PROSPECTUS Dated 6 March 2015

Yorkshire Building Society

(Incorporated in England under the Building Societies Act 1986)

£5,000,000,000
Note Programme

for the issue of Ordinary Notes and Subordinated Notes with a minimum maturity of one month

On 28 July 1993 Yorkshire Building Society (the **Issuer** *or the* **Society***) entered into a £500,000,000 Note Programme (the* **Programme***) and issued a prospectus on that date describing the Programme. On 20 March 2001, the aggregate nominal amount of Euro Medium Term Notes which may be issued under the Programme was increased from £1,500,000,000 to £3,000,000,000 and on 25 May 2005 was increased from £3,000,000,000 to £5,000,000,000. This Prospectus supersedes all previous prospectuses. Any Notes (as defined below) to be issued under the Programme, on or after the date of this Prospectus, are issued subject to the provisions described herein. This does not affect any Notes issued before the date of this Prospectus.*

Pursuant to the Programme, the Issuer (which expression and the expression **Society** shall include any successor or substitute (see Condition 15)) may from time to time issue in one or more Tranches (as defined herein) Notes (the **Notes,** which expression shall include Ordinary Notes and Subordinated Notes (each as defined in the Trust Deed (as defined herein))). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed £5,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued from time to time to one or more of the Dealers specified under "*Description of the Programme*" (each a **Dealer** and together the **Dealers,** which expression shall include any additional Dealer appointed under the Programme from time to time).

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "*Risk Factors*".

Application has been made to the Financial Conduct Authority in its capacity as competent authority (the **UK Listing Authority)** for Ordinary Notes and Subordinated Notes issued under the Programme up to the expiry of 12 months from the date of this Prospectus to be admitted to the official list of the UK Listing Authority (the **Official List)** and to the London Stock Exchange plc (the **London Stock Exchange**) for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market.

References in this Prospectus to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's Regulated Market and have been admitted to the Official List. The London Stock Exchange's Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**).

Notice of the aggregate nominal amount of interest (if any) payable in respect of Notes, the issue price of Notes, and certain other information which is applicable to each Tranche of Notes will be set out in a final terms document (the **Final Terms**) which will be delivered to the UK Listing Authority and the London Stock Exchange. Copies of Final Terms in relation to Notes to be listed on the London Stock Exchange will also be published on the website of the London Stock Exchange through a regulatory information service.

The Notes of each Tranche will initially be represented by a Temporary Global Note which will be exchangeable for a Permanent Global Note or Notes in definitive form (as indicated in the applicable Final Terms) in each case, upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations. As further described in "*Form of the Notes*" below, the applicable Final Terms will specify that a Permanent Global Note is exchangeable (in whole but not in part) for definitive Notes upon the occurrence of an Exchange Event (as defined on page 23).

The Issuer has a long-term/subordinated debt rating of Baa1/Baa2 by Moody's Investors Service Limited (**Moody's**) and A-/BBB+ by Fitch Ratings Ltd. (**Fitch**). Each of Moody's and Fitch is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such each of Moody's and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation. Notes issued under the Programme may be rated or unrated by either of the rating agencies referred to above. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the rating assigned to the Programme by the relevant rating agency. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Arranger
HSBC

Dealers

Barclays **BNP PARIBAS**
HSBC **J.P. Morgan**
The Royal Bank of Scotland **UBS Investment Bank**

This Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive. *Prospectus Directive* **means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any implementing measure in a relevant Member State of the European Economic Area.**

The Issuer accepts responsibility for the information contained in this Prospectus and the Final Terms for each tranche of Notes issued under the Programme. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

Neither the Dealers nor the Trustee (as defined below) have separately verified the information contained in this Prospectus. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Prospectus, or any other financial statements or any further information provided by the Issuer in connection with the Programme. No Dealer or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other financial statements or further information provided by the Issuer in connection with the Programme.

No person is or has been authorised by the Issuer or the Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus or any other financial statements or further information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, any of the Dealers or the Trustee.

None of this Prospectus or any other financial statements or any further information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, any of the Dealers or the Trustee that any recipient of this Prospectus or any other financial statements or any further information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other financial statements or further information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall at any time imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other financial statements or any further information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer and its subsidiaries during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, inter alia, the most recently published documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Notes.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer, distribution or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Dealers and the Trustee do not represent that this document may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Dealers or the Trustee which is intended to permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations and the Dealers have represented that all offers and sales by them will be made on the same terms. Persons into whose possession this Prospectus or any Notes come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the

offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom) and Japan (see "*Subscription and Sale*").

Any person making or intending to make an offer of Notes in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of the investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

(i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

(ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and

(v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the Securities Act) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered, within the United States or to, or for the account or benefit of, U.S. persons as defined in Regulation S (see "*Subscription and Sale*").

In this Prospectus, all references to £ and Sterling are to pounds sterling, references to U.S.$ and U.S. Dollars are to United States dollars, references to Yen are to Japanese Yen, and references to euro are to the currency introduced at the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

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In connection with the issue of any Tranche of Ordinary Notes or Subordinated Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

DESCRIPTION OF THE PROGRAMME

The following description does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of listed Notes only a new Prospectus will be published.

This description constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 (as amended) implementing the Prospectus Directive.

Words and expressions defined in "Form of the Notes" *and* "Terms and Conditions of the Notes" *below shall have the same meanings in this description.*

Issuer:	Yorkshire Building Society
Arranger:	HSBC Bank plc
Dealers:	Barclays Bank PLC BNP Paribas HSBC Bank plc J.P. Morgan Securities plc The Royal Bank of Scotland plc UBS Limited and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*").
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Trustee:	The Law Debenture Trust Corporation p.l.c.
Issuing and Principal Paying Agent and Agent Bank:	HSBC Bank plc
Amount:	Up to £5,000,000,000 outstanding at any time or its equivalent in other currencies as described herein. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Currencies:	Euro, Sterling, U.S. Dollars, Yen or such other currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer(s) and the Trustee subject to any applicable legal or regulatory restrictions.
Maturities:	Any maturities as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant regulator (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant specified currency. At the date of this Prospectus, the maturity of all Notes is subject to a minimum maturity of one month, save that in the case of Subordinated Notes, the minimum maturity will be five years and one day or such other minimum or maximum maturity as may be required from time to time by the relevant monetary authority or any laws or regulations applicable to the relevant currency.
Issue Price:	Notes may be issued on a fully-paid basis and at par or at a discount to, or premium over, par.

Form:	The Notes will be issued in bearer form. Each Tranche of Notes will initially be represented by a Temporary Global Note which will be exchangeable as described therein either for a Permanent Global Note or definitive Notes (as indicated in the applicable Final Terms) in each case not earlier than 40 days after the Issue Date upon certification as to non-U.S. beneficial ownership as required by U. S. Treasury regulations. As described in "*Form of the Notes*" below, the applicable Final Terms will specify that a Permanent Global Note is exchangeable (in whole but not in part) for definitive Notes upon the occurrence of an Exchange Event. Any interest in a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg and/or any other agreed clearing system, as appropriate. Notes to be issued under the Programme will be either Ordinary Notes or Subordinated Notes. The Issuer may issue Notes in new global note (**NGN**) form.
Fixed Rate Notes:	Fixed interest will be payable in arrear on such date or dates as shall be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms) and on redemption, and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s).
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of the reference rate set out in the applicable Final Terms. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer(s) for each issue of Floating Rate Notes. Floating Rate Notes may also have a maximum rate of interest, a minimum rate of interest or both (as indicated in the applicable Final Terms). Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer(s).
Interest Periods for Floating Rate Notes:	Such period(s) as the Issuer and the relevant Dealer(s) may agree (as indicated in the applicable Final Terms).
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	The Final Terms relating to each Tranche of Notes will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons, (in the case of Subordinated Notes only) for regulatory reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and other terms as may be agreed between the Issuer and the relevant Dealer(s).

Denominations of Notes:	The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) save that (i) the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant monetary authority or any laws or regulations applicable to the relevant currency and (ii) the minimum denomination of each Note will be €100,000 (or its equivalent in any other currency).
Taxation:	All payments in respect of the Notes will be made without withholding of, or deduction for, or on account of United Kingdom taxes, unless the withholding or deduction is required by law. In that event, the Issuer will pay such additional amounts as necessary so that the Noteholders receive the amount they would have received in the absence of such withholding or deduction subject to certain exceptions as are described in Condition 10.
Status of the Ordinary Notes:	The Ordinary Notes will be direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer ranking *pari passu* among themselves and (subject as aforesaid) with all other present and future outstanding unsecured and unsubordinated obligations of the Issuer in respect of deposits and loans, except as provided by law.
Status of the Subordinated Notes:	The Subordinated Notes will be unsecured, subordinated obligations of the Issuer and will rank *pari passu* and without any preference among themselves. The rights of holders of Subordinated Notes will be subordinated in right of payment in the manner provided in the Trust Deed and as specified in Condition 3.
Cross Acceleration:	The Ordinary Notes will contain a cross acceleration clause in respect of present or future indebtedness of, or guaranteed by, the Issuer or any Principal Subsidiary (other than any guarantee given in the ordinary course of its business) having an outstanding aggregate principal amount of at least £10,000,000 (or its equivalent in any other currency) as more fully described in Condition 11.
Negative Pledge:	The Ordinary Notes will contain a negative pledge provision as more fully described in Condition 4.
Listing:	Application has been made for Ordinary Notes and Subordinated Notes issued under the Programme to be listed on the London Stock Exchange's Regulated Market.
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.
Selling Restrictions:	There are selling restrictions in relation to the United States, the European Economic Area (including the United Kingdom) and Japan and such other restrictions as may be required in connection with the offering and sale of a particular issue of Notes (see "*Subscription and Sale*"). The Notes will be issued in compliance with U.S. Treasury Regulations 1.163-5(c)(2)(i)(D) (or any successor United States Treasury Regulation section, including without limitation, regulations issued in accordance with Internal Revenue Service Notice 2012-20 or otherwise in connection with the United States Hiring Incentives to Restore Employment Act of 2010) (**TEFRA D**) unless the Notes are issued in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 (**TEFRA**), which circumstances will be referred to in the applicable Final Terms of such Notes as a transaction to which TEFRA is not applicable.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In purchasing Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Prospectus a number of factors which could materially adversely affect its business and ability to make payments due under the Notes.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme

Legal Ranking of Notes

Prior to 1 January 2015, holders of Ordinary Notes and other unsubordinated creditors of the Issuer ranked ahead of retail member share accounts in the legal structure of the Issuer, which in turn ranked ahead of subordinated liabilities.

