

This Listing Document is dated 1 April 2010



## **YORKSHIRE BUILDING SOCIETY**

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

### **£100,000,000 13.5 per cent. Convertible Tier 2 Capital Notes due 2025**

The £100,000,000 13.5 per cent. Convertible Tier 2 Capital Notes due 2025 (the “Notes”) are issued by Yorkshire Building Society (the “Issuer”) in exchange for the £100,000,000 6.25 per cent. fixed rate notes due 2017 and the £100,000,000 5.875 per cent. fixed rate notes due 2019 issued by Chelsea Building Society.

The Notes have a denomination of £500 each. Upon the occurrence of the Conversion Trigger, the Issuer shall issue profit participating deferred shares (“PPDS”) of the Issuer and each Note shall, subject to and as provided in the “*Terms and Conditions of the Notes*” set out in this Listing Document (the “Conditions”), be converted in whole and not in part by the Issuer on the relevant Conversion Date into such PPDS at the rate of one PPDS for each Note required to be converted, as further described in the “*Terms and Conditions of the Notes - Conversion*”. The Notes are not convertible at the option of holders of the Notes (the “Noteholders”) at any time.

The Notes bear interest from and including 1 April 2010 at the rate of 13.5 per cent. per annum, payable semi-annually in arrear in equal instalments on 1 April and 1 October in each year (each an “Interest Payment Date”), commencing on 1 October 2010 up to but excluding 1 April 2025 (the “Maturity Date”), as further described under “*Terms and Conditions of the Notes - Interest*”. The Issuer shall not be entitled to defer or cancel any payments of interest or any other amounts payable in respect of the Notes.

Unless previously converted, redeemed or purchased and cancelled as provided in the Conditions, each Note shall be redeemed on the Maturity Date at its principal amount. The Notes may also be redeemed at the option of the Issuer, upon the occurrence of a Tax Event or a Capital Disqualification Event, as further described in “*Terms and Conditions of the Notes - Redemption and Purchase*”.

The Notes constitute unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders and Couponholders are subordinated as described in “*Terms and Conditions of the Notes - Status and Subordination of the Notes*”.

The Notes will initially be represented by a temporary global note (“Temporary Global Note”), without interest coupons, which will be deposited with a common depository on behalf of the Clearstream, Luxembourg and Euroclear systems on or about 1 April 2010. The Temporary Global Note will be exchangeable for interests in a permanent global note (“Permanent Global Note”), without interest coupons, on or after a date which is expected to be 11 May 2010, upon certification as to non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable for definitive Notes in bearer form in the denomination of £500, on or after 60 days after the notice requiring exchange is given if Euroclear or Clearstream, Luxembourg, or any other clearing system (an “Alternative Clearing System”) is closed for business for a continuous period of 14 days (other than by reason of holidays, 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 Trustee (as defined in the Conditions) is available.

The Temporary Global Note and the Permanent Global Note contain provisions which apply to the Notes while they are in global form, some of which modify the effect of the terms and conditions of the Notes set out in this document. The forms of the Temporary Global Note and the Permanent Global Note are set out in the Trust Deed, which may be inspected during usual business hours at the offices of the Issuer, at Yorkshire House, Yorkshire Drive, Bradford BD5 8LJ, United Kingdom (see “*General Information – Documents*”).

Application has been made to the Channel Islands Stock Exchange LBG (the “**CISX**”) for the listing of and permission to deal in the Notes on the Official List of the CISX. Neither the admission of the Notes to the Official List nor the approval of this Listing Document pursuant to the listing requirements of the CISX will constitute a warranty or representation by the CISX as to the competence of the service providers to, or any other party connected with, the Issuer, the adequacy and accuracy of information contained in this Listing Document or the suitability of the Issuer for investment or for any other purpose.

Application will be made for any further Notes that are issued to be admitted to the Official List of the CISX.

None of the Notes have been or will be registered under the US Securities Act of 1933, as amended (the “**Securities Act**”), or the securities laws of any state of the United States. The Notes may not be offered or sold within the United States or to US persons (within the meaning of Regulation S under the Securities Act (“**Regulation S**”)).

This Listing Document has been prepared solely for the purposes of the application for the listing of the Notes on the CISX.

Subject as set out below, the Issuer accepts responsibility for the information contained in this Listing Document and to the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Listing Document is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person has been authorised by the Issuer to give any information or to make any representation other than those contained in this Listing Document in connection with the offering of the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer. Neither the delivery of this Listing Document nor any sale made under this Listing Document shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer since the date of this Listing Document. This Listing Document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer to subscribe for, or purchase, any of the Notes. This Listing Document does not constitute an offer, and may not be used for the purpose of an offer to or a solicitation by anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

All references in this document to “**sterling**” and “**£**” refer to pounds sterling.

Unless otherwise defined, all defined terms in this Listing Document have the meanings ascribed to them under the terms and conditions of the Notes.

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## TERMS AND CONDITIONS OF THE NOTES

*The following (excluding italicised text) is the text of the terms and conditions (the “Conditions”) that shall be applicable to the Notes in definitive form (if any) issued in exchange for the £100,000,000 6.25 per cent. fixed rate notes due 2017 and the £100,000,000 5.875 per cent. fixed rate notes due 2019 issued by Chelsea Building Society. The full text of these Conditions shall be endorsed on the Notes.*

The issue of the £100,000,000 13.5 per cent. Convertible Tier 2 Capital Notes due 2025 (the “Notes”) was authorised by a resolution of the Board of Directors of Yorkshire Building Society (the “Issuer”) on 9 November 2009 and a resolution of a chairman’s committee of the Board of Directors of the Issuer on 27 November 2009. The Notes are constituted by a trust deed (the “Trust Deed”) dated 1 April 2009 entered into between the Issuer and The Law Debenture Trust Corporation p.l.c. (the “Trustee”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes (the “Noteholders”). These terms and conditions (the “Conditions”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes, the coupons relating to them (the “Coupons”) and the talons for further Coupons (the “Talons”). An agency agreement (the “Agency Agreement”) dated 1 April 2010 has been entered into in relation to the Notes between the Issuer, the Trustee, HSBC Bank plc as principal paying and conversion agent and the other paying and conversion agents named in it. The principal paying and conversion agent and the other paying and conversion agents are referred to below respectively as the “Principal Paying and Conversion Agent” and the “Paying and Conversion Agents” (which expression shall include the Principal Paying and Conversion Agent). Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours at the principal office of the Trustee (presently at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified offices of the Paying and Conversion Agents.

The Noteholders and the holders of the Coupons (the “Couponholders”) and the Talons are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

### **1 Form, Denomination and Title**

The Notes are serially numbered and in bearer form in the denomination of £500 each with Coupons and a Talon attached on issue.

Title to the Notes, Coupons and Talons shall pass by delivery. Except as required by law, the holder of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it or its theft or loss and no person shall be liable for so treating the holder.

### **2 Status and Subordination of the Notes**

#### **(a) Status**

The Notes and Coupons constitute unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders and Couponholders are subordinated as described in Condition 2(b).

#### **(b) Subordination**

On an order being made, or an effective resolution being passed, for a winding up of the Issuer or for any other insolvency proceedings related to the Issuer in which a liquidator (both in the case of a compulsory and a creditors’ voluntary winding-up) or administrator, building society special administrator, building society liquidator or analogous insolvency officeholder is appointed in

relation to the Issuer, the claims of the Noteholders and the Couponholders shall be subordinated to the claims of all Senior Creditors in the manner provided herein and the Trust Deed.

The provisions of this Condition 2(b) apply only to the principal and interest and any other amounts payable in respect of the Notes and Coupons and nothing in this Condition 2(b) or in Condition 10 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of or other amounts due to the Trustee or the rights and remedies of the Trustee in respect thereof.

### **3 Set-off**

Subject to applicable law, no Noteholder or Couponholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Notes or the Coupons and each Noteholder and Couponholder shall, by virtue of his holding of any Note or Coupon (as the case may be), be deemed to have waived all such rights of set-off, compensation or retention.

### **4 Interest**

#### **(a) Interest Rate**

The Notes bear interest from and including 1 April 2010 at the rate of 13.5 per cent. per annum, payable semi-annually in arrear in equal instalments on 1 April and 1 October in each year (each an “**Interest Payment Date**”), commencing on 1 October 2010 up to but excluding the Maturity Date

#### **(b) Accrual of Interest**

- (i) Where a Note is to be redeemed pursuant to Condition 6(a), 6(c) or 6(d), interest shall accrue up to (but excluding) the due date for redemption, and shall cease to accrue on such Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) in the manner provided in this Condition 4 to the Relevant Date.
- (ii) In the case of a Conversion in respect of the Notes, interest shall accrue on the principal amount of each Note up to (but excluding) the relevant Conversion Date and interest shall cease to accrue on each Note with effect from the relevant Conversion Date. All Coupons relating to Interest Payment Dates falling after the Conversion Date shall be void and no payment shall be made in respect of them.

#### **(c) No Deferral**

The Issuer shall not be entitled to defer or cancel any payments of interest or any other amounts payable in respect of the Notes.

### **5 Conversion**

#### **(a) Conversion upon Conversion Trigger**

- (i) If the Conversion Trigger occurs at any time, the Issuer shall issue the PPDS and each Note shall, subject to and as provided in Condition 5(a)(ii), be converted in whole and not in part by the Issuer on the relevant Conversion Date into such PPDS at the rate of one PPDS for each Note required to be converted, provided that the PPDS shall not be issued and the Notes shall not be converted if an Event of Default has occurred at any time on or prior to the occurrence of the Conversion Trigger and is continuing.

The Notes are not convertible at the option of Noteholders at any time.

The “**Conversion Trigger**” shall occur if on any Calculation Date the Issuer’s Consolidated Core Tier 1 Ratio, as confirmed in a report of the auditors to the Issuer and addressed to the board of directors of the Issuer, is less than 5.00 per cent. Prior to giving the Conversion Trigger Notice, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the Conversion Trigger has occurred and attaching such report, and the Trustee shall accept such certificate and report without any further enquiry as sufficient evidence of such matters, and such certificate and report will be conclusive and binding on the Trustee and the Noteholders. The Trustee need not do anything to find out if an the Conversion Trigger has occurred. Until it has actual knowledge or express notice to the contrary or it has received the certificate of the Issuer mentioned in this Condition 5(a)(i), the Trustee may assume that no Conversion Trigger has occurred.

As soon as reasonably practicable but in any event no later than the tenth London business day following the occurrence of the Conversion Trigger (subject to the proviso above), the Issuer shall give notice to effect conversion of all the outstanding Notes to holders of the Notes (the “**Conversion Trigger Notice**”) in accordance with Condition 15. The Conversion Trigger Notice shall specify the Calculation Date, the Notice Cut-off Date (together with details of the consequences of failure to deliver a Conversion Notice prior to the Notice Cut-off Date), the Consolidated Core Tier 1 Ratio and the Conversion Date, which shall be not earlier than 10 London business days nor later than 20 London business days following the giving of the Conversion Trigger Notice.

- (ii) If the Conversion Date is not a London business day, the Issuer (1) will pay to the Noteholders a cash amount of £1,000,000 in respect of principal (or such lesser amount as is equal to the principal amount of the Notes outstanding on the Conversion Date), to be distributed to Noteholders (*pro rata* according to their holdings of Notes on the Conversion Date) on the Conversion Date (or, in the case of Unidentified Notes (as defined below), to be distributed to the Relevant Person on the Settlement Date), and (2) will convert the remaining principal amount of Notes outstanding into PPDS of an equivalent nominal amount subject to and as provided in Condition 6(b). Any payments to Noteholders under this Condition 5(a)(ii) will be made to Noteholders as specified in the relevant Conversion Notice or, in the case of Unidentified Notes, by payment to the Relevant Person in accordance with Condition 5(c)(iii).
- (iii) Neither the Trustee nor the Principal Paying and Conversion Agent shall (x) at any time be under any duty or responsibility in respect of the issue or delivery of the PPDS or any other securities, property or cash, which may at any time be made available or delivered upon the conversion of any Notes or (y) be responsible for any failure of the Issuer or any other entity to make available or deliver any PPDS or to make any payment upon the occurrence of Conversion in respect of any Note or of the Issuer to comply with any of its covenants contained in the Trust Deed in relation to such matters other than (subject to the Trustee being first indemnified and/or secured and/or prefunded to its satisfaction) to enforce the obligation of the Issuer to issue and deliver the PPDS and to appoint a Relevant Person (if required) and to pay any amounts due under Condition 5(a)(ii) and the Accrued Conversion Interest (if any) as described in these Conditions. Following such issue and delivery of the PPDS and payment of any amounts due under Condition 5(a)(ii) and the Accrued Conversion Interest (if any) by the Issuer to Noteholders who deliver Conversion Notices by the Notice Cut-off Date and (if relevant) to the Relevant Person, any remaining obligations of the Issuer pursuant to these Conditions shall be directly enforceable by the former holders of the Unidentified Notes.

