.

#### 3. *Further United Kingdom Tax Issues*

Interest on the PIBS constitutes United Kingdom source income for tax purposes and, as such, may be subject to tax by direct assessment even where paid without withholding.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not generally be chargeable to United Kingdom tax in the hands of an investor (other than certain trustees) who is not resident for tax purposes in the United

Kingdom unless that investor carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the PIBS are attributable (and where that investor is a company, unless that investor carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the PIBS are attributable). There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such investors.

**B. United Kingdom Corporation Tax Payers**

In general, investors which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the PIBS (whether attributable to currency fluctuations or otherwise) broadly in accordance with generally accepted accounting practices as that term is defined for tax purposes.

**C. Other United Kingdom Tax Payers**

*Taxation of Chargeable Gains*

The PIBS will constitute “qualifying corporate bonds” within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by an investor of a PIBS will not give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of chargeable gains.

*Accrued Income Scheme*

On a disposal of PIBS by an individual investor who is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the PIBS are attributable, any interest which has accrued to the date of disposal may be chargeable to tax as income under the rules of the accrued income scheme as set out in Chapter II of Part XVII of the 1988 Act.

It should be noted that the PIBS constitute “variable rate securities” for the purposes of the accrued income scheme and accordingly, that will impact on the way in which the provisions of the accrued income scheme could apply on a disposal of PIBS.

**D. Stamp Duty and Stamp Duty Reserve Tax (SDRT)**

No United Kingdom stamp duty or SDRT is payable on the issue or transfer of the PIBS or on their purchase by the Society.

## MARKETING ARRANGEMENTS

UBS Limited and Barclays Bank PLC (together, the **Managers**) have, pursuant to a subscription agreement dated 23 March 2006 (the **Subscription Agreement**), agreed with the Society, subject to the satisfaction of certain conditions (including, without limitation, the admission of the PIBS to the Official List becoming effective by not later than 27 March 2006 or such later date as the Society and the Managers may agree), to subscribe for, or procure subscribers for, the PIBS at the issue price of 100 per cent. of their principal amount. The Society has agreed to pay the Managers a commission of 0.85 per cent. of the principal amount of the PIBS if the conditions to which the issue of the PIBS is subject are satisfied or waived by the Managers. The Managers have agreed to pay certain of the Society's expenses. The Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Society. The Society has agreed to indemnify the Managers against certain liabilities in connection with the issue of the PIBS.

It is the intention of the Society to distribute the PIBS as widely as possible. Accordingly, each Manager reserves the right to retain a portion of the offering for the purpose of making ongoing sales, at its absolute discretion, to professional intermediaries. Each Manager will not directly market the PIBS to the public.

The PIBS have not, prior to the date of this document, been marketed or made available in whole or part to the public.

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

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

Each Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any PIBS in circumstances in which section 21(1) of the FSMA would not, if the Society was not an authorised person, apply to the Society; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the PIBS in, from or otherwise involving the United Kingdom.

No action has been or will be taken by the Society or any Manager that would permit a public offer of the PIBS in any country or jurisdiction where action for that purpose is required. The PIBS may not be, directly or indirectly, offered or sold in any country or jurisdiction where action for that purpose is required. Accordingly, the PIBS may not, directly or indirectly, be offered or sold and neither this document nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from, or published in, any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

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

## GENERAL INFORMATION

### No change

There has been no material adverse change in the prospects of the Society and there has been no significant change in the financial or trading position of the Group since 31 December 2005, being the date when the latest audited accounts were published.

### Litigation

Neither the Society nor any of its subsidiary undertakings is or has during the last 12 months been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Society is aware) which may have, or have had in the recent past, a significant effect on the Society's financial position or profitability or that of the Society and its subsidiary undertakings taken as a whole.

### Auditors

The consolidated accounts of the Society for the two years ended 31 December 2005 have been audited, without qualification, in accordance with U.K. Auditing Standards issued by the Auditing Practices Board, by KPMG Audit Plc, Chartered Accountants, of 1 The Embankment, Neville Street, Leeds LS1 4DW. The auditors of the Society have no material interests in the Society.

### Authorisation

The issue of the PIBS was authorised by resolutions of the Board passed on 1 March 2006 and by resolutions of a Committee of Directors passed on 20 March 2006.

### Expenses

The overall cost of the issue of the PIBS by the Society, including all commissions and expenses, is estimated to amount to approximately £1.53 million.

### Material contracts

Members of the Group have entered into the following contracts (other than in the ordinary course of business) which could result in any member of the Group being under any obligation or entitlement that is material to the Society's ability to meet its obligations to PIBS holders under the PIBS:

- (a) the Subscription Agreement dated 23 March 2006 between the Managers and the Society, as described in more detail on page 35; and
- (b) the Registrar Agreement dated 27 March 2006 between the Registrar and the Society appointing the Registrar as registrar for the issue.

### Registrar

The Society, pursuant to the Registrar Agreement dated 27 March 2006, has appointed The Bank of New York at its specified office at One Canada Square, London E14 5AL, to maintain the PIBS Register at such specified office. It is intended that the Registrar will act as agent of the Society for the purposes of making payments in respect of the PIBS as they fall due, maintaining the PIBS Register, accepting instructions for, and effecting, transfers of PIBS, issuing PIBS Certificates to new PIBS holders and receiving requests for the replacement of, and replacing, defaced, damaged, stolen, worn-out, lost or destroyed PIBS Certificates. The Registrar shall hold copies of the Registrar Agreement available for inspection at its specified office.

### Clearing Systems

The PIBS Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the PIBS is XS0247065674 and the Common Code is 024706567.

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210, Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

#### **Payment for the PIBS**

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

#### **Subsidiary undertakings**

Details of the subsidiary undertakings of the Society are set out in Note 9 to the financial statements of the Society for the financial year ended 31 December 2005, incorporated by reference in this document.

#### **Documents for inspection**

Copies of the following documents may be inspected at the Principal Office of the Society during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) during the period from the date of this document up to and including the date of issue of the PIBS:

- (a) the Memorandum and Rules of the Society; and
- (b) the published audited consolidated annual accounts of the Society and its subsidiaries for each of the years ended 31 December 2004 and 2005.

**PRINCIPAL OFFICE OF THE SOCIETY**

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**The Bank of New York**

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