As a result of recent changes to the United Kingdom building societies legislation (as described briefly below), from 1 January 2015 holders of Ordinary Notes and other unsubordinated creditors of the Issuer rank junior to member share accounts which are given preferential status (as described below). Subordinated Notes continue to rank junior to all such members and creditors.

Section 90B of the Building Societies Act 1986, as amended (the **Act**) (which was inserted by the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 was brought into force with effect from 20 November 2014. HM Treasury exercised the power which was granted to it under Section 90B and powers conferred on it by section 2(2) of the European Communities Act 1972 by making the Banks and Building Societies (Depositor Preference and Priorities) Order 2014 (the **Depositor Preference Order**), which entered into force on 1 January 2015. As a result of these changes, provision has been made by HM Treasury for the purpose of ensuring that, on the winding-up, or dissolution by consent, of a building society, any assets available for satisfying the society's liabilities to creditors (other than liabilities in respect of subordinated deposits; liabilities in respect of preferential debts; or any other category of liability which HM Treasury specifies in the order for these purposes) or to member share account holders (other than liabilities in respect of preferential debts and deferred shares) are applied in satisfying those liabilities *pari passu*.

The Depositor Preference Order (i) extended the scope of preferential debts in respect of deposits and (ii) further aligned creditor hierarchy in United Kingdom building societies with the depositor preference requirements introduced in consequence of the EU Bank Recovery and Resolution Directive (2014/59/EU) to ensure that any sums due to building society members in relation to their shareholding in respect of deposits that do not benefit from the depositor preference requirements will nevertheless rank *pari passu* with all other (non-preferred) senior unsecured creditors.

These changes also have the effect of granting:

(i) a first-ranking preference to those deposits and share accounts (or a relevant part thereof) of natural persons and micro, small and medium enterprises, which are actually protected by the Financial Services Compensation Scheme (the **FSCS**) (i.e. are eligible for protection and do not exceed the FSCS coverage limit of £85,000), which will rank equally with all other preferential debts; and

(ii) a second-ranking preference to deposits and share accounts (or a relevant part thereof) of natural persons and micro, small and medium enterprises, which would be eligible for FSCS protection but for the fact that they either (a) exceed the £85,000 coverage limit of the FSCS or

(b) were made through a branch outside the EU. Such deposits and share accounts (or the relevant part thereof) will rank after the preferential debts referred to in paragraph (i) above but in priority to the claims of ordinary (i.e. non-preferred) unsecured creditors in the event of an insolvency.

The claims of the holders of Ordinary Notes (as well as claims in respect of Subordinated Notes) therefore rank junior to the claims in respect of liabilities afforded preferred status under (i) or (ii) above and, accordingly, in the event of insolvency or resolution of the Issuer, both Subordinated Notes and Ordinary Notes would be available to absorb losses ahead of liabilities which benefit from such first-ranking or second-ranking preference.

As a result, in the event of insolvency or winding up of the Issuer:

(i) the assets of the Issuer would be applied first to satisfying in full all claims in respect of those deposits and share accounts which enjoy preferential status (as described above) before any recovery would be made on claims in respect of Ordinary Notes (and the claims in respect of Ordinary Notes would rank *pari passu* with those deposits and share accounts which are not afforded preferential status); and

(ii) no recovery would be made on claims in respect of Subordinated Notes unless and until the claims in respect of all deposit and share accounts, as well as claims in respect of Ordinary Notes and any other unsubordinated liabilities of the Issuer, have first been satisfied in full.

It is further expected that this ranking would be respected in the event that resolution action were to be taken in respect of the Issuer pursuant to the Banking Act (as further described below under "Risks relating to the Banking Act 2009 and use of the United Kingdom bail-in power").

Therefore, in the event of an insolvency, winding up or resolution of the Issuer, there is a real risk that investors in Ordinary Notes and/or Subordinated Notes would lose some or the entire amount of their investment. Furthermore, the market price of Ordinary Notes and Subordinated Notes can be expected to be materially adversely affected if the Issuer's financial condition deteriorates such that the market anticipates the insolvency, winding up or resolution of the Issuer.

Faltering United Kingdom Economic Recovery

During the financial year ended 31 December 2014, 89 per cent. of the Issuer's income was derived from United Kingdom residential mortgages. The United Kingdom residential mortgage market is closely correlated to the United Kingdom economic cycle. Slowing growth, disinflationary pressures and stagnation in key export markets may undermine the United Kingdom's economic recovery. Cuts in public spending, both actual and planned, could further dampen future growth. This may all impact on the United Kingdom residential housing market, threatening affordability and mortgage customers' ability to pay, which in turn may impact on the Issuer's profitability and growth plans.

United Kingdom Residential Housing Market Slow-Down

There are conflicting indicators around the robustness of the United Kingdom's residential housing market with some house price falls being registered and confidence falling. There has been direct Bank of England intervention in the housing market through loan to income ratios and such action may become more extensive. Any risk to the United Kingdom economy of falling house prices may impact the Issuer's profitability and growth plans.

United Kingdom General Election

There are uncertainties around the forthcoming United Kingdom general election that could create a range of risks for the Issuer. For example, if no major party wins a clear majority, that could introduce economic and policy uncertainties and the possible risk of further intervention to restrict lending, or the introduction of economic measures which could result in spending cuts to prevent further economic recovery. If so, this could impact the Issuer's future growth levels, profitability and borrowers' financial resilience.

European Matters

Recent European elections have seen an increase in support for Eurosceptic parties. This, coupled with generally poor economic conditions in Europe, could pose a threat to the United Kingdom's continued economic recovery. Should a United Kingdom referendum take place on EU membership, there is a risk that investment and economic activity would slow down due to the resulting uncertainties. This could impact on the Issuer's future growth levels, profitability and borrowers' financial resilience. Additionally, whilst the United Kingdom is not a member of the Euro, instability within the currency union, for example the ongoing issues with Greece, could also provide a source of risk to both United Kingdom economic performance and financial markets.

Competition in the United Kingdom personal financial services markets may adversely affect the Issuer's operations

Developments in the Issuer's industry and increased competition could have a material adverse effect on its operations. The Issuer operates in an increasingly competitive United Kingdom personal financial services market. The Issuer competes mainly with other providers of personal finance services, including banks, building societies and insurance companies.

Recently, building societies may have benefitted as some of the major banks deliberately shrunk their mortgage books in the wake of the financial crisis in order to repair their balance sheets. However, when the repair work has been completed, these banks could look to increase their mortgage lending using aggressive pricing to attract new business and intensify competition in the markets. New challenger banks could further increase competition. Increased competition may result in downward pressure on the industry's spread between deposit and loan rates and this, in turn, may negatively affect the Issuer's income.

Operational Risk

The Issuer's businesses are dependent on the ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, equipment failures, natural disasters or the failure of external systems, for example, those of the Issuer's suppliers or counterparties. Although the Issuer has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to implement procedures which are fully effective in controlling each of the operational risks noted above. Notwithstanding anything in this Risk Factor, this Risk Factor should not be taken as implying that the Issuer or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm dual-regulated by the Financial Conduct Authority (the **FCA**) and the Prudential Regulation Authority (the **PRA**).

Market and Liquidity Risk

The most significant market risks the Issuer faces are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. In particular, the United Kingdom is experiencing a period of historically low interest rates which has reduced margins on mortgage loans. Changes in currency rates, particularly in the sterling-dollar and sterling-euro exchange rates, affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing.

The performance of financial markets may cause changes in the value of the Issuer's investment and trading portfolios. The Issuer has implemented risk management methods to mitigate and control these and other market risks to which the Issuer is exposed and exposures are constantly measured and monitored. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Issuer's financial performance and business operations.

Borrowers seeking to avoid increased monthly payments (caused by, for example, the expiry of an initial fixed rate or low introductory rate, or a continued rise in the related mortgage interest rates) by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. Any decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. These events, alone or in combination, may contribute to higher delinquency rates and losses.

The Issuer is exposed to liquidity risk as a result of mismatches in cash flows from balance sheet assets and liabilities and off-balance sheet financial instruments.

Volatility in the wholesale funding markets may have an adverse effect on the Issuer

Whilst various governments and central banks, including the United Kingdom government and the Bank of England, have taken substantial measures to provide liquidity following the disruption seen since 2007, there can be no assurance that these measures will succeed in materially improving the liquidity position of major United Kingdom banks and building societies in the long term. In addition, the availability and the terms on which any such measures will continue to be made available in the longer term are uncertain.

On 1 August 2012, the Bank of England's Funding for Lending Scheme (the **FLS**)) became operational. The aim of the FLS is to boost the incentive for banks and building societies to lend to United Kingdom households and non-financial companies. The FLS is designed to reduce funding costs for participating institutions so that they can make loans cheaper and more easily available. Access to the FLS is directly linked to how much each institution lends to the real economy. Those that increase lending are able to borrow more in the FLS and at a lower cost than those that scale back their loans. Under the FLS as originally announced, participating financial institutions were, for a period of 18 months to the end of January 2014, able to borrow funds with a maturity of up to four years. This availability period was initially extended to allow drawdowns up to the end of January 2015 and has since been extended again to allow drawdowns up to the end of January 2016.