**(b) Accrued Conversion Interest**

- (i) The Issuer shall pay to the Noteholders the Accrued Conversion Interest (if any) in respect of the Notes on the Conversion Date.
- (ii) Payment of any Accrued Conversion Interest will be made by transfer to an account with a bank in London, as specified in the relevant Conversion Notice or, as the case may be, as provided below.
- (iii) If, in the case of a Conversion, a Conversion Notice and, if the relevant Notes are in definitive form, the relevant Notes are not delivered to the specified office of a Paying and Conversion Agent in accordance with these Conditions on or before the Notice Cut-off Date or otherwise the relevant Conversion Notice shall have been determined or treated as null and void pursuant to Condition 5(c)(iv), any Accrued Conversion Interest in respect of the relevant Notes which is to be paid on the Conversion Date shall be paid on the Settlement Date to the Relevant Person in accordance with Condition 5(c)(iii) or in such other manner and at such time as the Issuer shall determine and notify to the persons entitled thereto.

**(c) Procedure for Delivery in respect of a Conversion upon Conversion Trigger**

- (i) In order to obtain delivery of the relevant PPDS on a Conversion of the Notes, the relevant Noteholder must deliver a duly completed Conversion Notice, together with the relevant Notes (but only if the Notes are in definitive form) to the specified office of any Paying and Conversion Agent at least five business days in the relevant place of delivery prior to the relevant Conversion Date (the “**Notice Cut-off Date**”). The relevant Noteholders will be required to confirm in the Conversion Notice as to whether or not the beneficial owner is an individual or a Scottish partnership in which all the partners are individuals or a personal representative acting in that capacity or a trustee of a discretionary or accumulation settlement as defined in Section 873 of the Income Tax Act 2007 acting in that capacity.

If such delivery is made or notice is given after the end of normal business hours at the specified office of the relevant Paying and Conversion Agent or on a day which is not a business day in such place, such delivery or notice shall be deemed to have been made or given on the next following such business day.

- (ii) Subject as provided herein, the relevant PPDS will be issued and delivered in accordance with the instructions given in the relevant Conversion Notice, provided the Conversion Notice and the relevant Notes are delivered not later than the Notice Cut-off Date.
- (iii) If the Conversion Notice and the relevant Notes (subject as provided above) (the “**Unidentified Notes**”) are not delivered to the specified office of a Paying and Conversion Agent in accordance with these Conditions on or before the Notice Cut-off Date, then on the Settlement Date, the relevant PPDS, any amounts due under Condition 5(a)(ii) and any Accrued Conversion Interest will be delivered and paid to a person (the “**Relevant Person**”) selected and appointed by the Issuer on or prior to the Conversion Date (if no such appointment is made by such date, the Issuer shall be the Relevant Person). Such PPDS, any amounts due under Condition 5(a)(ii) and Accrued Conversion Interest (if any) shall be held by the Relevant Person for a period of 12 calendar months (the “**Relevant Period**”) as bare trustee for the holders of the Unidentified Notes on the terms set out in these Conditions and on such basis as the Issuer and the Relevant Person may agree. During the Relevant Period, any holder of an Unidentified Note may deliver a duly completed Conversion Notice, together with the relevant Notes but only if the relevant Notes are in definitive form and such other evidence as to its title to the Notes as the Issuer and/or the Relevant Person may require, to the Issuer and the Relevant Person shall transfer the relevant PPDS (including any

dividends or distributions in respect thereof net of any tax deducted or withheld in respect thereof), any amounts due under Condition 5(a)(ii) and the Accrued Conversion Interest (if any) to such holder of Unidentified Notes within five business days of such delivery, and such holder of Unidentified Notes will bear the cost of any amount payable by the Relevant Person in respect of any liability to taxation in respect of its holding of the PPDS and transfer to such holder (excluding any taxes which are imposed on or calculated by reference to the net income received or receivable by the Relevant Person) and will pay any capital, stamp, issue, registration and/or transfer taxes and duties (if any) and any fees or costs incurred by or on behalf of the Relevant Person in connection with the transfer thereof to such holder. Upon the expiry of the Relevant Period, the Issuer shall procure that any remaining PPDS held by the Relevant Person shall be sold by or on behalf of the Relevant Person as soon as reasonably practicable, based on advice from a reputable financial institution, investment or commercial bank or broker selected by the Issuer and subject to any necessary consents being obtained and to the deduction by or on behalf of the Relevant Person of any amount payable in respect of its liability to taxation (excluding any taxes which are imposed on or calculated by reference to the net income received or receivable by the Relevant Person) and the payment of any capital, stamp, issue, registration and/or transfer taxes and duties (if any) and any fees or costs incurred by or on behalf of the Relevant Person in connection with the issue, allotment and sale thereof, and the net proceeds of sale, any amounts due under Condition 5(a)(ii) and any Accrued Conversion Interest shall be held by the Relevant Person as bare trustee for the former holders of the Unidentified Notes and, upon the delivery of the relevant Notes to the Relevant Person and such other evidence as to its title to the Notes as the Issuer and/or the Relevant Person may require, the net proceeds (excluding for the avoidance of doubt, any interest that may have been earned on such net proceeds), any amounts due under Condition 5(a)(ii) (excluding for the avoidance of doubt, any interest that may have been earned on such amounts) and the Accrued Conversion Interest (if any) in respect of such Notes (excluding for the avoidance of doubt, any interest that may have been earned on such Accrued Conversion Interest) shall as soon as reasonably practicable be distributed rateably to the relevant holder by transfer to an account denominated in sterling in accordance with instructions provided by the relevant holder or in such other manner and at such time as the Issuer shall determine and notify to the holders of Unidentified Notes. The Relevant Person shall return to the Issuer any net proceeds, any amounts due under Condition 5(a)(ii) and Accrued Conversion Interest (together with any interest earned on such sums) which have not been claimed by holders of Unidentified Notes within five years from the expiry of the Relevant Period.

The amount of such net proceeds of sale payable to a holder pursuant to this sub-paragraph (iii), together with payment of any amounts due under Condition 5(a)(ii) and any Accrued Conversion Interest as described above, shall be treated for all purposes as a good discharge of the obligations of the Issuer in respect of the relevant Conversion.

The Issuer shall have no liability in respect of the exercise or non-exercise of any discretion or power pursuant to this sub-paragraph (iii) or in respect of any sale of any PPDS, whether for the timing of any such sale or the price at or manner in which any such PPDS are sold or the inability to sell any such PPDS.

- (iv) Any Conversion Notice shall be irrevocable. Failure properly to complete and deliver a Conversion Notice and deliver the relevant Notes may result in such notice being treated as null and void and shall entitle the Issuer to effect settlement in accordance with sub-paragraph (iii) above. Any determination as to whether any Conversion Notice has been properly completed and delivered as provided in these Conditions shall be made by the Issuer in its sole discretion and shall be conclusive and binding on the relevant Noteholders.

**(d) Taxes and Duties**

A Noteholder must pay (in the case where the PPDS are delivered to a Relevant Person, by means of deduction of such taxes and duties from the net proceeds of sale referred to in Condition 5(c) above) any tax liability of the relevant Noteholder and capital, stamp, issue and registration and transfer taxes or duties arising on Conversion and on any disposal or deemed disposal of a Note or interest therein.

The Issuer will procure that any PPDS to be issued on any Conversion will not be issued to any person referred to in section 67 or 70 of the Finance Act 1986 or section 93 or 96 of the Finance Act 1986 unless the relevant Noteholder requests that such PPDS are to be so issued.

**(e) Issue and Delivery**

The Issuer will procure that PPDS to be issued on a Conversion will be issued and delivered to the holder of the relevant Notes completing the relevant Conversion Notice or its nominee or to the Relevant Person (as the case may be), credited as fully paid at a subscription price of £500 per PPDS. Such PPDS will be issued and delivered on the relevant Conversion Date or, in the case of the Relevant Person, the Settlement Date.

The Issuer shall be deemed to be irrevocably authorised and instructed to redeem any Note which is to be converted in accordance with this Condition and to apply the redemption money in subscribing for such PPDS in accordance with this Condition. The allotment and issue of PPDS on conversion of any Notes shall be a full satisfaction and discharge for the Issuer of the principal monies in respect of the Notes so converted. PPDS will, unless the Issuer determines otherwise, be delivered in certificated form, and the Issuer will enter the relevant Noteholder (or as it directs) or the Relevant Person (as the case may be) in the PPDS Register as holder of the PPDS so issued to it. A certificate in respect thereof will be dispatched by mail free of charge to the relevant Noteholder or as it may direct in the relevant Conversion Notice or, where PPDS are to be issued or delivered to the Relevant Person pursuant to Condition 5(c)(iii) above, as directed by the Relevant Person (in each case uninsured and at the risk of the relevant recipient) within 28 days following the relevant Conversion Date.

**6 Redemption and Purchase**

**(a) Final Redemption**

Unless previously converted, redeemed or purchased and cancelled as provided in these Conditions, each Note shall be redeemed on the Maturity Date at its principal amount.

**(b) Conditions to Redemption and Purchase**

Any redemption or purchase of the Notes in accordance with Condition 6(c), (d) or (f) is subject to (i) the Issuer giving at least one month's prior written notice to, and receiving no objection from or, in the case of any redemption in accordance with Condition 6(c) or 6(d) of the Notes prior to the fifth anniversary of the Issue Date, receiving the consent of, the Supervisory Authority (or such other period of notice as the Supervisory Authority may from time to time require or accept and, in any event, provided that any such notice is required to be given) and (ii) the Issuer (both at the time of, and immediately following, the redemption or purchase) being in compliance with the Applicable Regulatory Capital Requirements applicable to it from time to time (and a certificate from any two Authorised Signatories of the Issuer confirming such compliance shall be conclusive evidence of such compliance).

Prior to the publication of any notice of redemption pursuant to Condition 6(c) or (d), the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating

that the relevant requirement or circumstance giving rise to the right to redeem is satisfied and the Trustee shall accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the relevant conditions precedent, and such certificate shall be conclusive and binding on the Trustee and the Noteholders.

**(c) Redemption Due to Taxation**

If, immediately prior to the giving of the notice referred to below, a Tax Event has occurred and is continuing, then the Issuer may, subject to Condition 6(b) and having given not less than 10 nor more than 21 days' notice to the Trustee and the Principal Paying and Conversion Agent and, in accordance with Condition 15, the Noteholders (which notice shall, subject as provided in Condition 6(e), be irrevocable), redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with any accrued but unpaid interest to (but excluding) the relevant redemption date. Upon the expiry of such notice, the Issuer shall redeem the Notes as aforesaid.

**(d) Redemption for Regulatory Purposes**

If, immediately prior to the giving of the notice referred to below, a Capital Disqualification Event has occurred and is continuing, then the Issuer may, subject to Condition 6(b) and having given not less than 10 nor more than 21 days' notice to the Noteholders in accordance with Condition 15, the Trustee and the Paying and Conversion Agent (which notice shall, subject as provided in Condition 6(e), be irrevocable), redeem in accordance with these Conditions at any time all, but not some only, of the Notes at their principal amount, together with any accrued but unpaid interest to but excluding the relevant redemption date. Upon the expiry of such notice, the Issuer shall redeem the Notes as aforesaid.

**(e) Conversion Trigger**

The Issuer may not give a notice of redemption of the Notes pursuant to this Condition 6 if a Conversion Trigger Notice shall have been given. If a Conversion Trigger Notice shall be given after a notice of redemption shall have been given by the Issuer but before the relevant redemption date, such notice of redemption shall automatically be revoked and be null and void and the relevant redemption shall not be made.

**(f) Purchases**

The Issuer (or any Subsidiary of the Issuer) may, subject to Condition 6(b), at any time purchase all or any of the Notes in the open market or otherwise at any price (provided that, if they should be cancelled under Condition 6(g) below, they are purchased together with all unmatured Coupons and unexchanged Talons relating to them).

**(g) Cancellation**

All Notes redeemed by the Issuer pursuant to this Condition 6 together with all unmatured Coupons and unexchanged Talons relating to them will forthwith be cancelled. All Notes purchased by or on behalf of the Issuer or any Subsidiary of the Issuer may be held, reissued, resold or, at the option of the Issuer or any such Subsidiary, surrendered for cancellation (together with all unmatured Coupons and unexchanged Talons) to the Principal Paying and Conversion Agent. Notes so surrendered shall be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

**(h) Trustee Not Obligated to Monitor**

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists within this Condition 6 and will not be responsible to Noteholders for any loss arising from any failure by it to do so. Unless and until the Trustee has actual knowledge of the occurrence of any event or circumstance within this Condition 6, it shall be entitled to assume that no such event or circumstance exists.

**7 Payments**

**(a) Method of payment**

- (i) Payment of principal in respect of the Notes to be made to holders of the Notes and payment of accrued interest payable on a redemption of the Notes (other than on an Interest Payment Date) and payment of any Accrued Conversion Interest that is to be paid in accordance with this Condition 7 shall, in each case, be made against presentation and surrender of the relevant Notes at the specified office of any Paying and Conversion Agent outside the United States.
- (ii) Payment of interest to be made to holders of the Notes on an Interest Payment Date will be made against presentation and surrender of the relevant Coupons at the specified office of any Paying and Conversion Agent outside the United States.
- (iii) All such payments referred to in (i) and (ii) shall be made by cheque payable in sterling drawn on or, at the option of the holder, by transfer to an account denominated in sterling with, a Bank.
- (iv) Payments of all amounts other than as referred to in (i) and (ii) will be made as provided in these Conditions.

**(b) Payments subject to Fiscal Laws**

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

**(c) Appointment of Agents**

The initial Principal Paying and Conversion Agent is listed below. The Principal Paying and Conversion Agent and the Paying and Conversion Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Principal Paying and Conversion Agent or any other Paying and Conversion Agent and to appoint additional or other Paying and Conversion Agents, provided that there shall at all times be (i) a Principal Paying and Conversion Agent, (ii) such other agents as may be required by any other stock exchange on which the Notes may be listed and (iii) a Paying and Conversion Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

Notice of any such change or any change of any specified office shall promptly be given to the Trustee and to the Noteholders in accordance with Condition 15.

**(d) Unmatured Coupons and unexchanged Talons**

- (i) Upon Conversion of the Notes, all Coupons in respect thereof relating to Interest Payment Dates falling after the relevant Conversion Date shall become void and no payment shall be made in respect of them.
- (ii) Upon the due date for redemption of any Note, all unexpired Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupons shall be delivered in respect of such Talon.
- (iv) Where any Notes are presented for redemption without all such unexpired Coupons, and where any Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

**(e) Talons**

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying and Conversion Agent in exchange for a further Coupon sheet (but excluding any Coupons that may have become void pursuant to Condition 9).

**(f) Non-Business Days**

If any date for payment in respect of any Note or Coupon is not a Business Day, the holder shall not be entitled to payment until the next following Business Day nor to any interest or other sum in respect of such postponed payment. In this Condition 7(f), “**Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation (where presentation and surrender is required pursuant to these Conditions) and in London.

**8 Taxation**

All payments of principal and/or interest to Noteholders and Couponholders by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made without withholding or deduction for or on account of any present or future tax, duty, assessment or governmental charge of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts (“**Additional Amounts**”) as will result (after such withholding or deduction, including any additional withholding or deduction arising in consequence of the payment of such additional amounts) in receipt by the Noteholders and the Couponholders of the sums which would have been receivable (in the absence of such withholding or deduction) from it in respect of their Notes and/or Coupons, as the case may be; except that no such Additional Amounts shall be payable with respect to any Note or Coupon:

- (a) (where presentation and surrender is required pursuant to these Conditions) presented for payment by or on behalf of any holder who is liable to such tax, duty, assessment or governmental charge in respect of such Note or Coupon by reason of such holder having some connection with the United Kingdom other than the mere holding of such Note or Coupon; or

- (b) to, or to a third party on behalf of, a holder if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in the United Kingdom and such holder is entitled so to comply or to make such declaration or claim; or
- (c) to, or to a third party on behalf of, a holder that is a partnership, or a holder that is not the sole beneficial owner of the Note or Coupon, or which holds the Note or Coupon in a fiduciary capacity, to the extent that any of the members of the partnership, the beneficial owner or the settlor or beneficiary with respect to the fiduciary would not have been entitled to the payment of an additional amount had each of the members of the partnership, the beneficial owner, settlor or beneficiary (as the case may be) received directly his beneficial or distributive share of the payment; or
- (d) (where presentation and surrender is required pursuant to these Conditions) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment at the expiry of such period of 30 days; or
- (e) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (f) (where presentation and surrender is required pursuant to these Conditions) in respect of any Note or Coupon presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying and Conversion Agent in a member state of the European Union.

## **9 Prescription**

Claims against the Issuer for payment in respect of the Notes and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

## **10 Events of Default**

- (i) In the event of a default being made for a period of seven days or more in payment of principal in respect of the Notes or any of them or for 14 days or more in payment of any interest in respect of the Notes or any of them, in each case as and when the same ought to be paid, the Trustee may, in order to enforce the obligations of the Issuer under the Trust Deed, the Notes and Coupons, at its discretion without further notice, institute proceedings for the winding up of the Issuer, but may take no further action in respect of such default.
- (ii) The Trustee may institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Trust Deed or the Notes (other than any obligation for the payment of any principal or interest in respect of the Notes or Coupons) provided that the Issuer shall not by virtue of any such proceedings be obliged to pay any sum or sums representing principal or interest in respect of the Notes or Coupons sooner than the same would otherwise have been payable by it.
- (iii) In the event (an “**Event of Default**”) of the commencement of the winding up of the Issuer or the commencement of the dissolution of the Issuer (except in any such case a winding up or dissolution for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a Successor in Business effected with the consent of the Trustee or approved by an Extraordinary Resolution of the Noteholders or as a result of an amalgamation pursuant to Section 93 of the Act or a transfer of engagements pursuant to Section 94 of the Act or a transfer of its business pursuant to

Section 97 of the Act, including a transfer by the Issuer of the whole of its business to a subsidiary of a mutual society pursuant to any order made in the future by HM Treasury under Section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007), the Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. in principal amount of the Notes then outstanding or so directed by an Extraordinary Resolution of the Noteholders shall (subject to being indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer that the Notes are due and repayable immediately (and the Notes shall thereby become so due and repayable) at their principal amount together with accrued interest (if any) as provided in the Trust Deed.

- (iv) The Trustee shall not be bound to take any of the actions referred to above to enforce the obligations of the Issuer under the Trust Deed, unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent. in principal amount of the Notes outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to proceed, fails to do so within a reasonable period and such failure is continuing.
- (v) No remedy against the Issuer, other than as referred to in this Condition 10, shall be available to the Trustee or the Noteholders or Couponholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes, Coupons or under the Trust Deed.

## **11 Meetings of Noteholders, Modification, Waiver and Substitution**

### **(a) Meetings of Noteholders**

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in aggregate principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more persons holding or representing a clear majority in aggregate principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the aggregate principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to postpone the date of maturity of the Notes or any date for payment of interest on the Notes, (ii) to reduce or cancel the principal amount of the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to cancel or vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating the amounts of any interest in respect of the Notes, (iv) to vary any method of, or basis for, establishing when and whether a Conversion Trigger has occurred and calculating the amounts payable on redemption or Conversion (if any) of the Notes or any amendment to Condition 5(c), (v) to vary the currency of payment or denomination of the Notes, (vi) to amend the terms of the PPDS other than as contemplated in Condition 11(c) or 11(d); or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in aggregate principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in aggregate principal amount of the Notes outstanding shall for all purposes be as

valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

Notwithstanding the above, (i) the quorum for any meeting convened to consider a resolution to modify or amend these Conditions to provide for the conversion of the Notes into other instruments approved by the Supervisory Authority as being core tier 1 capital shall be one or more persons holding or representing a clear majority in aggregate principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the aggregate principal amount of the Notes held or represented and (ii) any such resolution may be passed at a meeting of Noteholders duly convened and held in accordance with the Trust Deed by a simple majority of the votes cast. A written resolution signed by the holders of 50 per cent. in principal amount of the Notes outstanding shall take effect as if it were such a resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

**(b) Modification of the Trust Deed**

The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest error, (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders and (iii) any change to the terms and conditions of the Notes or the Successor Notes pursuant to Condition 11(c) or 11(d). Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, shall be notified to the Noteholders as soon as practicable.

**(c) Substitution**

Subject to the Issuer giving at least one month's notice to, and receiving no objection from, the Supervisory Authority (or such shorter period of notice as the Supervisory Authority may from time to time require or accept and so long as there is a requirement to give such notice), the Trustee may agree, without the consent of the Noteholders or Couponholders, to the substitution of:

- (i) any Subsidiary of the Issuer or of any Successor in Business of the Issuer, or
- (ii) any Successor in Business of the Issuer,

not being in any such case a Building Society Succession Event or a Company Succession Event, in place of the Issuer as principal debtor under the Trust Deed, the Notes and Coupons (the "**Substituted Entity**"), provided (in the case where the Substituted Entity is a Subsidiary of the Issuer or of any Successor in Business of the Issuer) that the obligations of the Subsidiary in respect of the Trust Deed, the Notes and Coupons shall be unconditionally and irrevocably guaranteed by the Issuer or such Successor in Business in such form as the Trustee may require and provided further that the obligations of such Substituted Entity and any such guarantee shall be subordinated on a basis considered by the Trustee to be equivalent to that in respect of the Issuer's obligations in respect of the Notes and Coupons.

Where the Substituted Entity is a Subsidiary of the Issuer, the Issuer shall effect any Conversions of Notes in respect of which a Conversion Trigger Notice has been given and shall issue the PPDS in accordance with these Conditions. Where the Substituted Entity is a Successor in Business of the Issuer or a Subsidiary of a Successor in Business of the Issuer, these Conditions will be amended, with such consequential amendments to these Conditions and the Trust Deed as may be required in

order to reflect the Substituted Entity's corporate status (any change to the terms and conditions of the Notes pursuant to this Condition 11(c) not requiring the consent of the Trustee or the Noteholders) and the Substituted Entity shall comply with Condition 11(d) as if such Substituted Entity is a Successor Building Society or a Successor Entity, as the case may be, and references to "Successor Building Society" and "Successor Entity" in Condition 11(d) shall be construed accordingly.

**(d) Occurrence of a Building Society Succession Event or a Company Succession Event**

If the Issuer shall amalgamate with one or more other building societies pursuant to Section 93 of the Act or transfer its engagements to another building society pursuant to Section 94 of the Act or propose to transfer the whole of its business to a successor in accordance with Section 97 and other applicable provisions of the Act the successor will upon such transfer, pursuant to such provisions, forthwith automatically be substituted in place of the Issuer as principal debtor under the Trust Deed, the Notes and Coupons, as further described in Condition 11(d)(i) and 11(d)(ii) below, without any prior approval thereof being required from the Noteholders, Couponholders or the Trustee.

**(i) Building Society Succession Event**

Upon the occurrence of a Building Society Succession Event, the Notes shall become convertible capital notes of the Successor Building Society having the same terms as the Notes (including terms relating to Conversion), save that they will be convertible into Successor PPDS. The terms and conditions of the Successor PPDS shall:

- (a) be:
  - (I) such as to secure that, subject to Relevant Supervisory Consent, they will be treated as core tier 1 capital or its equivalent (if any) for the purposes of Applicable Regulatory Capital Requirements; and, subject thereto
  - (II) in all material respects identical to the Conditions of Issue of the PPDS, except as provided in this Condition 11(d); and
- (b) no later than the time at which notice is given to members of the Issuer of resolutions to be proposed to approve such amalgamation or transfer, be available for inspection by Noteholders during usual business hours at the principal office of the Issuer and at the specified office of any Paying and Conversion Agent.

The individual profit participation percentage applicable to each of the Successor PPDS shall be reduced to the New Individual Profit Participation Percentage as confirmed in a report by an Independent Investment Bank, all as set out in the "Conditions of Issue of the PPDS".