The availability of government support for United Kingdom financial institutions, to the extent that it provides access to cheaper and more attractive funding than other sources, reduces the need for those institutions to fund themselves in the retail or wholesale markets. The Issuer is participating in the FLS and as at 31 December 2014, the Issuer had drawn £3.0 billion of United Kingdom treasury bills. By so participating, the Issuer reduces the need to fund itself in the wholesale markets and there is a risk that if it ceases to remain sufficiently active in those markets its access to them could be prejudiced in the future when Government support is reduced or no longer available to it. The withdrawal of government support in January 2016 could increase funding costs for those institutions which have previously utilised that support. In addition, other financial institutions who have relied significantly on government support to meet their funding needs will also need to find alternative sources of funding when that support is reduced or withdrawn and, in such a scenario, the Issuer expects to face increased competition for funding, particularly retail funding on which it is reliant, in the future. This competition could further increase its funding costs and so adversely impact its results of operations and financial position.

The Issuer has continued to develop its wholesale funding franchise by accessing the public bond markets, in addition to the use of the above scheme. In 2014 it accessed the senior, subordinated, covered bond and securitisation markets.

Ratings of the Issuer

The Issuer ratings from both Moody's and Fitch are currently stated to be stable. However, any downgrade in the rating of the Issuer by a credit rating agency is likely to have a negative impact on the ratings of Notes issued under the Programme.

Moody's is currently reviewing its global financial institutions methodology and this could impact the ratings assigned to a number of issuers. The proposed methodology is intended to be implemented in the first quarter of 2015. At this stage the Issuer has not been advised of the result of the review, however the revised methodology could impact the Issuer's ratings.

Risks relating to the Banking Act 2009 and use of the United Kingdom bail-in power

The Banking Act 2009 (the **Banking Act**), which came into effect on 21 February 2009 as amended by the Financial Services (Banking Reform) Act 2013 (the **Banking Reform Act**) and the Bank Recovery and Resolution Order 2014, includes (amongst other things) provision for a special resolution regime (the **SRR**) pursuant to which specified United Kingdom authorities (HM Treasury, the PRA, the FCA and the Bank of England; together the **Authorities**) have been granted tools where a threat is posed to the public interest, to deal with the failure (or likely failure) of a United Kingdom bank or building society (such as the Issuer) and in certain circumstances, their United Kingdom established banking group companies. In respect of United Kingdom building societies, the relevant tools include (i) modified property transfer powers which also refer to cancellation of shares and conferring rights and liabilities in place of such shares, (ii) in place of the share transfer powers, a public ownership tool which may involve (amongst other things) arranging for deferred shares in a building society to be publicly owned, cancellation of private membership rights and the eventual winding up or dissolution of the building society and (iii) modified bail-in powers such that exercise of the tool may be immediately preceded by the demutualisation of the building society through the conversion of it into a company or the transfer of all of the property, rights or liabilities of the society to a company. It is possible that the extended tools described above could be used prior to the point at which an application for insolvency proceedings with respect to a relevant entity could be made and, in certain circumstances, the United Kingdom authorities may exercise broad pre-resolution powers in respect of relevant entities with a view to removing impediments to the exercise of the stabilisation tools.

In addition to the stabilisation options set out above and outside the scope of the SRR, in circumstances where, *inter alia*, (i) the Bank of England considers that the resolution conditions, including other general conditions, are met, but the bail-in tool is not to be used, or (ii) the PRA has determined that the bank or building society (such as the Issuer) is failing or is likely to fail and that this situation will not change, the Bank of England must, without delay, make a statutory instrument which could provide for the cancellation, reduction, transfer or dilution of the Issuer's Subordinated Debt prior to a resolution of the Issuer.

The Banking Act also includes powers for a modified bank insolvency procedure and/or a modified bank administration procedure to be applied by statutory instrument to building societies.

If an instrument or order were to be made under the Banking Act in respect of the Issuer, such instrument or order may (amongst other things) (i) result in a transfer of the Issuer via one of the tools described above, (ii) affect the ability of the Issuer to satisfy its obligations under the Notes and/or (iii) result in modifications to the Terms and Conditions of the Notes, which may, among other things, have tax implications.

The use of the powers afforded to the Authorities could in each case result in holders of the Notes losing their entire investment in the Notes, including potentially through:

- the transfer of Notes out of the hands of the holders;
- the write down and/or cancellation of the Notes in connection with a transfer of the Notes out of the hands of holders; or
- transfers of the business or assets of the Issuer resulting in holders of the Notes holding investments in an entity with reduced or no assets.

In addition, the bail-in power includes the possibility that the authorities may require the Issuer to put in place a plan that contains specific measures designed to restore its long term viability and a timetable for their implementation. Although any use of the bail-in power in relation to the Issuer may enable it to continue in existence, the associated write down or conversion of the Notes or other debt instruments issued by the Issuer will result in the holders of the Notes losing some or all of their investment. The exercise of the bail-in power or any suggestion or anticipation of such exercise could, therefore, materially adversely affect the value of the Notes.

In addition, the Banking Act contains particular powers for provision to be included in an instrument or order that such instrument or order (and possibly certain related events) be disregarded in determining whether certain widely defined "default event" provisions have occurred (which default events could include certain Events of Default under any Notes) and provides for the disapplication or modification of laws (with possible retrospective effect) and/or fiscal consequences in connection with the exercise of powers under the Banking Act.

As at the date of this Prospectus, the United Kingdom authorities have not made an instrument or order under the Banking Act in respect of the Issuer.

Building Societies (Financial Assistance) Order 2010

On 7 April 2010, the Building Societies (Financial Assistance) Order 2010 (the **Financial Assistance Order**) came into force in exercise of certain powers under the Banking Act for the purpose of modifying the application of the Act in specified circumstances to facilitate the provision of relevant financial assistance (including the giving of guarantees or indemnities or any other kind of financial assistance (actual or contingent)) by certain 'qualifying institutions'. Qualifying institutions for this purpose include HM Treasury, the Bank of England, another central bank of a Member State of the European Economic Area, the European Central Bank, or any person acting for or on behalf of any of such institution or providing financial assistance to a building society on the basis of financial assistance from such an institution. Most significantly, the Financial Assistance Order would permit any qualifying institution to provide such assistance without it counting for the purpose of the 50 per cent. limit on the Issuer's non-member funding. The Financial Assistance Order also permits the creation of a floating charge over its assets by the Issuer in favour of a qualifying institution in respect of that assistance.

Risk of an increase in levies on the Issuer to fund payments under the Financial Services Compensation Scheme

The Financial Services and Markets Act 2000 (the **FSMA**) established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. An institution's FSCS levy is linked to its share of the United Kingdom deposit market. The FSCS levy may have a material impact on the profits of the Issuer. As at the time of this Prospectus, a number of claims against the FSCS have been triggered. Claims on the FSCS are funded by loans from HM Treasury, and until such loans are repaid, levies on United Kingdom deposit-taking institutions fund interest payments on such loans. The attention of Noteholders is drawn to note 28 of the audited consolidated annual accounts of the Issuer and its subsidiaries for the year ended 31 December 2014 contained in the Report and Accounts 2014 in this regard. In certain circumstances, regulated United Kingdom deposit takers may further be required to fund, by way of a further increase in the FSCS levy, the capital repayment to the Bank of England of such loans.

Following a review by the Financial Services Authority of the FSCS funding model, revised FSCS funding arrangements took effect on 1 April 2013. The FCA is responsible for the new arrangements which require contributions from firms according to their funding class. There are three PRA funding classes and five FCA funding classes; a particular class will meet compensation claims up to the threshold limit for that class, but FCA funding classes may receive additional support from other classes up to the amount of the relevant FCA 'retail pool'. A failure of a firm in one of the FCA intermediation funding classes may entail contributions from the wider retail pool (comprising contributions from each of the five FCA funding classes and additional FCA 'provider' funding classes) who would pay towards the costs. This alternative funding model was introduced to acknowledge the joint responsibilities of providers and distributors, but this may mean that the Issuer, as a provider, may incur higher contributions to the FSCS as result of the failure of distributors.

In April 2014 the EU directive on deposit guarantee schemes (the **DGSD**) was adopted and was published in the EU Official Journal on 12 June 2014. The DGSD introduces financing requirements targeting ex ante deposit guarantee scheme funds of 0.8 per cent. of covered deposits to be collected from deposit-taking entities over a ten year period (the United Kingdom currently operates an ex post financing where fees are required after a payment to depositors has occurred). In case of insufficient ex ante funds, the deposit guarantee scheme will collect immediate ex post contributions from the banking sector, and, as a last resort, they will have access to alternative funding arrangements such as loans from public or private third parties. The PRA is consulting on the United Kingdom implementation of the DGSD and had proposed, amongst other things, post event levies (ex post levies) with access to the United Kingdom bank levy as opposed to the introduction of a new ex ante levy. It is possible, as a result of this new directive, that future FSCS levies on the Issuer may differ from those at present, and such reforms could result in the Issuer incurring additional costs and liabilities, which may adversely affect its business, financial conditions and/or results of operations.

There can also be no assurance that there will be no actions taken under the Banking Act that may lead to further claims against the FSCS, and concomitant increased FSCS levies payable by the Issuer (and other regulated United Kingdom deposit takers).

Regulatory and conduct risks faced by the Issuer

United Kingdom authorised firms are subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations thereof in the United Kingdom and the European Union. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking and building society sector, which the Issuer expects to continue for the foreseeable future. The United Kingdom government, the PRA, the FCA and other regulators in the United Kingdom or the European Union may intervene further in relation to areas of industry risk already identified, or in new areas, each of which could adversely affect the Issuer. The effects that such regulation may have on the Issuer include, without limitation, the imposition of additional costs on the Issuer or the limitation or restriction on the manner in which the Issuer conducts elements of its business. The Issuer continues to work closely with regulatory authorities and industry associations to ensure that it is able to identify and respond to proposed regulatory changes and mitigate the risks posed, although future changes are difficult to predict and could materially adversely affect the business of the Issuer.