**(ii) Company Succession Event**

Upon the occurrence of a Company Succession Event, the Notes shall become convertible capital notes (the "**Successor Notes**") of the Successor Entity having the same terms as the Notes (including, save as referred to below, terms relating to Conversion), save that they will be convertible into Successor Securities having an aggregate market value, as confirmed by an independent financial institution of international repute selected by the Issuer, equal to the aggregate market value of the Successor Notes so converted.

In the case of a Company Succession Event, the Successor Entity shall make such changes to the terms and conditions of the Successor Notes as it deems necessary to reflect the fact that the Successor Notes will be convertible into Successor Securities as opposed to PPDS, without the consent of the Noteholders or the Trustee.

**(e) Entitlement of the Trustee**

In connection with the exercise by it of any of its trusts, powers or discretions (including, but without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

The Trustee shall not be under any duty or responsibility in respect of any amendment or change in the Conditions of Issue of the PPDS or of the Issuer's obligations to comply with Condition 11(d)(i) or 11(d)(ii) and the Trustee shall be entitled to call for and (without further enquiry) rely on a certificate signed by two Authorised Signatories of the Issuer to the effect that any such amendment or change, or amendment or change pursuant to Condition 11(c), is required or necessary for the purposes of the relevant Condition and any such certificate shall be binding on the Noteholders.

**12 Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Noteholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether or not their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

**13 Replacement of Notes, Coupons and Talons**

If a Note, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Principal Paying and Conversion Agent or such other Paying and Conversion Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Coupon or Talon is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes or Coupons) and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

**14 Further Issues**

The Issuer may, from time to time, without the consent of the Noteholders or Couponholders, create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such

terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

If, prior to the conversion of the Notes, the Issuer issues further securities with a right to convert into core tier 1 capital with a right to participate in a percentage of the profits of the Issuer, or securities with a right to participate in a percentage of the profits of the Issuer, such other securities (the “**Further Securities**”) may have their own separate participation percentage and, subject as provided below, the participation percentage of the PPDS, once determined in accordance with the “Conditions of Issue of the PPDS”, and the related dividend entitlement with respect to such PPDS, shall not be reduced.

However, if:

- (a) the Issuer issues Further Securities pursuant to a re-capitalisation of the Issuer in order to comply with any Applicable Regulatory Capital Requirement or other requirement of, or to meet individual capital guidance provided by, a Supervisory Authority; and
- (b) the terms of the Further Securities are such that the aggregate of the participation percentage of the PPDS into which the Notes may convert, once determined in accordance with the provisions of the “Conditions of Issue of the PPDS”, and the participation percentages of all the other Further Securities immediately following the issue of the PPDS would amount to more than 100%,

the Issuer may (provided that it makes corresponding proportionate reductions in the participation percentage of the PPDS into which the Notes may convert and in the participation percentages of Further Securities already in issue) reduce the participation percentage of the PPDS into which the Notes may convert, once determined in accordance with the provisions of the “Conditions of Issue of the PPDS”, to such level as would (when taken together with all other such reductions relating to any Further Securities) reduce to 100 per cent. the aggregate of the participation percentage of the PPDS into which the Notes may convert and the participation percentages of all Further Securities.

The Trustee shall not be under any duty or responsibility in respect of any amendment or change in the terms and conditions of the Further Securities or the Conditions of Issue of the PPDS or of the Issuer’s obligations to comply with this Condition 14.

## **15 Notices**

Notices to Noteholders shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). If, in the opinion of the Trustee, any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Notes in accordance with this Condition 15.

## **16 Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

## 17 **Definitions**

“**Accrued Conversion Interest**” means, in the case of the Conversion of the Notes, interest accrued on the Notes from (and including) the Interest Payment Date immediately preceding the Conversion Date (or, if none, from the Issue Date) to (but excluding) the Conversion Date;

“**Act**” means the Building Societies Act 1986, as amended;

“**Additional Amounts**” has the meaning given to it in Condition 8;

“**Applicable Regulatory Capital Requirements**” has the meaning given to it in the “Conditions of Issue of the PPDS”;

“**Authorised Signatory**” means a director or the company secretary of the Issuer;

“**Bank**” means a bank in London;

“**Building Society Succession Event**” means an amalgamation of the Issuer with, or transfer of the whole of the engagements of the Issuer (or a part of the engagements of the Issuer which includes the Notes) to another building society pursuant to Sections 93 or 94 of the Act;

“**business day**” means, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in that place;

“**Calculation Date**” means (i) any date to which the Issuer prepares its annual audited accounts, (ii) any date falling six months after a date to which the Issuer prepares its annual audited accounts, and (iii) any date on which the Issuer, at its discretion, undertakes a calculation of the Issuer’s Consolidated Core Tier 1 Ratio;

a “**Capital Disqualification Event**” is deemed to have occurred (1) if, at any time the Issuer is required under Applicable Regulatory Capital Requirements to have regulatory capital and as a result of any changes after 22 January 2010 to the Applicable Regulatory Capital Requirements or any change in the interpretation or application thereof by the Supervisory Authority, the Notes would no longer be eligible to qualify in whole or in part (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) for inclusion in the Lower Tier 2 Capital of the Issuer on a consolidated basis; or (2) if as a result of any changes after 22 January 2010 to the Applicable Regulatory Capital Requirements or any change in the interpretation or application thereof by the Supervisory Authority, the Notes (or the PPDS arising on Conversion thereof) shall cease to be taken into account in whole or in part (save where this is only as a result of any applicable limitation on the amount that may be so taken into account) for the purposes of any “stress test” applied by the Supervisory Authority in respect of the Consolidated Core Tier 1 Ratio of the Issuer and the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories stating that the Supervisory Authority have informed the Issuer of such change in the interpretation or application of the Applicable Regulatory Capital Requirements and that a Capital Disqualification Event has occurred and the Trustee shall be entitled to rely on any such certificate without further enquiry and such certificate shall be binding on the Noteholders;

“**Company Succession Event**” means the transfer of the whole of the business of the Issuer to a company under Section 97 of the Act (including but not limited to a transfer to a subsidiary of a mutual society as referred to in the Mutual Societies Transfer Act);

“**Conditions of issue of the PPDS**” means the conditions set out in Schedule 5 of the Trust Deed;

“**Consolidated Core Tier 1 Ratio**” means the ratio of the Core Tier 1 Capital of the Issuer to the Risk Weighted Assets of the Issuer, calculated in each case on a consolidated basis, expressed as a percentage;

“**Conversion**” means the conversion of the Notes into PPDS pursuant to these Conditions, and “**convert**” and “**converted**” shall be construed accordingly;

“**Conversion Date**” means the date specified as such in the relevant Conversion Trigger Notice;

“**Conversion Notice**” means a notice in the form for the time being available from the specified office of any Paying and Conversion Agent and which is required to be delivered in connection with a Conversion of the Notes;

“**Conversion Trigger**” has the meaning given to it in Condition 5(a);

“**Conversion Trigger Notice**” has the meaning given to it in Condition 5(a);

“**Core Tier 1 Capital**” means core tier 1 capital calculated in accordance with the FSA's General Prudential Sourcebook (as supplemented by any published statement or guidance given by the FSA), as in effect and applied on 1 May 2009, on a consolidated basis in accordance with Chapter 8 of the FSA's Prudential Sourcebook for Banks, Building Societies and Investment Firms (or any rules made in replacement thereof by a successor Supervisory Authority) as in effect and applied at the relevant time;

“**core tier 1 capital**” means core tier 1 capital calculated in accordance with the FSA's General Prudential Sourcebook (as supplemented by any published statement or guidance given by the FSA) on a consolidated basis in accordance with Chapter 8 of the FSA's Prudential Sourcebook for Banks, Building Societies and Investment Firms (or any rules made in replacement thereof by a successor Supervisory Authority), in each case as in effect and applied at the relevant time;

“**Deferred Shares**” means deferred shares within the meaning of Section 119 of the Act;

“**EEA Regulated Market**” means a market as defined by Article 4.1(14) of Directive 2004/39/EC of the European Parliament and of the Council on markets on financial instruments;

“**Event of Default**” has the meaning given to it in Condition 10(iii);

“**Extraordinary Resolution**” has the meaning given to it in the Trust Deed;

“**Further Securities**” shall have the meaning given to it in Condition 14;

“**FSA**” or “**Financial Services Authority**” means the Financial Services Authority in the United Kingdom;

“**Independent Investment Bank**” has the meaning given to it in the “Conditions of Issue of the PPDS”;

“**Interest Payment Date**” has the meaning given to it in Condition 4;

“**Issue Date**” means 1 April 2010;

“**Issuer**” includes, following any Building Society Succession Event, a Successor Building Society or following any Company Succession Event, a Successor Entity;

“**Lower Tier 2 Capital**” has the meaning given to it by the Supervisory Authority from time to time;

“**Maturity Date**” means 1 April 2025;

“**Mutual Societies Transfers Act**” means the Buildings Societies (Funding) and Mutual Societies (Transfers) Act 2007;

“**New Individual Profit Participation Percentage**” has the meaning given to it in the “Conditions of Issue of the PPDS”

“**Noteholder**” means the bearer of any Note and “**holder**” (in relation to a Note, Coupon or Talon) means the bearer of any Note, Coupon or Talon;

“**Notice Cut-off Date**” has the meaning given to it in Condition 5(c);

“**outstanding**” has the meaning given to it in the Trust Deed;

“**PPDS**” means Profit Participating Deferred Shares of the Issuer to be issued upon Conversion, the special conditions of which are set out in the “Conditions of Issue of the PPDS”;

“**PPDS Register**” means the records of the Issuer maintained for the purposes of the PPDS, and constituting a “PIBS Register” for the purposes of the rules of the Issuer;

“**Recognised Stock Exchange**” means an EEA Regulated Market or another regulated, regularly operating, recognised stock exchange or securities market in an OECD member state;

“**Relevant Date**” in respect of any payment on any Note or Coupon, means the date on which such payment first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount required to be paid is made or where presentation is required pursuant to the Conditions, (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation;

“**Relevant Person**” has the meaning given to it in Condition 5(c);

“**Relevant Supervisory Consent**” has the meaning given to it in the “Conditions of Issue of the PPDS”;

“**Risk Weighted Assets**” means the risk weighted assets of the Issuer calculated on a consolidated basis in accordance with the FSA’s Prudential Sourcebook for Banks, Building Societies and Investment Firms from time to time in force;

“**Senior Creditors**” means:

- (i) depositors and other creditors of the Issuer (including persons who become holders of deposits pursuant to Section 100 of the Act if the Issuer transfers its business to a successor pursuant to Section 97 of the Act) but not including creditors (if any) whose claims rank or are expressed to rank *pari passu* with or junior to the claims of the Noteholders, the Couponholders or creditors with whose claims the Notes or the Coupons rank or are expressed to rank *pari passu* (whether only in the event of a winding-up of the Issuer or otherwise); and
- (ii) (but only while the Issuer remains a building society) all members holding shares in the Issuer as regards the principal of their shares in the Issuer and any interest due in respect of those shares (other than members holding Deferred Shares whose claims rank or are expressed to rank *pari passu* with or junior to the claims of the Noteholders and Couponholders (whether only in the event of a winding-up of the Issuer or otherwise));

“**Settlement Date**” means the 15<sup>th</sup> London business day following the relevant Conversion Date;

“**Subsidiary**” has the meaning provided in Section 1159 of the Companies Act 2006;

“**Substituted Entity**” has the meaning given in Condition 11(c);

“**Successor Building Society**” means a successor entity referred to in a Building Society Succession Event;

“**Successor Entity**” means the successor entity referred to in a Company Succession Event;

“**Successor in Business**” has the meaning given to it in the Trust Deed;

“**Successor Notes**” has the meaning given to it in Condition 11(d)(ii);

“**Successor PPDS**” means profit participating deferred shares in the Successor Building Society, as such term is defined in the “Conditions of Issue of the PPDS”;

“**Successor Securities**” means:

- (i) ordinary shares in the Successor Entity, ranking *pari passu* in all respects with the then existing ordinary shares of the Successor Entity; or

- (ii) other securities issued either directly or indirectly by the Successor Entity whose terms and conditions shall be such as to secure that, subject to Relevant Supervisory Consent, they will be treated as core tier 1 capital or its equivalent (if any) for the purposes of Applicable Regulatory Capital Requirements; or
- (iii) securities issued by any body corporate of which the Successor Entity is a subsidiary in circumstances where that body corporate makes or procures the making of a contribution of capital, of an equivalent value to the Successor Securities, to the Successor Entity which will, subject to relevant supervisory consent, be treated as core tier 1 capital or its equivalent (if any) of the Successor Entity for the purposes of Applicable Regulatory Capital Requirements,

in each case as the Issuer may determine subject to relevant supervisory consent of the Supervisory Authority, provided that if a Successor Entity is a body corporate that is incorporated in an OECD member state and has ordinary shares listed on a Recognised Stock Exchange, the Successor Securities shall be ordinary shares in such Successor Entity. In the case of paragraphs (ii) and (iii), the terms and conditions of any Successor Securities shall be made available by the Issuer for inspection by Noteholders during usual business hours at the principal office of the Issuer and at the specified office of any Paying and Conversion Agent as soon as reasonably practicable following the Company Successor Event;

“**Supervisory Authority**” has the meaning given to it in the “Conditions of Issue of the PPDS”;

a “**Tax Event**” is deemed to have occurred if:

- (i) as a result of a Tax Law Change, in making any payments on the Notes, the Issuer has paid or will or would on the next payment date be required to pay Additional Amounts and the Issuer cannot avoid the foregoing by taking measures reasonably available to it; or
- (ii) as a result of a Tax Law Change (x) the Issuer would not or there is more than an insubstantial risk that the Issuer would not be entitled to a deduction in computing its taxation liabilities in the United Kingdom in respect of all or any part of its financing expense as recognised for accounting purposes in relation to the Notes, or (y) the Issuer would not be entitled to have all or any part of any loss resulting from such deduction being taken into account in computing its taxation liabilities set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at the Issue Date or any similar system or systems having like effect as may from time to time exist), and in each such case the Issuer cannot avoid the foregoing in connection with the Notes by taking measures reasonably available to it; and

“**Tax Law Change**” means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom, or any political subdivision or authority therein or thereof, having the power to tax, including any treaty to which the United Kingdom is a party, or any change in any generally published application or interpretation of such laws, including a decision of any court or tribunal, or any change in the generally published application or interpretation of such laws by any relevant tax authority or any generally published pronouncement by any tax authority, which change, amendment or pronouncement (x) (subject to (y)) becomes, or would become, effective on or after 22 January 2010, or (y) 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 United Kingdom Act of Parliament or by Statutory Instrument, on or after 22 January 2010 (unless, in the case of either (x) or (y), such change or proposed change was announced before 22 January 2010).

References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such statutory modification or re-enactment.

Unless the context otherwise requires, references to “**interest**” shall be deemed to include any Accrued Conversion Interest.

## **18 Governing Law and Jurisdiction**

### **(a) Governing Law**

The Trust Deed, the Notes, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

### **(b) Jurisdiction**

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Trust Deed or any Notes, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or any Notes, Coupons or Talons (“**Proceedings**”) may be brought in such courts.

## CONDITIONS OF ISSUE OF THE PPDS

*The following are the special conditions of issue of the PPDS in the form in which they will appear on the reverse of each PPDS Certificate:*

The PPDS (as defined below) are issued subject to, and with the benefit of, these special conditions of issue (the “**Conditions**”, and each a “**Condition**”).

### 1 General

- 1.1 The "**Society**" means Yorkshire Building Society and, following any amalgamation under section 93 of the Act or a transfer under section 94 of the Act as described in Condition 8.1, shall extend to any Transferee Society.
- 1.2 "**PPDS**" means the 200,000 Profit Participating Deferred Shares of the Society having a nominal amount of £500 each (subject to any increase or decrease in accordance with these Conditions).
- 1.3 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.
- 1.4 PPDS holders are entitled to the benefit of, are bound by, and are deemed to have notice of, the Rules. In the event of any conflict between the Rules and these Conditions, these Conditions shall prevail.
- 1.5 The PPDS:
  - (a) **are deferred shares for the purposes of section 119 of the Act;**
  - (b) are classified for the purposes of the Rules as permanent interest bearing Shares;
  - (c) **are not protected deposits for the purposes of the Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000;** and
  - (d) are not withdrawable.
- 1.6 The PPDS may be held jointly by up to four Persons.
- 1.7 The PPDS rank *pari passu* in a Winding-up or Dissolution with any other deferred shares (including permanent interest bearing shares) issued or to be issued by the Society.
- 1.8 Rights to Conversion Benefits to which a PPDS holder may become entitled by reason of its holding of PPDS 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 PPDS holder is a Member of the Society other than by reason of its holding of PPDS and has made a declaration to assign any Conversion Benefits to a charity, that assignment declaration shall not apply to Conversion Benefits derived from its holding of PPDS. If there is a conflict between these Conditions and any other provisions for the assignment of Conversion Benefits derived from PPDS held by any PPDS holder, whenever the assignment of Conversion Benefits is made, these Conditions shall prevail. For these purposes “**Conversion Benefits**” shall mean any benefits which a Person has a right to receive as a Shareholding Member under the terms of any transfer of the Society's business to a company under section 97 of the Act and the term “**Society**” shall extend to any mutual society which is a holding company of a Successor Entity for the purposes of the Mutuals Transfer Act.

1.9 The definitions in Condition 19 shall apply in these Conditions.

## **2 Form, transfer and title**

2.1 The PPDS are in registered form and are transferable in accordance with the Rules and these Conditions in integral multiples of one PPDS.

2.2 No legal transfer of a PPDS shall be valid unless made in the form endorsed on the PPDS Certificate or in such other form as the Board may agree, which form shall be presented to the Registrar. Such form shall include a confirmation, if necessary to enable the Society to determine whether or not it can lawfully make payments of dividends to such PPDS holder free and clear of any deduction or withholding for or on account of Taxes (as defined herein) in the United Kingdom, as to whether or not the beneficial owner (or any of them) immediately following transfer is an individual or a Scottish partnership in which all of the partners are individuals or a personal representative acting in that capacity or a trustee of a discretionary or accumulation settlement as defined in section 873 of the Income Tax Act 2007 acting in that capacity.

2.3 If a PPDS holder shall fail to pay any capital, stamp, issue, registration or transfer taxes and duties arising on transfer of the PPDS, the Registrar, at its sole discretion, may refuse to register such transfer. Legal title to the PPDS will pass upon registration in the PPDS Register of a transfer made in accordance with these Conditions.

## **3 PPDS Register**

3.1 The Society shall procure that the PPDS Register, in which shall be entered the name and address of each PPDS holder, is maintained in accordance with these Conditions and in accordance with those provisions of the Rules relating to a "PIBS Register". Each PPDS holder shall notify the Registrar immediately of any change in its name or address and shall produce such evidence of change of name or address as the Registrar may reasonably require.

3.2 Transfers and other documents or instructions relating to, or affecting the title of, any PPDS shall be recorded in the PPDS Register. No charge shall be made in respect of any entry in the PPDS Register. The PPDS Register shall be maintained at the Principal Office or at such other place as the Society and the Registrar shall agree and notify to the PPDS holders. The PPDS Register may be closed for such periods (not exceeding 14 days in any year) as the Board may specify.

3.3 A Person claiming to be entitled to be a PPDS holder (or one of a number of joint holders of a PPDS) shall, if required by the Registrar or the Society, provide the Registrar with a written certificate containing such instructions and other information (including information relating to the capacity in which it holds the PPDS) as the Society and/or the Registrar may reasonably require to satisfy themselves that such Person should be entered in the PPDS Register as the holder (or one of a number of joint holders) of the relevant PPDS and to complete, execute and deliver a PPDS Certificate to such person.

3.4 Subject to Condition 3.3, the Society shall procure that the Registrar shall, on behalf of the Society, issue a PPDS Certificate in respect of each holding of all PPDS held by each PPDS holder (or, in the case of a joint holding of PPDS, the first named holder, but indicating on the PPDS Certificate the names of all such joint PPDS holders) within 30 days after the date of the relevant registration of any transfer or request for a PPDS Certificate.

- 3.5 The Society shall procure that, forthwith after each occasion on which the Nominal Amount is increased or decreased in accordance with Condition 8, there shall be endorsed on the PPDS Register (by the time stipulated in Condition 8.8):
- (a) the amount of any increase or decrease in the Nominal Amount of the PPDS held by each PPDS holder;
  - (b) the date of any such increase or decrease; and
  - (c) the Nominal Amount of the PPDS held by each PPDS holder immediately after such increase or decrease.

#### **4 Dividends**

- 4.1 The PPDS shall entitle the holders thereof to dividends declared in accordance with these Conditions.
- 4.2 The Board may declare dividends in respect of the PPDS in respect of any Financial Year in such amounts as the Board may determine in its sole and absolute discretion, subject to the other provisions of this Condition 4.
- 4.3 The aggregate amount of dividends declared by the Board in respect of the PPDS in respect of any Financial Year shall be such amount as the Board may determine in its sole and absolute discretion at the time when the Board approves the Relevant Accounts in respect of such Financial Year, but not in any event exceeding in aggregate the Available Dividend Amount in respect of such Financial Year.
- 4.4 No dividend shall be declared or paid in respect of the PPDS in respect of any Financial Year if at the relevant time (and after the making of any debit or credit to the PPDS Reserve Account required in respect of that Financial Year in accordance with Conditions 5.2 or 5.3) the balance on the PPDS Reserve Account is or would following such declaration and payment be less than zero.
- 4.5 Dividends on the PPDS are non-cumulative. If no dividend is declared in respect of the PPDS in respect of any Financial Year or the aggregate dividends declared in respect of the PPDS in respect of any Financial Year are less than the Available Dividend Amount in respect of such Financial Year, the PPDS holders shall not have any right to any dividend in respect of their PPDS in respect of that Financial Year other than the actual amount of any dividend declared in respect of the PPDS in respect of that Financial Year in accordance with these Conditions.
- 4.6 The amounts of the Net Profits or Net Losses and Available Dividend Amount in respect of any Financial Year shall be those amounts set out in a report from the Auditors addressed to the Society for the purpose of this Condition 4. The amounts of Net Profits or Net Losses shall be determined by reference to the consolidated income statement in the Relevant Accounts in respect of such Financial Year.
- 4.7 Any dividend declared in respect of the PPDS shall be paid not later than 7 days after the date on which the Society holds its Annual General Meeting or Extraordinary General Meeting, as the case may be, at which the Relevant Accounts in respect of the relevant Financial Year are laid before Members.
- 4.8 Only PPDS which are in issue on the last Business Day of that Financial Year shall be entitled to receive any dividend payable in respect of that Financial Year. All dividends in respect of the PPDS shall be declared and payable to the PPDS holders *pro rata* according to the number of PPDS held by them on the Record Date. If the PPDS are initially issued on a date other than the first day of the relevant Financial Year, the Available Dividend Amount will be multiplied by a fraction, the numerator

of which will be the number of days for which the PPDS are in issue in the relevant Financial Year and the denominator of which shall be 365 (or, if the relevant year is a leap year, 366).

- 4.9 No dividend or other money payable in respect of a PPDS shall bear interest against the Society. Any amount payable by the Society in respect of a PPDS in respect of which no cheque or warrant has been cashed and no payment claimed shall cease to be payable and revert to the Society 12 years from the due date.

## **5 PPDS Reserve Account**

- 5.1 The Society shall maintain a PPDS Reserve Account to which there shall be debited and credited the amounts described below in respect of each Financial Year. The PPDS Reserve Account may have a positive or negative balance.
- 5.2 If there are Net Profits in respect of any Financial Year, an amount equal to the Participation Percentage of the Net Profits in respect of that Financial Year shall be credited to the PPDS Reserve Account. If the PPDS are initially issued on a date other than the first day of the relevant Financial Year, the amount of Net Profits to be credited to the PPDS Reserve Account will be multiplied by a fraction, the numerator of which will be the number of days for which the PPDS are in issue in the relevant Financial Year and the denominator of which shall be 365 (or, if the relevant year is also a leap year, 366).
- 5.3 If there are Net Losses in respect of any Financial Year, an amount equal to the Participation Percentage of the Net Losses in respect of that Financial Year shall be debited to the PPDS Reserve Account. If the PPDS are initially issued on a date other than the first day of the relevant Financial Year, the amount of Net Losses to be debited to the PPDS Reserve Account will be multiplied by a fraction, the numerator of which will be the number of days for which the PPDS are in issue in the relevant Financial Year and the denominator of which shall be 365 (or, if the relevant year is also a leap year, 366).
- 5.4 Following the making of any debit or credit to the PPDS Reserve Account in respect of any Financial Year which is required by Condition 5.2 or 5.3, there shall be also debited to the PPDS Reserve Account the aggregate amount of any dividend declared and payable in respect of the PPDS in respect of that Financial Year.
- 5.5 Subject to Condition 5.7, relevant credits and debits to the PPDS Reserve Account shall be made on the Determination Date.
- 5.6 Any increase or decrease in the aggregate Nominal Amount of the PPDS made in accordance with these Conditions shall be effected *pro rata* in relation to each PPDS.
- 5.7 If any dividend is declared but not subsequently paid by its due date, the debits made to the PPDS Reserve Account in respect of such dividend shall be ignored for all purposes of these Conditions until and to the extent that that dividend is subsequently paid, whereupon this Condition 5.7 shall no longer have effect to that extent.