The Issuer is exposed to various forms of regulatory risk in its operations, including the risk of mis-selling financial products, acting in breach of legal or regulatory principles or requirements, or other claims of alleged misconduct on the part of the Issuer, any of which could have a material adverse effect on its results or its relations with its customers. The Issuer may settle litigation or regulatory proceedings prior to a final judgment or determination of liability in order to avoid the cost, management efforts, negative business, and regulatory or reputational consequences of continuing to contest liability, even when the Issuer believes that it has no liability. The Issuer may also do so when the potential consequences of failing to prevail would be disproportionate to the costs of settlement.

Failure to manage these risks adequately could impact the Issuer adversely and materially, both financially and reputationally.

The financial impact of regulatory risks might be considerable but are difficult to quantify. Amounts eventually paid may exceed the amount of any provisions set aside to cover such risks.

Future legislative and regulatory changes could impose operational restrictions on the Issuer, require the Issuer to raise further capital, increase the Issuer's expenses and/or otherwise adversely affect its business, results, financial condition or prospects

The Issuer conducts its business subject to ongoing regulation by the FCA and the PRA. The regulatory regime requires the Issuer to be in compliance across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Issuer fails to comply with any relevant regulations, there is a risk of an adverse impact on its business due to sanctions, fines or other action imposed by the regulatory authorities.

Future changes in regulation, fiscal or other policies are unpredictable and beyond the Issuer's control and could materially adversely affect its business or operations.

Regulators and other bodies in the United Kingdom and worldwide have produced a range of proposals for future legislative and regulatory changes which could impose operational restrictions on the Issuer, require the Issuer to raise further capital, increase the Issuer's expenses and/or otherwise adversely affect its business results, financial condition or prospects. These include, amongst others:

- On 19 June 2013, the Parliamentary Commission on Banking Standards (**PCBS**) published its final report ("Changing Banking for Good"). This was followed by the publication of the Government's response on 8 July 2013, accepting the overall conclusions of the final report and all of its principal recommendations. Among other things, this included proposals for: (i) a new senior persons regime governing the conduct of bank staff; (ii) the introduction of a criminal offence for reckless misconduct by senior bank staff; and (iii) steps to improve competition in the banking sector. On 18 December 2013, the Banking Reform Act, which includes provisions to address certain of the PCBS's recommendations received royal assent; the FCA and the PRA are due to publish final rules and guidance on the senior persons regime with a view to implementing such rules during the course of 2015; and a commencement date is yet to be announced for the criminal offence for reckless misconduct by senior bank staff. From 1 March 2014, the PRA has a secondary objective in respect of competition;

- The Banking Reform Act also introduces a power for HM Treasury to make an order for the introduction of regulatory rules which will require United Kingdom banks and building societies to hold primary loss-absorbing capital (including by way of bail-in bonds) and obliges the FCA to establish a new payment systems regulator. These provisions came into force on 1 March 2014;

- Other measures contained in the Banking Reform Act, but which are not yet in force (and the date on which they will come into force is presently unknown), include ring-fencing domestic retail banking services of United Kingdom banks. The PRA is consulting on the final rules and the FCA's consultation is expected later this year. Although this legislation carves out building societies from the ring-fence proposals, it does contain a power to enable the United Kingdom Government to make provision for the purpose of ring-fencing in relation to building societies should it consider that any particular changes are necessary;

- At European Union level, structural reform measures that are similar to some of those contained in the Banking Reform Act are also under consideration, following the report of the European Commission's high level expert group on reforming the structure of the EU Banking Sector (the **Liikanen Group**). This report's proposals were heavily influenced by the United Kingdom experience but there remains a risk that any subsequent European Union legislation implementing the recommendations in the report may impose requirements which are more onerous than those in the Banking Reform Act or which may not be completely consistent with those in the Banking Reform Act; and

- On 15 May 2014, the Council and Parliament of the EU adopted a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the **RRD**). The RRD has been largely implemented in the United Kingdom (through changes to the Banking Act as discussed above) except for certain provisions relating to the minimum requirements for eligible liabilities, including the final configuration and level of the requirement, which are expected to be concluded and implemented by 1 January 2016.

There is also a risk that the recent restructuring of regulatory bodies and, in particular, the creation of multiple regulators in the United Kingdom could lead to a lack of co-ordination and the emergence of inconsistencies between the different regulatory bodies. Any such development could adversely impact the Issuer's ability to manage its business efficiently and subject it to increased costs through managing an increasingly complex compliance burden.

At this point it is impossible to predict the effect that any of the proposed changes will have on the Issuer's operations, business and prospects or how any of the proposals discussed above will be implemented in light of the fundamental changes to the regulatory environment proposed by the Government and/or the European Commission. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Issuer's operations, structure, costs and/or capital requirements. Accordingly, the Issuer cannot assure investors that the implementation of any of the foregoing matters or any other regulatory or legislative changes that may be proposed will not have a material adverse effect on its operations, business, results, financial condition or prospects.

On 20 October 2012, HM Treasury published a white paper and draft bill "Sound banking: delivering reform". These proposals are designed to give effect in broad terms to the recommendations of the Independent Commission on Banking (the **ICB**), which published its final report on 12 September 2011. The ICB report recommended specific reforms designed to protect the stability of the retail banking sector in particular, including a "retail ring fence", which would provide that United Kingdom banks that accept deposits from individuals and SMEs would be prohibited from taking principal risk, as well as preferred creditor status on insolvency for retail depositors and enhanced loss absorption requirements for United Kingdom deposit takers within scope. The Banking Reform Act has given effect to the ICB's recommendations. However the Banking Reform Act is, effectively, enabling legislation only and, as such, much of the detailed implementation of the ICB's recommendations (where supported by Parliament) will be set out in secondary legislation which is expected before the end of the current parliament. Building societies will not be subject to the ring-fencing provisions contained in the Banking Reform Act and, instead the Act is expected to be amended to bring building societies in line with the proposed ring-fencing requirements. However, it is possible that the application of these provisions to banks will have an adverse impact on the competitive position of building societies (including the Issuer) in the deposit taking and retail loan market. It is however too early to anticipate the potential impact of future legislation in this area on the Issuer and there can be no assurance that Noteholders will not be adversely affected by an action taken under it, once it is implemented.

Impact of Basel Committee reforms on the Issuer and holders of its subordinated debt (including the Notes)

On 16 December 2010 and 13 January 2011, the Basel Committee on Banking Supervision (the **Basel Committee**) issued its final guidance (the **Basel Guidelines**) in relation to a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions including building societies (**Basel III**). The Basel December 2010 Guidelines included a set of eligibility criteria for Additional Tier 1 and Tier 2 capital instruments which amongst other things will result in existing building society capital instruments becoming ineligible over a transitionary timeframe.

The Basel III reform package has been implemented in the European Economic Area (the **EEA**) through a regulation (Capital Requirements Regulation (the **CRR**)) and an associated directive (Capital Requirements Directive (the **CRD**)) (together, **CRD IV**), which was published in the Official Journal of the European Union on 27 June 2013. The regulation establishes a single set of harmonised prudential rules which will apply directly to all credit institutions in the EEA with the directive containing less prescriptive provisions which will need to be transposed into national law. The regulation gives express recognition for Common Equity Tier 1 capital instruments for mutual and co-operative entities and permits the use of a cap or restriction to safeguard the interests of members and reserves. Full implementation began from 1 January 2014, with particular elements being phased in over a period of time, to be fully effective by 2019.

Key elements of CRD IV include the following:

- ***Capital requirements*** – higher minimum capital ratios and the introduction of conservation, countercyclical and systemic risk buffers, which are to be phased in over the period January 2014 to December 2018;
- ***Definition of capital*** – subordinated debt which does not meet CRD IV recognition criteria will be phased out over the period from 1 January 2014 to 31 December 2021;
- ***Increased capital requirements*** **–** an additional capital charge for credit valuation adjustment risk will be imposed;

- ***Common Equity Tier 1 ratio*** – a risk-based ratio calculated as Common Equity Tier 1 capital divided by risk weighted assets, as calculated on the basis set out in CRD IV. As part of its assessment of capital adequacy of major banks and building societies (performed at the request of the United Kingdom Financial Policy Committee (**FPC**), with results announced on 20 June 2013), the PRA introduced certain adjustments to the measurement of Common Equity Tier 1 and required all firms to meet an adjusted Common Equity Tier 1 ratio of at least 7 per cent by 31 December 2013;
- ***Securitisation exposures*** – from 2014 certain securitisation exposures can either be deducted 100 per cent. from Common Equity Tier 1 capital or risk weighted 1,250 per cent;
- ***New liquidity metrics*** – two new liquidity ratios will be introduced. These are a short-term liquidity stress ratio, referred to as the Liquidity Coverage Ratio, and a longer-term ratio, referred to as the Net Stable Funding Ratio. Both ratios are required to be maintained at levels in excess of 100 per cent., when fully implemented; and
- ***New leverage ratio*** – a new ratio, calculated by dividing Tier 1 capital by total assets (the leverage ratio) is required to be maintained at a level of at least 3 per cent. This requirement will be harmonised at EU level from 1 January 2018, until which date the United Kingdom regulators may apply such measures as they consider appropriate.

As CRD IV allows certain national discretions, the final rules and the timetable for their implementation in each jurisdiction may be subject to national variation. In December 2013 the PRA published its policy statement PS7/13 "*Strengthening capital standards: implementing CRD IV, feedback and final rules*" on the United Kingdom rules, which implement certain permitted national discretions in CRD IV. Whilst CRD IV allows regulators to phase in the new measures over a period of time, the PRA has chosen to accelerate this timetable, with most capital deductions to apply in full from 2014.

There are still some areas of the PRA's intended approach which are not yet finalised. In particular, as the PRA is currently consulting on its approach to Pillar 2A capital, the extent to which firms should disclose Pillar 2A and its approach to the Pillar 2B PRA buffers which are likely to replace the existing capital "planning buffers". This consultation closes on 17 April 2015 and it is expected that these rules will come into force on 1 January 2016. Accordingly there is a risk that the Issuer will be required to hold higher levels of capital than is currently anticipated or planned for. To the extent that PRA adopts capital or other requirements which exceed those proposed under Basel III, this may adversely impact on the competitiveness of the Issuer relative to banks and financial institutions subject to less stringent requirements.

The Basel III guidelines are subject to revision. In December 2014, the Basel Committee issued consultations relating to the standardised approach for credit risk and capital floors. The consultations could lead to amendments to the Basel III guidelines that are then reflected in European legislation and there is a risk that the Issuer will be required to hold higher levels of capitalisation than is currently anticipated or planned for.

On 31 October 2014, the FPC published its review on the appropriate calibration and analysis of the leverage ratio within the capital framework. This review recommends that the FPC is given powers of direction over the leverage ratio and outlines proposals under which the Issuer would be subject to a minimum leverage ratio of 3 per cent. from 2018, and a countercyclical leverage ratio buffer from 2018, subject to a 2017 review.

Currently, and over the Issuer's business planning horizon, the Issuer expects to remain above its regulatory minimum leverage ratio requirement. However, the minimum leverage ratio, and the countercyclical leverage ratio buffer are subject to further consultation by HM Treasury and these leverage ratio requirements may be increased over time and/or the amount of the Issuer's total Tier 1 capital which counts towards its leverage ratio may be reduced. In such case, should any of these events occur, they may have an adverse impact on the Issuer's leverage ratio and the Issuer may need to raise more capital or reduce its total exposure. Such measures may have an adverse effect on the Issuer's business activities, including its lending business.

The changes under CRD IV and Basel III as described above may also have an impact on the capital requirements in respect of the Notes and/or on incentives to hold the Notes for investors that are subject to requirements that follow the relevant framework and, as a result, may affect the liquidity and/or value of the Notes.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Notes and as to the consequences to and effect on them of any changes to the Basel framework (including the changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

The Issuer is subject to regulatory capital requirements that are subject to change and may result in additional capital requirements for the Issuer

The Issuer is subject to capital requirements that could have an impact on its operations. The implementation of Basel III, CRD IV (for more information on this, see "*Impact of Basel Committee reforms on the Issuer and holders of its subordinated debt (including the Notes)*" above) and the ICB recommendations may hinder growth.

A perceived or actual reduction in capital surplus could result in actions or sanctions, which may have a material adverse effect on the Issuer's business, including its operating results, financial condition and its prospects. This, in turn, may affect the Issuer's capacity to continue its business operations or pursue strategic opportunities and may have an impact on future growth potential.

The circumstances which could give rise to a reduction in capital surplus could include the following:

(i) The Issuer may experience a depletion of its capital resources through increased costs or liabilities incurred as a result of the crystallisation of any of the other risk factors described elsewhere in this section.

(ii) The Issuer may experience an increased demand for capital. For example, the Issuer is subject to extensive regulation and regulatory supervision in relation to the levels of capital in its business. New or revised minimum and buffer capital requirements could be applied and/or the manner in which existing regulatory requirements are applied to the Issuer could be changed.

The Issuer manages its capital taking account of market and rating agency expectations as well as regulatory requirements. If market and rating agency expectations increase, driven by, for example, the capital levels or targets amongst peer banks or building societies or through the changing views of rating agencies, then the Issuer may experience pressure to increase its capital ratios.

Effective management of the Issuer's capital is critical to its ability to operate and grow its business and to pursue its strategy. Any change that limits the Issuer's ability to effectively manage its balance sheet and capital resources (including, for example, reductions in profits and retained earnings as a result of credit losses, write-downs or otherwise, increases in risk-weighted assets (which are pro-cyclical under the CRD IV, resulting in risk weighting increasing in economic downturns), delays in the disposal of certain assets or the inability to raise capital or funding through wholesale markets as a result of market conditions or otherwise) could have a material adverse impact on its business, financial condition, results of operations, liquidity and/or prospects.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

Risks related to the structure of a particular issue of Notes

A range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

If the Issuer has the right to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

Redemption for regulatory reasons

In certain circumstances where the Issuer is unable to achieve the Tier 2 capital recognition of the Notes, the relevant Subordinated Notes may be redeemed prior to the stated maturity. The exercise of these rights by the Issuer may have an adverse effect on the position of holders of the Subordinated Notes.

Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

An investor in Subordinated Notes assumes an enhanced risk of loss in the event of the Issuer's insolvency

The Issuer's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority to the claims of Senior Creditors (as defined in "*Terms and Conditions of the Notes*" herein). Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is an enhanced risk that an investor in Subordinated Notes will lose all or some of his investment should the Issuer become insolvent.

Risks related to Notes generally

Set out below is a description of material risks relating to the Notes generally:

The conditions of the Notes contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Noteholders and without regard to the individual interests of particular Noteholders

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 15.

The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Notes

- *Withholding under the EU Savings Directive*

Under Council Directive 2003/48/EC on the taxation of savings income (the **EU Savings Directive**), Member States of the European Union (each an **EU Member State**) are required to provide to the tax authorities of other EU Member States details of certain payments of interest or similar income paid or secured by a person established in its jurisdiction to or for the benefit of an individual resident or certain limited types of entities established in that other EU Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive (the **Amending Directive**) which will, when implemented amend and broaden the scope of the requirements described above. EU Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities. The Amending Directive will also expand the circumstances in which payments must be reported or paid subject to withholding (including if those payments indirectly benefit an individual resident in an EU Member State). This approach may apply to payments made to (or for the benefit of), or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union (and outside any third country or territory that has adopted similar measures to the EU Savings Directive).

For a transitional period, Austria is required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The changes referred to above will broaden the types of payments subject to withholding in those EU Member States which operate a withholding system when they are implemented.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the EU Savings Directive or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Issuer nor any Paying Agent (as defined in the Conditions of the Notes) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Furthermore, once the Amending Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above. The Issuer is required to maintain a Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive or any law implementing or complying with, or introduced in order to conform to such Directive, if any. However, investors should be aware that any custodians or intermediaries through which they hold their interest in the Notes may nonetheless be obliged to withhold or deduct tax pursuant to such laws unless the investor meets certain conditions, including providing any information that may be necessary to enable such persons to make payments free from withholding in compliance with the Savings Directive, as amended.

- *U.S. Foreign Account Tax Compliance Act Withholding*

Whilst the Notes are in global form and held within Euroclear Bank SA/NV or Clearstream Banking, société anonyme (together the **ICSDs**), in all but the most remote circumstances, it is not expected that the new reporting regime and potential withholding tax imposed by sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) will affect the amount of any payment received by the ICSDs (see "*Taxation – Foreign Account Tax Compliance Act*"). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Notes are discharged once it has made payment to, or to the order of, the common depositary or common safekeeper for the ICSDs (as bearer of the Notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through the ICSDs and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an **IGA**) are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

The value of the Notes could be adversely affected by a change in English law or administrative practice

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and may be adversely affected if definitive Notes are subsequently required to be issued

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant ICSD would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant ICSD at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks related to the market generally

Set out below is a description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the **Investor’s Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease (i) the Investor’s Currency-equivalent yield on the Notes, (ii) the Investor’s Currency equivalent value of the principal payable on the Notes and (iii) the Investor’s Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The value of Fixed Rate Notes may be adversely affected by movements in market interest rates

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an investment in those Notes

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

DOCUMENTS INCORPORATED BY REFERENCE

The Report and Accounts 2013 (which includes the auditor's report and audited consolidated annual accounts of the Issuer and its subsidiaries for the year ended 31 December 2013) and the Report and Accounts 2014 (which includes the auditor's report and audited consolidated annual accounts of the Issuer and its subsidiaries for the year ended 31 December 2014), which have previously been published or are published simultaneously with this Prospectus and have been filed with the Financial Conduct Authority, shall be incorporated in and form part of this Prospectus.

The Terms and Conditions of the Notes contained in the previous Prospectuses dated 12 October 1998 (pages 18 to 36 (inclusive)) and 7 March 2014 (pages 31 to 51 (inclusive)) prepared by the Issuer in connection with the Programme shall be incorporated in and form part of this Prospectus.

Following the publication of this Prospectus a supplement may be prepared by the Issuer and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of the Issuer at Yorkshire Building Society, Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ and from the specified offices of the Paying Agents for the time being in London and Luxembourg. In addition, copies of the documents will be available at the website of the Regulatory News Service operated by the London Stock Exchange at *www.londonstockexchange.com/exchange/news/market-news/market-news-home.html*.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Prospectus.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Prospectus or publish a new Prospectus for use in connection with any subsequent issue of Notes.

FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a Temporary Global Note without interest coupons or talons, which will:

(i) if the Global Notes are intended to be issued in new Global Note (**NGN**) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper for Euroclear and Clearstream, Luxembourg; or

(ii) if the Global Notes are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common depositary for Euroclear and Clearstream, Luxembourg.

Where the Global Notes issued in respect of any Tranche are in NGN form, Euroclear or Clearstream, Luxembourg will be notified whether or not such Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The common safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg, as indicated in the applicable Final Terms.

Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent. Any reference in this section "*Form of the Notes*" to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits except in relation to Notes issued in NGN form, be deemed to include a reference to any additional or alternative ICSD specified in the applicable Final Terms.

On and after the date (the **Exchange Date**) which is 40 days after the date on which the Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable either for interests in a Permanent Global Note without interest coupons or talons or for definitive Notes (as indicated in the applicable Final Terms) in each case against certification as to non-U.S. beneficial ownership as described in the second sentence of the preceding paragraph required by U.S. Treasury regulations in accordance with the terms of the Temporary Global Note unless certification has already been given pursuant to the second sentence of the preceding paragraph. The holder of a Temporary Global Note will not be entitled to receive any payment of interest or principal due on or after the Exchange Date. Pursuant to the Agency Agreement the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and an ISIN by Euroclear and Clearstream, Luxembourg which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Payments of principal and interest (if any) on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not intended to be issued in NGN form) without any requirement for certification. A Permanent Global Note will be exchangeable, in whole but not in part, for security printed definitive Notes with, where applicable, interest coupons and talons attached upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means (i) in the case of Ordinary Notes, an Event of Default has occurred and is continuing or, in the case of Subordinated Notes, a payment default in accordance with Condition 12 has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative ICSD satisfactory to the Trustee is available or (iii) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 10 which would not be required were the Notes represented by the Permanent Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 19 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Agent requesting exchange and in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 30 days after the date of receipt of the first relevant notice by the Agent. Temporary and Permanent Global Notes and definitive Notes will be authenticated (if applicable) and delivered by the Agent on behalf of the Issuer.