## **6 Repayment and Purchase**

- 6.1 The PPDS constitute permanent non-withdrawable deferred shares in the Society and have no specified maturity. The PPDS will become repayable only as provided in Condition 6.2.
- 6.2 The PPDS will become repayable on the Dissolution Date, but only if and subject to the condition that all sums due from the Society

- (a) to creditors (including subordinated creditors) of the Society; and
- (b) to Shareholding Members (other than holders of deferred shares in that capacity) as regards the principal and interest due in respect of their Shares,

have been paid in full.

6.3 The claim of PPDS holders in respect of the PPDS upon a Winding-up or Dissolution, which shall be shared *pro rata* in respect of each PPDS, will be for:

- (a) any dividends on the PPDS which have been declared in accordance with these Conditions but which have not been paid, and
- (b) the aggregate Nominal Amount of the PPDS for the time being in issue less the amount, if any, of any negative balance on the PPDS Reserve Account at the Dissolution Date,

and PPDS holders will not be entitled to any further participation in respect of their PPDS in any final surplus upon a Winding-up or Dissolution.

6.4 The Society or a wholly-owned subsidiary of the Society may, having obtained prior Relevant Supervisory Consent, by agreement with the relevant PPDS holder, purchase any of the PPDS at any price and on such other terms as may be agreed with the relevant PPDS holder.

6.5 All PPDS purchased by the Society shall be cancelled forthwith and may not be reissued.

## **7 Payments**

7.1 All payments by the Society in respect of the PPDS will be made by sterling cheque or warrant drawn on a bank or building society in the United Kingdom and posted on the Business Day immediately preceding the relevant due date to the PPDS holder appearing in the PPDS Register at the close of business on the Record Date at his address shown in the PPDS Register on the Record Date. Every cheque or warrant shall be made payable to the order of the Person or Persons entitled or to such other Person as the Person or Persons entitled may in writing direct and payment of the cheque or warrant shall be a good discharge to the Society. Any joint holder or other Person jointly entitled to receive payment as aforesaid may give receipts for any dividend or other amount payable in respect of the PPDS.

7.2 Upon application of the PPDS holder to the Society, in the form for the time being prescribed by the Society, any payment in respect of any PPDS may be made by transfer on the due date to a sterling account maintained by the payee with a bank or building society in the United Kingdom which has been notified to the Society not less than ten days before the due date for payment.

7.3 Subject to Condition 7.4, all payments in respect of the PPDS 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.

7.4 In making any payment in respect of any PPDS, in the event that the Society is not satisfied that it has information sufficient to enable it to determine whether it can lawfully make such payment without deduction or withholding for or on account of Taxes, including information as to the capacity in which a PPDS holder holds the PPDS and the residence or tax status of the persons who are beneficially entitled to the payments on the PPDS (and the capacity in which they hold such beneficial interests),

then the Society will be entitled upon giving the relevant Noteholder reasonable notice in advance of the due date of such payment to request such information as it reasonably requires for such purpose and to make payment to that holder subject to deduction or withholding for or on account of Taxes at the maximum rate that is required by law.

## **8 Succession and transfers**

8.1 If the Society amalgamates with another building society under section 93 of the Act or transfers the whole (or a part containing the PPDS) of the engagements of the Society to another building society under section 94 of the Act (in each case such other building society being the "**Transferee Society**"):

- (a) the PPDS (other than any PPDS held by the Transferee Society, which shall be cancelled at the Transaction Time) shall become profit participating deferred shares in the Transferee Society on the following terms of this Condition 8;
- (b) immediately prior to the Transaction Time the aggregate Nominal Amount of the PPDS shall be:
  - (i) increased by the capitalisation of the amount (if any) standing to the credit of the PPDS Reserve Account (after taking account of any adjustments required by virtue of Condition 8.7) and the application thereof in paying up a further amount on the PPDS; or
  - (ii) decreased by the amount (if any) by which the balance on the PPDS Reserve Account (after taking account of any adjustments required by virtue of Condition 8.7) is less than zero,

and any such increase or decrease shall take effect *pro rata* in relation to each PPDS, save that the Nominal Amount of each PPDS will not be reduced to less than one pence;

- (c) accordingly the profit participating deferred shares in the Transferee Society held by each PPDS holder as a consequence of such amalgamation or transfer will be in a nominal amount as increased or decreased by the operation of the preceding provisions of this Condition 8.1, and that nominal amount shall be the original nominal amount of those profit participating deferred shares in the Transferee Society; and
- (d) the terms and conditions of the profit participating deferred shares in the Transferee Society shall:
  - (i) be:
    - (A) such as to secure that, subject to Relevant Supervisory Consent, they will be treated as Core Tier 1 Capital or its equivalent (if any) for the purposes of Applicable Regulatory Capital Requirements; and, subject thereto
    - (B) in all material respects identical to the terms of the PPDS, except as provided in this Condition 8.1 and Condition 8.2; and
  - (ii) no later than the time at which notice is given to Members of resolutions to be proposed to approve such amalgamation or transfer, be available for inspection by PPDS holders during usual business hours at the Principal Office and, if different, at the specified office of the Registrar.

- 8.2 The individual profit participation percentage applicable to each of the profit participating deferred shares in the Transferee Society shall be reduced to the New Individual Profit Participation Percentage as confirmed in a Report by an Independent Investment Bank.
- 8.3 Upon a transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company (a "**Successor Entity**", which expression includes a subsidiary of a mutual society as referred to in the Mutuels Transfers Act) the Successor Entity will, in accordance with section 100(2)(a) of the Act, as from the Transaction Time, assume a liability (subject to this Condition 8) to each qualifying Member of the Society in respect of a deposit made with the Successor Entity corresponding in amount to the value of the qualifying Shares held by such Member in the Society. The liability so assumed by the Successor Entity in respect of each PPDS shall be their Nominal Amount, determined on the basis that:
- (a) immediately prior to the Transaction Time, the aggregate Nominal Amount of the PPDS shall be:
    - (i) increased by the capitalisation of the amount (if any) standing to the credit of the PPDS Reserve Account (after taking account of any adjustments required by virtue of Condition 8.7) and the application thereof in paying up a further amount on the PPDS; or
    - (ii) decreased by the amount (if any) by which the balance on the PPDS Reserve Account (after taking account of any adjustments required by virtue of Condition 8.7) is less than zero,and any such increase or decrease shall take effect *pro rata* in relation to each PPDS, save that the Nominal Amount of each PPDS will not be reduced to less than one pence; and
  - (b) the liability so assumed to each PPDS holder as a consequence of such transfer will be in respect of a perpetual non-transferable subordinated deposit (a "**Deposit**") in an amount equal to the aggregate Nominal Amount of that PPDS holder's PPDS, as increased or decreased by the operation of the preceding provisions of this Condition 8.3.
- 8.4 Each Deposit will be applied at the Transaction Time (or as soon as reasonably practicable thereafter) on behalf of the relevant PPDS holder in the subscription or acquisition of Successor Securities. In this Condition 8.4 "**Successor Securities**" means:
- (a) ordinary shares in the Successor Entity, ranking *pari passu* in all respects with the then existing ordinary shares of the Successor Entity; or
  - (b) other securities issued either directly or indirectly by the Successor Entity whose terms and conditions shall be such as to secure that, subject to Relevant Supervisory Consent, they will be treated as Core Tier 1 Capital or its equivalent (if any) for the purposes of Applicable Regulatory Capital Requirements; or
  - (c) securities issued by any body corporate of which the Successor Entity is a subsidiary in circumstances where that body corporate makes or procures the making of a contribution of capital, of an equivalent value to the Successor Securities, to the Successor Entity which will, subject to Relevant Supervisory Consent, be treated as Core Tier 1 Capital or its equivalent (if any) of the Successor Entity for the purposes of Applicable Regulatory Capital Requirements,

in each case as the Board may determine subject to Relevant Supervisory Consent, provided that if the Successor Entity is a body corporate that is incorporated in an OECD member state and has ordinary shares listed on a Recognised Stock Exchange, the Successor Securities shall be ordinary shares in such Successor Entity. In the case of Condition 8.4(b) and (c), the terms and conditions of any Successor Securities shall, no later than the time at which notice is given to members of the Society of resolutions to be proposed to approve such transfer, be available for inspection by PPDS holders during usual business hours at the Society's Principal Office for the time being and, if different, at the specified office of the Registrar.

- 8.5 The aggregate number or amount of Successor Securities to be subscribed or acquired by the PPDS holders under Condition 8.4 shall be such as, in the determination of an Independent Investment Bank, have an aggregate market value immediately following such subscription or acquisition of an amount of as near as practicable to, but not less than, the aggregate Nominal Amount of the PPDS (as increased or decreased by the operation of Condition 8.3) held by the PPDS holders immediately prior to the Transaction Time.
- 8.6 Prior to a Transaction Time, the Society shall procure that unaudited interim accounts are prepared using accounting principles and practices consistent with those applied by the Society at the relevant time for the period from the commencement of that Financial Year up to the most recent practicable date prior to the Transaction Time (to be no later than 1 month prior to the Transaction Time), and that those interim accounts ("**Interim Accounts**") are reviewed, to then current interim report standard for the Society, by the Auditors and approved by the Board.
- 8.7 Following the preparation and review of any Interim Accounts:
- (a) the Board shall, when it approves the Interim Accounts, also determine in good faith:
    - (i) the amounts of the Net Profits, Net Losses and Available Dividend Amount in respect of that Financial Year, by reference to:
      - (A) the consolidated income statement in the Interim Accounts in respect of the period for which the Interim Accounts were prepared; and
      - (B) the Board's estimate of the likely Net Profits or Net Losses of the Society for the period between the date to which the Interim Accounts were prepared and the Transaction Time; and
    - (ii) whether or not to declare a dividend in respect of the PPDS in respect of that Financial Year;
  - (b) where the Board makes determinations under Condition 8.7(a)(i) or 8.7(a)(ii):
    - (i) Conditions 4.3 to 4.5 (inclusive), 4.8 and 4.9 and 16.1 shall apply thereto;
    - (ii) any dividend determined to be payable under Condition 8.7(a)(ii) shall be payable no later than 7 days after the date such dividend is declared; and
    - (iii) Conditions 5.2 to 5.7 (inclusive) shall apply thereto,modified so far as necessary in each case; and

- (c) the Society will make the Interim Accounts (including the Board's determinations under Condition 8.7) available for inspection by PPDS holders during usual business hours at the Principal Office and, if different, at the specified office of the Registrar, from the Business Day following their approval until the 90th Business Day after the Transaction Time. Copies of such Interim Accounts (including the Board's determinations under Condition 8.7) will be available to PPDS holders upon request.

8.8 The Society shall cause any increase or decrease in the Nominal Amount of the PPDS under Condition 8 to be notified to the Registrar, and the Registrar to endorse the PPDS Register accordingly in accordance with Condition 3.5, immediately prior to the relevant Transaction Time.

8.9 The Society undertakes to procure that it and any Transferee Society or Successor Entity will comply with this Condition 8 in relation to any Transaction.

## **9 Acquisitions of Mutual Societies**

9.1 This Condition 9 applies to the transfer:

- (a) to the Society of the whole or part of the engagements of another building society under section 94 of the Act or the Banking Act 2009; and
- (b) to a subsidiary of the Society of the business of another mutual society under the Mutuals Transfer Act,

or, in each case, pursuant to any similar legislation or any successor to any such legislation (each a "**Mutual Acquisition**").