The following legend will appear on all Notes (other than Temporary Global Notes) and interest coupons relating to such Notes where TEFRA D is specified in the applicable Final Terms:

> "Any United States person (as defined in the Internal Revenue Code of the United States) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition or payment of principal in respect of Notes or interest coupons.

No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

The Issuer may agree with any Dealer and the Trustee that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event a new Prospectus will be made available which will describe the effect of the agreement reached in relation to such Notes.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[*Date*]

Yorkshire Building Society

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the £5,000,000,000 Note Programme**

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 6 March 2015 (the **Prospectus**) [and the supplement[s] dated [*date[s]*] to the Prospectus], which [together] constitute[s] a prospectus for the purposes of the Prospectus Directive. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive. This document must be read in conjunction with the Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. Copies of the Prospectus [and the supplement[s] to the Prospectus] are available for viewing at the office of the Issuer at Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ and copies may be obtained from the Principal Paying Agent at 8 Canada Square, London E14 5HQ. The Prospectus has been published on the website of the London Stock Exchange at *www.londonstockexchange.com/exchange/news/market-news/market-news-home.html*.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Prospectus dated [*original date*], which are incorporated by reference in the Prospectus dated 6 March 2015 (the **Prospectus**). This document constitutes the Final Terms of the Notes for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus [and the supplement[s] dated [*date[s]*] to the Prospectus] which constitutes a base prospectus for the purposes of the Prospectus Directive, including the Conditions incorporated by reference in the Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. Copies of such Prospectuses are available for viewing at the office of the Issuer at Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ and copies may be obtained from the Principal Paying Agent at 8 Canada Square, London E14 5HQ. The Prospectus has been published on the website of the London Stock Exchange at *www.londonstockexchange.com/exchange/news/market-news/market-news-home.html*.

1.	(i)	Series Number:	[ ]
	(ii)	Tranche Number:	[ ]
	(iii)	Date on which the Notes will be consolidated and form a single Series:	The Notes will be consolidated and form a single Series with [ ] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 21 below, which is expected to occur on or about [ ]][Not Applicable]
2.	Specified Currency or Currencies:		[ ]
3.	Aggregate Nominal Amount:		
	—	Series:	[ ]
	—	Tranche:	[ ]
4.	Issue Price of Tranche:		[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [ ]]
5.	(i)	Specified Denominations:	[ ]

	(ii)	Calculation Amount:	[ ]
6.	(i)	Issue Date:	[ ]
	(ii)	Interest Commencement Date:	[/Issue Date/Not Applicable]
7.		Maturity Date:	[ ][Interest Payment Date falling in or nearest to [ ]]
8.		Interest Basis:	[[ ] per cent. Fixed Rate] [[ ] month [LIBOR/EURIBOR] +/- [ ] per cent. Floating Rate] [Zero Coupon] (further particulars specified below)
9.		Redemption/Payment Basis:	Subject to any purchase or cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [ ] per cent. of their nominal amount
10.		Change of Interest Basis:	[ ][Not Applicable]
11.		Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)] [Not Applicable]
12.	(i)	Status of the Notes:	[Ordinary/Subordinated]
	(ii)	Date Committee approval for issuance of Notes obtained:	[ ]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13.	**Fixed Rate Note Provisions**		[Applicable/Not Applicable]
	(i)	Rate(s) of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(ii)	Interest Payment Date(s):	[[ ] in each year up to and including the Maturity Date]/[ ]
	(iii)	Fixed Coupon Amount(s): *(Applicable to Notes in definitive form)*	[ ] per Calculation Amount
	(iv)	Broken Amount(s): *(Applicable to Notes in definitive form)*	[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]
	(v)	Day Count Fraction:	[Actual/Actual (ICMA) or 30/360]
	(vi)	[Determination Date(s):	[[ ] in each year][Not Applicable]]
14.	**Floating Rate Note Provisions**		[Applicable/Not Applicable]
	(i)	Specified Period(s)/Specified Interest Payment Dates:	[ ][, subject to adjustment in accordance with the Business Day Convention set out in (ii) below/, not subject to any adjustment, as the Business Day Convention in (ii) below is specified to be Not Applicable]

	(ii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(iii)	Additional Business Centre(s):	[[ ] / Not Applicable]
	(iv)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]
	(v)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[ ]
	(vi)	Screen Rate Determination	
		— Reference Rate:	[ ] month [LIBOR/EURIBOR]
		— Interest Determination Date(s):	[ ]
		— Relevant Screen Page:	[ ]
	(vii)	ISDA Determination:	
		— Floating Rate Option:	[ ]
		— Designated Maturity:	[ ]
		— Reset Date:	[ ]
	(viii)	Linear Interpolation	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
	(ix)	Margin(s):	[+/-] [ ] per cent. per annum
	(x)	Minimum Rate of Interest:	[ ] per cent. per annum
	(xi)	Maximum Rate of Interest:	[ ] per cent. per annum
	(xii)	Day Count Fraction:	[Actual/Actual (ISDA)][Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] [30E/360 (ISDA)]
15.	**Zero Coupon Note Provision**s		[Applicable/Not Applicable]
	(i)	Accrual Yield:	[ ] per cent. per annum
	(ii)	Reference Price:	[ ]
	(iii)	Day Count Fraction in relation to Early Redemption Amounts:	[30/360] [Actual/360] [Actual/365]

PROVISIONS RELATING TO REDEMPTION

16.	Notice periods for:		
	(i)	Condition 6(b)	Minimum period: [ ] Maximum period: [ ]

	(ii) Condition 6(e)	[Minimum period: [ ] Maximum period: [ ]][Not Applicable]
17.	Issuer Call:	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[ ]
	(ii) Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount]
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[ ]
	(b) Maximum Redemption Amount:	[ ]
	(iv) Notice periods:	Minimum period: [ ] Maximum period: [ ]
18.	Investor Put:	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[ ]
	(ii) Optional Redemption Amount:	[ ] per Calculation Amount
	(iii) Notice periods:	Minimum period: [ ] Maximum period: [ ]
19.	Final Redemption Amount of each Note:	[ ] per Calculation Amount
20.	Early Redemption Amount payable on redemption for taxation reasons, (in the case of Subordinated Notes) for regulatory reasons or on event of default:	[ ] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

21.	Form of Notes:	[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for definitive Notes only upon an Exchange Event [including/excluding] the exchange event described in paragraph (c) of the definition in the Permanent Global Note.] [Temporary Global Note exchangeable for definitive Notes on and after the Exchange Date.]
22.	New Global Note (NGN):	[Yes][No]
23.	Additional Financial Centre(s):	[Not Applicable/[ ]]
24.	Talons for future Coupons to be attached to Definitive Notes :	[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]

THIRD PARTY INFORMATION

[[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced inaccurate or misleading./[Not Applicable]]

Signed on behalf of Yorkshire Building Society:

By ....
Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i)	Listing and Admission to trading:	Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market and listing on the Official List of the UK Listing Authority with effect from [ ].
(ii)	Estimate of total expenses related to admission to trading:	[ ]

2. RATINGS

Ratings: The Notes to be issued [[have been]/[are expected to be] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

[Fitch:]
[Moody's:]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business/[Not Applicable]]

4. YIELD (*Fixed Rate Notes Only*)

Indication of Yield: [ ]

5. HISTORIC INTEREST RATES (*Floating Rate Notes Only*)

Details of historic [LIBOR/EURIBOR] rates can be obtained from [Reuters].

6. OPERATIONAL INFORMATION

(i)	ISIN:	[ ]
(ii)	Common Code:	[ ]
(iii)	Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking société anonyme and the relevant identification number(s):	[Not Applicable/[ ]]
(iv)	Delivery:	Delivery [against/free of] payment
(v)	Names and addresses of additional Paying Agent(s) (if any):	[ ]

7. DISTRIBUTION

(i)	Method of distribution:	[Syndicated/Non-syndicated]
(ii)	If syndicated, names of Managers:	[Not Applicable/[ ]]
(iii)	Date of Syndication Agreement:	[ ]
(iv)	If non-syndicated, name of relevant Dealer:	[Not Applicable/[ ]]

(v) U.S. Selling Restrictions:	[Reg. S Compliance Category 2; TEFRA D/TEFRA not applicable]

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Temporary Global Note and Permanent Global Note and which will be endorsed upon (or incorporated by reference into) each definitive Note. The Terms and Conditions shall be incorporated by reference into definitive Notes unless the relevant stock exchange or other relevant authority requires otherwise. The applicable Final Terms in relation to any Tranche (as defined below) of Notes may specify other terms and conditions which shall, to the extent so specified, supplement the following Terms and Conditions for the purpose of such Tranche of Notes. The applicable Final Terms will be endorsed upon, or attached to, each Temporary Global Note, Permanent Global Note and definitive Note. Reference should be made to "Form of the Final Terms" above for the form of Final Terms which will include the definition of certain terms used in the following Terms and Conditions.

This Note is one of a Series of notes (the notes of such Series being hereinafter called the **Notes**, which expression shall mean (i) in relation to Notes represented by a global note, units of the lowest Specified Denomination in the Specified Currency, (ii) definitive Notes issued in exchange (or part exchange) for a Global Note and (iii) any Global Note) constituted by a Trust Deed (such Trust Deed as modified and supplemented and/or restated from time to time, the **Trust Deed**) dated 28 July 1993 made between Yorkshire Building Society (the **Issuer**) and The Law Debenture Trust Corporation p.l.c. (the **Trustee**, which expression shall include any successor as trustee).

Interest bearing definitive Notes have interest coupons (**Coupons**) and, in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons (**Talons**) attached on issue. Any reference in these Terms and Conditions to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons.

Payments in respect of the Notes will be made under an Amended and Restated Agency Agreement (such Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 7 March 2014 made between the Issuer, HSBC Bank plc as issuing agent, principal paying agent and agent bank (the **Agent**, which expression shall include any successor as agent), the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents) and the Trustee.

The final terms for this Note are set out in Part A of the Final Terms attached hereto or endorsed hereon which supplements these Terms and Conditions (the **Conditions**). References herein to **applicable Final Terms** are to Part A of the Final Terms attached hereto or endorsed hereon. The expression **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area.

The Trustee acts for the benefit of the holders of the Notes (the **Noteholders**, which expression shall, in relation to any Notes represented by a Global Note, be construed as provided below) and the holders of the Coupons (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the Talons), all in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and forming a single series and (ii) are identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office of the Trustee (being at 6 March 2015 at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms may be obtained from the Issuer at Yorkshire Building Society, Yorkshire House, Yorkshire Drive, Bradford BD5 8LJ. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms, which are binding on them. Words and expressions defined in the Trust Deed or the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the Trust Deed, the Trust Deed will prevail and, in the event of inconsistency between the Agency Agreement or the Trust Deed and the applicable Final Terms, the applicable Final Terms will prevail.

1. Form, Denomination and Title

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the currency (the **Specified Currency**) and the denominations (the **Specified Denomination(s)**) specified in the applicable Final Terms. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

The Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note or any appropriate combination thereof depending upon the Interest Basis shown in the applicable Final Terms.

The Note may be an Ordinary Note or a Subordinated Note, as indicated in the applicable Final Terms.

If it is a definitive Note, it is issued with Coupons and, if applicable, Talons attached, unless it is a Zero Coupon Note in which case references to interest, Coupons and Couponholders in these Terms and Conditions are not applicable.

Without prejudice to the provisions relating to Global Notes set out below, title to the Notes and the Coupons will pass by delivery. Except as ordered by a court of competent jurisdiction or as required by law the Issuer, the Trustee, the Agent and any other Paying Agent shall be entitled to (subject as set out below) deem and treat the bearer of any Note or Coupon as the absolute owner thereof (whether or not such Note or Coupon shall be overdue and notwithstanding any notice to the contrary or any notation of ownership or writing thereon or notice of any previous loss or theft thereof) for the purpose of making payment thereon and for all other purposes.

For so long as any of the Notes is represented by a Global Note held by or on behalf of Euroclear Bank SA/NV (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee, the Agent and any other Paying Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such Notes, the right to which shall be vested, as against the Issuer, solely in the bearer of the Global Note in accordance with and subject to its terms (or the Trustee in accordance with the Trust Deed) (and the expressions **Noteholder, holder of Notes** and related expressions shall be construed accordingly). Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and/or Clearstream, Luxembourg, as the case may be.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Final Terms.

2. Status of Ordinary Notes

The Ordinary Notes and the relative Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer ranking *pari passu* among themselves and (subject as aforesaid) with all other present and future outstanding unsecured and unsubordinated obligations of the Issuer in respect of deposits and loans, except as provided by law.

3. Status and Subordination of Subordinated Notes

The Subordinated Notes and the relative Coupons are unsecured, subordinated obligations of the Issuer and rank and will rank *pari passu* without any preference among themselves.

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 being the holder of any Note or Coupon (as the case may be) be deemed to have waived all such rights of set-off, compensation or retention.

On a winding up of the Issuer, the claims of the Noteholders and the Couponholders shall be subordinated in right of payment to the claims of all Senior Creditors (as defined herein) in the manner provided in the Trust Deed.

For the purposes of this paragraph, **Senior Creditors** means (i) depositors and other creditors of the Issuer (including persons who become holders of deposits pursuant to Section 100 of the Building Societies Act 1986, as amended (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* or junior (whether only in the event of a winding up of the Issuer or otherwise) and (ii) (but only in respect of a winding up 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 (as defined in the Trust Deed) 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)).

4. Negative Pledge

As long as any of the Ordinary Notes remains outstanding (as defined in the Trust Deed) the Issuer will not create or have outstanding any mortgage, lien (other than arising by operation of law), pledge, charge or other security interest (other than a Permitted Security Interest (as defined herein)) upon, or with respect to, any of its present or future assets or revenues to secure any Loan Stock (as defined herein) or any guarantee of any Loan Stock, unless in any such case the Issuer shall simultaneously with, or prior to, the creation of such security interest, take any and all action necessary to procure that all amounts payable by it under the Ordinary Notes or, as the case may be, the Coupons and the Trust Deed are secured equally and rateably with the Loan Stock or guarantee secured by such security interest to the satisfaction of the Trustee or such other security is provided as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the holders of the Ordinary Notes or as shall be approved by an Extraordinary Resolution of the holders of the Ordinary Notes.

Government Entities means any body, agency, ministry, department, authority, statutory corporation or other entity of or pertaining to a member state of the European Economic Area or the government thereof or any political subdivision, municipality or local government thereof (whether autonomous or not).

Loan Stock means any indebtedness (as defined in the Trust Deed) in the form of, or represented by, notes, bonds, debentures or other securities which are or are intended by the Issuer to be quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other recognised securities market (whether or not initially distributed by way of private placing), but excluding any such indebtedness which has a stated maturity not exceeding one year.

Permitted Security Interest means any security interest created by the Issuer over the whole or any part of its present or future assets or revenues where such assets or revenues are comprised of the following (or are otherwise qualifying collateral for issues of covered bonds pursuant to any relevant contractual arrangements and/or specific provisions of the laws of England and Wales relating to covered bonds):

(i) mortgage receivables; or (ii) receivables against Government Entities (as defined herein); or (iii) asset-backed securities backed by any of the assets under paragraph (i) or (ii); or (iv) any other assets permitted by English law to collateralise covered bonds, in each case provided that the creation of such security interest is pursuant to the relevant contractual arrangements or, as the case may be, specific provisions of the laws of England and Wales relating to covered bonds applicable at the time of creation of such security interest.

Any reference in these Terms and Conditions to a guarantee shall be deemed to include a reference to an indemnity.

5. Interest

(a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a):

(i) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:

(a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and

(2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(ii) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Terms and Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date);

Fixed Interest Period means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date; and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) ***Interest on Floating Rate Notes***

(i) *Interest Payment Dates*

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

(B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(1) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls in the Specified Period after the preceding applicable Interest Payment Date occurred; or

(2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, **Business Day** means a day which is both:

(A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and

(B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively or (2) in relation to Notes denominated or payable in euro, a day on which the TARGET2 System is open. In these Terms and Conditions, **TARGET2 System** means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

(iii) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (iii), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions (as amended and updated as at the Issue Date of the first Tranche of the Notes and as published by the International Swaps and Derivatives Association, Inc. (the **ISDA Definitions**)) and under which:

(A) the Floating Rate Option is as specified in the applicable Final Terms;

(B) the Designated Maturity is a period equal to that Interest Period; and

(C) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purpose of this sub-paragraph (iii), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

If no Minimum Rate of Interest is specified in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

When this sub-paragraph (iii) applies, in respect of each relevant Interest Period the Agent will be deemed to have discharged its obligations under paragraph (vi) below in respect of the determination of the Rate of Interest if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this sub-paragraph (iii).

(iv) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation (if there is only one quotation on the Relevant Screen Page); or

(B) the arithmetic mean (rounded if necessary to the fourth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR or EURIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

(v) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(vi) Determination of Rate of Interest and calculation of Interest Amounts

The Agent will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

(A) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or

(B) in the case of Floating Rate Notes in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest for any Interest Period:

(i) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if "Actual/365 (sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(v) if "30/360, 360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where: I

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30; and

(vii) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

(vii) Linear Interpolation

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

Designated Maturity means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(viii) Notification of Rate of Interest and Interest Amounts

The Issuer will cause the Rate of Interest and each Interest Amount for each Interest Period and the relative Interest Payment Date to be notified to the Trustee and to any stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed and to be published in accordance with Condition 19 as soon as possible after their determination but in no event later than the fourth London Business Day (as defined below) thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will be promptly notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 19. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(ix) Determination or calculation by Trustee

If for any reason the Agent at any time after the Issue Date defaults in its obligation to determine the Rate of Interest or calculate any Interest Amount in accordance with sub-paragraphs (ii), (iii) or (iv) above, as the case may be, and, in each case, (vi) above, the Trustee shall determine the Rate of Interest at such rate, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent.

(x) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this paragraph (b), whether by the Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the Trustee, the other Paying Agents and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Agent or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions pursuant to such provisions.

(c) *Interest Accrual*

Interest (if any) will cease to accrue on each Note on the due date for redemption thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused in which event interest will continue to accrue as provided in the Trust Deed.

6. Redemption and Purchase

(a) *Final redemption*

Unless previously redeemed or purchased and cancelled as provided below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

(b) *Redemption for taxation reasons*

Subject (in the case of Subordinated Notes only) to Regulatory Approval and compliance with the Regulatory Preconditions (each as defined below), and provided that notice is given (within the period specified in the applicable Final Terms) to the Trustee and, in accordance with Condition 19, the Noteholders (which notice shall be irrevocable), if :

(i) as a result of a Tax Law Change:

(a) on the occasion of the next payment due in respect of the Notes, the Issuer will or would be required to pay Additional Amounts as defined in Condition 10 or to account to any taxing authority in the United Kingdom for any amount (other than any tax withheld or deducted from interest payable in respect of the Notes) calculated by reference to any amount payable in respect of the Notes; or

(b) (in the case of Subordinated Notes only) the Issuer would not be entitled to claim a deduction in respect of any interest payable in respect of the Notes in computing its taxation liabilities or the amount of any such deduction would be materially reduced,

provided that the consequences of such event cannot be avoided by the Issuer taking reasonable measures available to it (each such event being referred to as a **Tax Event**); and

(ii) in the case of Subordinated Notes only (provided this is a requirement of the then prevailing Capital Adequacy Regulations), the Issuer has demonstrated to the satisfaction of the Supervisory Authority that such Tax Event is material and was not reasonably foreseeable as at the Issue Date of such Subordinated Notes,

the Issuer may redeem at any time (if this Note is not a Floating Rate Note) or on the next Interest Payment Date (if this Note is a Floating Rate Note) all (but not some only) of the Notes at their Early Redemption Amount referred to in paragraph (h) below together, if applicable, with interest accrued to (but excluding) the date fixed for redemption. Upon the expiry of such notice the Issuer shall be bound to redeem the Notes accordingly.