9.2 The individual profit participation percentage applicable to each of the PPDS, with effect from the time any Mutual Acquisition takes effect, shall be the Mutual Acquisition Individual Profit Participation Percentage as confirmed in a Report by an Independent Investment Bank.

## **10 Further issues**

10.1 The Society shall be at liberty from time to time without the consent of the PPDS holders to create and issue:

- (a) other profit participating deferred shares either on conversion of convertible notes issued by the Society or otherwise; or
- (b) other deferred shares,

in each case upon such other special terms of issue as the Society may at the time of issue determine provided that the Society shall not issue any deferred shares (including for the avoidance of doubt profit participating deferred shares or permanent interest bearing shares) ranking ahead of the PPDS in a Winding Up or Dissolution.

10.2 If the Society issues further profit participating deferred shares or other Core Tier 1 Capital (or other securities which may convert into further profit participating deferred shares or other Core Tier 1 Capital ("**Contingent Capital**")) with a right to participate in a stated percentage of the profits of the Society ("**Further Capital**"), that Further Capital shall have its own separate participation percentage and, subject as provided in Condition 10.3, the Participation Percentage and the related dividend entitlement of the PPDS shall not be reduced by reason of such issue.

- 10.3 If:
- (a) the Society issues Further Capital pursuant to a re-capitalisation of the Society in order to comply with any Applicable Regulatory Capital Requirements or other requirement of, or to meet individual capital guidance provided by, a Supervisory Authority; and
  - (b) the terms of the Further Capital are such that the aggregate of the Participation Percentage of the PPDS and the participation percentages of all the Further Capital immediately following such issue would amount to more than 100 per cent,

the Society may, subject to Condition 10.4, but without any further sanction from the PPDS holders, with effect from the date of issue of the relevant Further Capital (or, in respect of any Contingent Capital, if later, the date of conversion) reduce the Participation Percentage of the PPDS to such level as would (when taken together with any other reductions) reduce to 100% the participation percentages of all the Further Capital immediately following such issue or such date of conversion, as the case may be, and the Participation Percentage of the PPDS.

- 10.4 The Society shall not reduce the Participation Percentage under Condition 10.3 unless it also makes corresponding proportionate reductions taking effect at the same time in the participation percentages of all Further Capital (other than that being issued pursuant to the recapitalisation or after the date of the recapitalisation).

## **11 Unclaimed interest**

Rule 48 (Sales of PIBS of untraceable holder) shall not apply to the PPDS.

## **12 Replacement of PPDS Certificates**

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

## **13 Variation of these Conditions**

- 13.1 These Conditions may only be varied by the Society with:

- (a) Relevant Supervisory Consent; and
- (b) the consent in writing of the holders of not less than three quarters of the number of PPDS for the time being in issue or with the sanction of a resolution passed at a separate meeting of the PPDS holders held in accordance with Condition 14.

- 13.2 These Conditions do not limit the rights of Members to change the Rules.

#### **14 Meetings of PPDS holders**

- 14.1 The Society alone may at any time convene a separate meeting of the PPDS holders. Every meeting shall be held at such time and place as the Society may specify.
- 14.2 At least 21 clear days' notice shall be given of a separate meeting of the PPDS holders. The notice shall specify the hour, date and place of the meeting, and shall be given to the PPDS holders entered in the PPDS Register at the close of business on the 35th day prior to the date specified for the meeting by sending it by post to their respective addresses as shown in the PPDS Register at that time. 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 vary these Conditions.
- 14.3 Any Person (who may, but need not, be a PPDS 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 PPDS holders present shall (by a show of hands by a simple majority) choose one of their number who is present to be chairman.
- 14.4 Subject to Condition 14.7, 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 number of PPDS for the time being in issue 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.
- 14.5 Every question submitted to the meeting (other than the choosing of a chairman) shall be taken on a poll and, in order to be passed, must be supported by one or more Persons present and holding PPDS or being proxies and representing (in each case as determined by the PPDS Register as at the latest practicable time) in aggregate not less than three quarters of the number of PPDS voting on that question.
- 14.6 At any meeting of the PPDS holders, every PPDS holder who is present in person or by proxy shall have one vote on a show of hands and on a poll every PPDS holder who is present in person or by proxy shall have one vote for every PPDS held.
- 14.7 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 to 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 PPDS holder or holders present in person or by proxy at the adjourned meeting shall be a quorum.
- 14.8 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.
- 14.9 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.
- 14.10 Notice of any adjourned meeting shall be given in the same manner as notice of an initial meeting but as if:
- (a) "10" were substituted for "21"; and

(b) "most recent practicable" were substituted for "35th",

in Condition 14.2.

14.11 Any director or officer of the Society and its professional advisers may attend and speak at any meeting of the PPDS holders. Save as provided in the preceding sentence, 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 PPDS holder or is a proxy thereof.

14.12 A PPDS holder entitled to attend a meeting of the PPDS holders:

(a) may appoint another Person (whether a PPDS holder or not), or two or more Persons in respect of PPDS on whose behalf the PPDS holder is holding the PPDS as his proxy to attend and 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 PPDS 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 duly executed by the appointer in the required manner, the appointment of the proxy shall be invalid. The instrument appointing a proxy or a representative shall be deposited at the Principal Office (or at such other place as the Board may approve) not less than 48 hours before the day appointed for holding the meeting, or adjourned meeting, and in default the instrument shall not be treated as valid.

14.13 The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll but 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 instrument of proxy was executed, or the transfer of a PPDS 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.

14.14 A corporation which is a PPDS holder may, by resolution of its directors or other governing body, authorise such person or persons as it thinks fit to act as its representative or representatives at any meeting of the PPDS holders. The corporation shall for the purposes of these Conditions be deemed to be present in person at any such meeting if a person so authorised is present at it. All references in these Conditions to attendance and voting in person shall, subject to the Act, be construed accordingly. A director of the Society, the Secretary or some other person authorised for the purpose by the Secretary may require the representative to produce a certified copy of the resolution so authorising him or such other evidence of his authority reasonably satisfactory to such person before permitting him to exercise his powers.

14.15 Any resolution passed at a meeting duly convened and held in accordance with these provisions shall be binding upon all the PPDS 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 PPDS holders shall be given in writing to each PPDS holder by the Society within 14 days of the passing of the resolution, provided that failure to give such notice shall not invalidate the resolution.

- 14.16 Minutes of all resolutions and proceedings at every meeting shall be made and duly entered by the Society 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 as provided in the minutes.
- 14.17 The accidental omission to send notice of a 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 meeting or any such document as aforesaid by, any Person entitled to receive notices or documents shall not invalidate the proceedings at that meeting.

## **15 Publication of information**

- 15.1 The Society shall:
- (a) procure that the amounts of the Net Profits or Net Losses, the Nominal Amount of the PPDS, the Available Dividend Amount, the amount of any dividends declared in respect of the PPDS and the amount of any increase or decrease in the PPDS Reserve Account in respect of each Financial Year are set out in the Relevant Accounts for that Financial Year; and
  - (b) display on its main corporate web site:
    - (i) details of the Nominal Amount for the time being and the aggregate amount of PPDS outstanding;
    - (ii) details of the balance (whether positive or negative) on the PPDS Reserve Account for the time being;
    - (iii) details of the Participation Percentage for the time being, and the dates and amounts of any adjustments thereto effected in accordance with these Conditions; and
    - (iv) for not less than 14 days' beforehand, details of each Record Date.

## **16 Obtaining, and reliance upon, Reports etc**

- 16.1 The Society undertakes to enter into all agreements and take such other steps as are necessary to give effect to the provisions of these Conditions, including, but not limited to:
- (a) instructing the Auditors to prepare and deliver any report required by Condition 4.6; and
  - (b) instructing any Independent Investment Bank to give any Report, and instructing the Auditors to review any Interim Accounts, for the purposes of Condition 8.
- 16.2 All reports, notifications, opinions, advice, determinations, estimates, certificates, calculations, quotations and decisions given, expressed or made by:
- (a) the Auditors for the purposes of Condition 4 or Condition 8.6 (each an "**Auditors' Report**");  
or

- (b) an Independent Investment Bank for the purposes of Condition 8 or by the Board under Condition 8.7(a) (each a "**Report**")

shall (in the absence of wilful default, bad faith or manifest error) be conclusive and binding on the Society, the Registrar and all PPDS holders and (in the absence as aforesaid) no liability shall attach to the Board or the person giving any such report or the exercise or non-exercise of such person's powers, duties and discretions in that regard. No Auditors or Independent Investment Bank shall owe any client duties to the holders of PPDS or securities in the Successor Entity or Transferee Society.

## 17 Listing

The PPDS will not be listed or capable of being listed on any recognised stock exchange as defined in section 1005 Income Tax Act 2007.

## 18 Notices

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

## 19 Definitions

For the purpose of these Conditions:

"**Act**" means the Building Societies Act 1986, as amended, from time to time, whether before or after the date on which any PPDS are issued.

"**Applicable Regulatory Capital Requirements**" means any requirements contained in Capital Regulations for the time being applicable to the Society.

"**Auditors**" means the auditors of the Society from time to time.

"**Auditors' Report**" has the meaning given in Condition 16.2.

"**Available Dividend Amount**" means in respect of any Financial Year an amount equal to the Net Profits for that Financial Year multiplied by the Participation Percentage or such lesser amount as would result in compliance with Condition 4.4.

"**Board**" means the board of directors of the Society or a duly authorised committee thereof.

"**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.

"**Capital Regulations**" means the rules and regulations of the Supervisory Authority in effect from time to time that require authorised persons to meet minimum capital adequacy requirements.

"**Core Tier 1 Capital**" means core tier 1 capital calculated in accordance with the FSA's General Prudential Sourcebook (as supplemented by any published statement or guidance given by the FSA) on a consolidated basis in accordance with Chapter 8 of the FSA's Prudential Sourcebook for Banks, Building Societies and Investment Firms (or any rules made in replacement thereof by a successor Supervisory Authority), in each case as in effect and applied at the relevant time.

"**deferred shares**" has the meaning given in the Act.

**"Determination Date"** means a date on which the Relevant Accounts in respect of the relevant Financial Year are approved by the Board (including any date upon which the Board approves any Interim Accounts under Condition 8.6).

**"Dissolution Date"** means the date that an instrument or order is made or an effective resolution is passed for a Winding-up or Dissolution.

**"EEA Regulated Market"** means a market as defined by Article 4.1(14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

**"Final Period"** means the financial period of the Society commencing on the day after the last day of the Financial Year before the Financial Year in which the Dissolution Date falls and ending on the Dissolution Date.

**"Financial Year"** means any financial year commencing after 31 December 2009, including any shorter period commencing after that date and ending on a Transaction Dissolution, but in each case excluding the Final Period.

**"FSA"** means the Financial Services Authority.

**"Independent Investment Bank"** means any independent financial institution of international repute appointed for the purposes of Condition 8.

**"Individual PPDS Profit Participation Percentage"** means the Maximum Profit Participation Percentage divided by 200,000.

**"Interim Accounts"** has the meaning given in Condition 8.6.

**"GENPRU"** means the General Prudential Sourcebook of the Supervisory Authority, as amended from time to time.

**"Maximum Profit Participation Percentage"** means the greater of (A) £100 million divided by the aggregate of (1) £100 million and (2) the amount of the Society's Core Tier 1 Capital (before, for the avoidance of doubt, the issue of the PPDS) as at the date upon which the Society's core tier 1 capital was calculated for the purposes of the conversion into PPDS of the Society's £100 million convertible tier 2 capital notes issued on 1 April 2010, expressed as a percentage and (B) 10%.

**"Mutual Acquisition Individual Profit Participation Percentage"** means, in relation to a Mutual Acquisition, the Individual Profit Participation Percentage multiplied by the amount of the Society's Core Tier 1 Capital immediately prior to the effective date of that Mutual Acquisition and divided by the amount of the Society's Core Tier 1 Capital immediately after the effective date of that Mutual Acquisition after taking into account any adjustments to such amount as a result of the Mutual Acquisition and after any bonus distribution made pursuant to the terms of the Mutual Acquisition.

**"Mutuals Transfers Act"** means the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, as amended from time to time, whether before or after the date on which any PPDS are issued.

**"Net Profits"** or **"Net Losses"** with respect to any Financial Year are the net profits, or, as the case may be, net losses of the Society and its subsidiaries during that Financial Year as set out in the audited report and accounts:

- (a) prior to any adjustment in respect of any dividends declared in respect of the PPDS and any associated tax provisions or payments;
- (b) prior to any adjustment in respect of any goodwill, including any release of negative goodwill to the income statement in that Financial Year, and any associated tax provisions or payments in respect of that goodwill;

- (c) after recognising any provision for interest in respect of any permanent interest bearing shares for the time being in issue and any associated tax provisions or payments;
- (d) after deducting any profits or losses attributable to minority interests;
- (e) ignoring any profit arising on the arrangements whereby the PPDS were issued by the Society pursuant to the conversion of the Society's convertible tier 2 capital notes (including associated hedging arrangements) and any associated tax provisions or payments; and
- (f) prior to any movements in the fair value of the embedded derivative relating to the PPDS option, any movement in the value of the Society's convertible tier 2 capital notes themselves (excluding accrued interest), and associated tax provisions or payments in respect of that Financial Year,

determined in accordance with these Conditions.

**"New Individual Profit Participation Percentage"** means, in relation to a Transaction, the Individual Profit Participation Percentage multiplied by the amount of the Society's Core Tier 1 Capital immediately prior to the Transaction Time and divided by the amount of the Transferee Society's Core Tier 1 Capital immediately after the Transaction Time and taking into account any adjustments to such amount as a result of the Transaction and after any bonus distribution made pursuant to the terms of the Transaction.

**"Nominal Amount"** means £500 per PPDS, being the nominal amount of a PPDS at the time of its issue.

**"Participation Percentage"** means (in respect of any Financial Year) the percentage produced by multiplying the number of PPDS in issue at the close of business on the last Business Day of that Financial Year by the Individual PPDS Profit Participation Percentage.

**"PPDS Certificate"** means a certificate representing a holding of PPDS made out in the form prescribed by the Society, and constituting a "PIBS Certificate" for the purposes of the Rules.

**"PPDS holder"** means a Person whose name and address is entered in the PPDS Register as the holder of PPDS or, in the case of a joint holding of PPDS, the first person whose name is entered in the PPDS Register in respect of the joint holding of the PPDS.

**"PPDS Register"** means the records of the Society maintained for the purposes of the PPDS, and constituting a "PIBS Register" for the purposes of the Rules.

**"Recognised Stock Exchange"** means an EEA Regulated Market or another regulated, regularly operating, recognised stock exchange or securities market in an OECD member state.

**"Record Date"** means in respect of any Financial Year and any dividend to be declared in respect of a Financial Year:

- (a) the 30th day after the end of the Financial Year; or
- (b) in the case of a dividend declared in accordance with Condition 8, the relevant Determination Date.

**"Registrar"** means the Society or such other Person as is appointed as registrar for the time being by the Society in respect of the PPDS.

**"Relevant Accounts"** means, with respect to any Financial Year, the Annual Accounts of the Society for that Financial Year and, where used pursuant to Condition 8, includes any Interim Accounts.

**"Relevant Supervisory Consent"** means consent to the relevant matter from the Supervisory Authority:

- (a) in the form of a waiver of the Applicable Regulatory Capital Requirements or other requirement; or
- (b) where a waiver is not required, in any other written form.

**"Report"** has the meaning given to it in Condition 16.2.

**"Secretary"** means the secretary of the Society or any other person appointed to perform any of the duties of the secretary of the Society including a joint, temporary, assistant or deputy secretary.

**"Successor Entity"** has the meaning given to it in Condition 8.3.

**"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 in the United Kingdom (so long as the Society remains a building society) or other authorised relevant persons in the United Kingdom (in the event that the Society transfers its business to a company pursuant to section 97 of the Act)).

**"Taxes"** has the meaning given in Condition 7.3.

**"Transaction"** means an amalgamation under section 93 of the Act or a transfer under section 94 of the Act as described in Condition 8.1 or a transfer under section 97 of the Act as described in Condition 8.3.

**"Transaction Dissolution"** means a dissolution of the Society under section 93(5), section 94(10), section 97(9) or section 97(10) of the Act.

**"Transaction Time"** means the time when any Transaction takes effect.

**"Transferee Society"** has the meaning given in Condition 8.1.

**"Winding-up or Dissolution"** means a winding-up or dissolution of the Society, other than a Transaction Dissolution.

## **20 Governing law**

The rights and obligations in respect of the PPDS and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

## **DESCRIPTION OF THE ISSUER**

The Issuer's principal office is at Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ, United Kingdom (telephone number: +44 (0) 1274 740740). The Issuer is regulated by the Financial Services Authority (the "FSA") and operates in accordance with the United Kingdom Building Societies Act 1986 (the "**Building Societies Act**") and the Issuer's memorandum and rules. It is an authorised building society within the meaning of the Building Societies Act and is registered with the FSA, Registered Number 66B.

The Issuer 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 Issuer on 31 December 1992. On 31 December 2001 the Gainsborough Building Society merged with the Issuer. The engagements of Barnsley Building Society were transferred to the Issuer on 31 December 2008. On 1 April 2010, Chelsea Building Society transferred its engagements to the Issuer, who undertook to fulfil those engagements, in accordance with section 94 of the Building Societies Act. The merged entity will be called Yorkshire Building Society. Chelsea Building Society will be operated as a separate and distinct brand within the Yorkshire Building Society.

### **Board of Directors**

The directors of the Issuer are as follows:

Edmund John Seward Anderson  
Ian Jeffrey Bullock  
Roger Burden  
Andrew Mark Caton  
Lynne Frances Charlesworth  
Iain Charles Andrew Cornish  
Richard Harding Davey  
Andrew Thomas Gosling  
Philip Robert Johnson  
David Victor Paige  
Indira Thambiah  
Simon Turner

The business address of the Issuer's directors is at Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ, United Kingdom.

### **Subsidiaries**

As of 31 December 2009, the Issuer had the following subsidiary undertakings, all of which are consolidated in the Issuer's consolidated financial statements for the year ended 31 December 2009:

<b>Name of subsidiary</b>	<b>Date of incorporation</b>	<b>Country of incorporation</b>	<b>Nature of business</b>	<b>Issued share capital</b>	<b>Proportion of capital held by the Issuer (direct and indirect) (%)</b>
Accord Mortgages Ltd	11 June 1987	England	Mortgage lending	£100,000,000	100
YBS Properties Ltd	11 June 1987	England	Property Holding	£2	100
YBS Properties (Edinburgh) Ltd	27 July 1992	England	Property Holding	£2	100
Yorkshire Building Society Covered Bonds LLP	22 September 2006	England	Mortgage acquisition and guarantor of covered bonds	N/A*	N/A*
Yorkshire Key Services Ltd	21 March 1991	England	Computer services	£4,000,000	100
Yorkshire Key Services (No. 2) Ltd	6 August 2003	England	Retail deposit services	£1	100
Yorkshire Guernsey Ltd	4 July 1990	Guernsey	Deposit taking	£7,700,000	100
Yorksafte Insurance Company Ltd	26 August 1994	Guernsey	Insurance	£100,000	100
YBS Investments (No. 1) Ltd	28 October 2002	England	Investments	£15,000	100
YBS Investments (No. 2) Ltd	28 October 2002	England	Investments	£15,000	100
Yorkshire Investment Services Ltd	11 June 1987	England	Investments	£100,000,000	100
YBS Properties (York) Ltd	31 May 1994	England	Non-trading	£2	100
Yorkshire Building Society Estate Agents Ltd	11 June 1987	England	Non-trading	£500,000	100
Yorkshire Computer Services Ltd	06 February 1991	England	Non-trading	£2	100
Barnsley Property Services Ltd	17 July 1989	England	Non-trading	£2	100

**Note:**

\* As an LLP, Yorkshire Building Society Covered Bonds LLP does not have authorised or issued share capital. The Issuer's interest in this company is, in substance, no different than if it was a 100% held subsidiary undertaking and consequently it is consolidated in the accounts of the Group.

On 1 April 2010, Chelsea Building Society transferred its engagements to the Issuer in accordance with section 94 of the Building Societies Act and, as a result, the Issuer acquired the following subsidiaries:

<b>Name of subsidiary</b>	<b>Date of incorporation</b>	<b>Country of incorporation</b>	<b>Nature of business</b>	<b>Issued share capital</b>	<b>Proportion of capital held or intended to be held by the Issuer (direct and indirect) (%)</b>
Chelsea Mortgage Services Limited	16 November 1989	England	Acquiring and administering third party residential mortgage portfolios	£8,000,000	100
BCS Loans and Mortgages Limited	1 August 2006	England	Loan and mortgage broker	£10,000	100
Chelsea Covered Bonds LLP	04 August 2008	England	Mortgage acquisition and guarantor of covered bonds	N/A*	N/A*
CBS Property Services Limited	17 November 1989	England	Dormant company	£2	100
CBS Capital Limited	5 August 2009	England	Special purpose vehicle	£1,000	100
CBS Nominees Limited	5 August 2009	England	Special purpose vehicle	£1,000	100

Note:

\* As an LLP, Chelsea Covered Bonds LLP does not have authorised or issued share capital.

## EXCHANGE OF THE NOTES

In connection with the transfer of engagements from Chelsea Building Society to the Issuer effective on 1 April 2010, the Notes were offered by the Issuer to holders of the £100,000,000 6.25 per cent. fixed rate notes due 2017 (ISIN: XS0151557799 / Common Code: 0151557799) and the £100,000,000 5.875 per cent. fixed rate notes due 2019 (ISIN: XS0289350133 / Common Code: 028935013), both issued by Chelsea Building Society (the “**Chelsea Subordinated Notes**”). Pursuant to meetings held on 24 December 2009, holders of the Chelsea Subordinated Notes passed resolutions approving the exchange of the Chelsea Subordinated Notes for the Notes.

## GENERAL INFORMATION

### Authorisation

The issue of the Notes was duly authorised by resolutions of the board of directors of the Issuer dated 9 November 2009 and resolutions of a chairman's committee of the board of directors of the Issuer dated 27 November 2009, 1 December 2009 and 2 December 2009 respectively.

### No significant change

Save as disclosed in this Listing Document, there has been no material adverse change in the financial or trading position of the Issuer since 31 December 2009.

### Litigation

The Issuer is not involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer.

### Accounts

The principal banker of the Issuer is National Westminster Bank through its branch at 7 Hustlergate, Bradford BD1 1PP, United Kingdom.

### Auditors

The auditors of the Issuer, Deloitte LLP, a firm registered by The Institute of Chartered Accountants in England and Wales to carry out company audit work whose address is at 1 City Square, Leeds LS1 2AL, United Kingdom, have audited the financial statements of the Issuer for the financial year ended 31 December 2009.

### Yield

The yield of the Notes is 13.5 per cent. per annum, calculated on the basis of the issue price and as at the date of this Listing Document.

### Clearing and Settlement

The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code of 049854919. The International Securities Identification Number (ISIN) for the Bonds is XS0498549194.

### Documents

For 14 days from the date of this Listing Document, copies of the following documents may be inspected during usual business hours at the offices of the Issuer, at Yorkshire House, Yorkshire Drive, Bradford BD5 8LJ, United Kingdom:

- (a) the memorandum and rules of the Issuer;
- (b) the Trust Deed, which includes the forms of the Temporary Global Note and the Permanent Global Note;
- (c) the Agency Agreement;

- (d) this Listing Document; and
- (e) the annual audited accounts of the Issuer for the period ended 31 December 2009.

The Issuer's financial year end is 31 December of each year. Copies of the Issuer's annual and interim accounts can be obtained from the Issuer's website: [www.ybs.co.uk](http://www.ybs.co.uk) (which, for the avoidance of doubt, is not incorporated into this Listing Document by reference).

**THE ISSUER**

**Yorkshire Building Society**  
Yorkshire House  
Yorkshire Drive  
Bradford BD5 8LJ  
United Kingdom

**TRUSTEE**

**The Law Debenture Trust Corporation p.l.c.**  
Fifth Floor  
100 Wood Street  
London EC2V 7EX  
United Kingdom

**PRINCIPAL PAYING AND CONVERSION AGENT**

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ  
United Kingdom

**AUDITORS**

**Deloitte LLP**  
1 City Square  
Leeds LS1 2AL  
United Kingdom

**LISTING SPONSOR**

**Carey Olsen Corporate Finance Limited**  
47 Esplanade  
St Helier  
Jersey JE1 0BD

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**To the Issuer as to English law**

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**To the Trustee as to English law**

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