Prior to the publication of any notice of early redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Trustee a certificate signed by any two authorised signatories of the Issuer stating that the relevant requirement or circumstance giving rise to the right to redeem is satisfied. The Trustee shall be entitled, without liability to any person, to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the relevant conditions precedent, in which event it shall be conclusive and binding on the Trustee and the Noteholders.

(c) *Redemption at the option of the Issuer (Issuer Call)*

Subject (in the case of Subordinated Notes only) to Regulatory Approval and compliance with the Regulatory Preconditions, if Issuer Call is specified in the applicable Final Terms, the Issuer may, having given notice (within the period specified in the applicable Final Terms) to the Trustee, the Agent and, in accordance with Condition 19, the holders of the Notes (which notice shall be irrevocable), redeem all or some only of the Notes then outstanding on the Optional Redemption Date(s) and at the Optional Redemption Amount(s), as specified in the applicable Final Terms, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). Upon expiry of such notice the Issuer shall be bound to redeem the Notes accordingly. In the event of a redemption of some only of the Notes, such redemption must be for an amount being the Minimum Redemption Amount or a Maximum Redemption Amount. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will (i) be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and (ii) in the case of Redeemed Notes represented by a Global Note, in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of such Redeemed Notes will be published in accordance with Condition 19 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this sub-paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 19 at least 10 days prior to the Selection Date.

(d) ***Redemption at the option of the holders of Ordinary Notes (Investor Put)***

If Investor Put is specified in the applicable Final Terms, upon the holder of this Note (unless this Note is a Subordinated Note) giving notice to the Issuer, in accordance with Condition 19, (within the period of notice specified in the applicable Final Terms (which notice shall be irrevocable)), the Issuer will, upon the expiry of such notice, redeem in whole (but not in part) such Note on the Optional Redemption Date and at the Optional Redemption Amount as specified in the applicable Final Terms, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date.

If this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must deliver such Note, on any Business Day (as defined in Condition 5(b)(i)) falling within the notice period at the specified office of any Paying Agent, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition. If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary or common safekeeper, as the case may be, for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

(e) ***Regulatory Event Redemption of Subordinated Notes***

Subject to Regulatory Approval and compliance with the Regulatory Preconditions, the Issuer may, in its sole discretion, if a Regulatory Event has occurred and is continuing, having given notice (within the period specified in the applicable Final Terms) to the Trustee, the Agent and, in accordance with Condition 19, the Noteholders (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Subordinated Notes at their Early Redemption Amount referred to in paragraph (h) below together, if applicable, with interest accrued to (but excluding) the date fixed for redemption.

Prior to the publication of any notice of early redemption pursuant to this Condition 6(e), the Issuer shall deliver to the Trustee a certificate signed by any two authorised signatories of the Issuer confirming that a Regulatory Event has occurred and is continuing. The Trustee shall be entitled, without liability to any person, to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the relevant conditions precedent, in which event it shall be conclusive and binding on the Trustee and the Noteholders. Upon the expiry of such notice the Issuer shall be bound to redeem the Subordinated Notes accordingly.

(f) ***Purchases***

Subject (in the case of Subordinated Notes only) to Regulatory Approval and compliance with the Regulatory Preconditions, the Issuer or any of its Subsidiaries may, at any time purchase or otherwise acquire Notes (provided that, in the case of definitive Notes, all unmatured Coupons appertaining thereto are attached thereto or surrendered therewith) in the open market either by tender or private agreement or otherwise, without restriction as to price.

(g) ***Late Payment on Zero Coupon Notes***

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c), (d) or (e) above or upon its becoming due and repayable as provided in Condition 11 (if this Note is not a Subordinated Note) or Condition 12 (if this Note is a Subordinated Note) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (h)(ii) below as though the references therein to the date fixed for redemption or the date upon which such Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

(1) the date on which all amounts due in respect of the Zero Coupon Note have been paid; and

(2) the date on which the full amount of the moneys payable has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 19 or individually.

(h) ***Early Redemption Amounts***

For the purposes of paragraphs (b) and (e) above and Condition 11 (if this Note is not a Subordinated Note) or Condition 12 (if this Note is a Subordinated Note)

(i) each Note (other than a Zero Coupon Note) will be redeemed at its Early Redemption Amount; or

(ii) each Zero Coupon Note, will be redeemed at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

Early Redemption Amount = RP x $(1 + AY)^y$

where:

RP means the Reference Price;

AV means the Accrual Yield, expressed as a decimal; and

y is the Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

(i) ***Cancellation***

All Notes which are (i) redeemed in full or (ii) purchased by or on behalf of the Issuer or any Subsidiary of the Issuer (except purchases made in the ordinary course of a business of a dealer in securities) will forthwith be cancelled (together with, in the case of definitive Notes, all unmatured Coupons attached thereto or surrendered therewith) and such Notes may not be re-issued or resold.

(j) ***Definitions***

As used in these Conditions:

Capital Adequacy Regulations means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy then applicable to the Issuer (and, for the avoidance of doubt, including as at the Issue Date the rules contained in, or implementing the Capital Requirements Directive and the Capital Requirements Regulation);

Capital Requirements Directive means Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms dated 26 June 2013, as amended or replaced from time to time;

Capital Requirements Regulation means Regulation 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms dated 26 June 2013, as amended or replaced from time to time;

Regulatory Approval means, at any time, such approval, consent, prior permission or non-objection from, or notification required within prescribed periods to, the Supervisory Authority, or such waiver of the then prevailing Capital Adequacy Regulations from the Supervisory Authority, as is required under the then prevailing Capital Adequacy Regulations at such time;

Regulatory Event means, as a result of any change (or pending change which the Supervisory Authority considers to be sufficiently certain) in the regulatory classification of the Notes under the Capital Adequacy Regulations that (if required by the then prevailing Capital Adequacy Regulations) the Issuer demonstrates to the satisfaction of the Supervisory Authority was not reasonably foreseeable as at the Issue Date of the Notes, all of the Notes are (or would be) excluded in full from the Issuer's Tier 2 Capital;

Regulatory Preconditions means (where such preconditions are required under the then prevailing Capital Adequacy Regulations at the time) in relation to any redemption of the Notes pursuant to Conditions 6(b), 6(c) or 6(e) or a purchase of the Notes pursuant to Condition 6(f):

(a) either: (i) the Issuer having replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or (ii) the Issuer having demonstrated to the satisfaction of the Supervisory Authority that the own funds of the Issuer would, following such redemption or repurchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Supervisory Authority considers necessary at such time; and

(b) if, at the time of such redemption or purchase, the prevailing Capital Adequacy Regulations permit the redemption or purchase after compliance with an alternative pre-condition to either or both of those set out in paragraph (a) above, or require compliance with an additional pre-condition, the Issuer having complied with such other pre-condition;

Supervisory Authority means the Prudential Regulation Authority (**PRA**) and any the successor or replacement thereto or such other authority (whether of the United Kingdom, the European Union or elsewhere) having primary responsibility for the prudential oversight and supervision of the Issuer;

Tax Law Change means an introduction or change, or change in official interpretation or application, of any laws, regulations, pronouncements, judicial decisions, standards or guidelines which change becomes effective on or after the date of issue on the first Tranche of the relevant Notes; and

Tier 2 Capital has the meaning given to it (or any successor term) in the Capital Adequacy Regulations.

7. Payments

(a) *Method of Payment*

Subject as provided below:

(i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars, shall be Sydney and, if the Specified Currency is New Zealand dollars, shall be Auckland); and

(ii) payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases (i) to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 as amended (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 10) any law implementing an intergovernmental approach thereto.

(b) *Presentation of definitive Notes and Coupons*

Subject as provided below, payments of principal and interest (if any) in respect of definitive Notes (if issued) will be made against presentation and surrender of definitive Notes or Coupons, as the case may be, at any specified office of any Paying Agent.

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent. A record of each payment made on such Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by such Paying Agent and such record shall be prima facie evidence that the payment in question has been made.

The holder of the relevant Global Note (or, as provided in the Trust Deed, the Trustee) shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note (or the Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of the relevant Global Note (or the Trustee, as the case may be). No person other than the holder of the relevant Global Note (or, as provided in the Trust Deed, the Trustee) shall have any claim against the Issuer in respect of any payments due on that Global Note.

Notwithstanding the foregoing, payments of interest in U.S. Dollars will only be made at the specified office of any Paying Agent in the United States (which expression, as used herein, means the United States of America (including the States and District of Columbia, its territories, its possessions and other areas subject to its jurisdiction) if (a) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment at such specified offices outside the United States of the full amount of interest on the Notes in the manner provided above when due, (b) payment of the full amount of such interest at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

Fixed Rate Notes in definitive form should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall include Coupons falling to be issued on exchange of matured Talons), failing which an amount equal to the face value of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon at any time before the expiry of ten years after the relevant date (as defined in Condition 10) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 13) or, if later, five years from the date on which such Coupon would otherwise have become due.

Upon any Fixed Rate Note becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the due date for redemption of any Floating Rate Note in definitive form, all unmatured Coupons and Talons (if any) relating to such Note (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

(c) *Payment Day*

If any date for payment of any amount in respect of any Note or Coupon is not a Payment Day (as defined below), then the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day and shall not be entitled to any interest or other sum in respect of any such delay. In this Condition (unless otherwise specified in the applicable Final Terms), **Payment Day** means any day which (subject to Condition 13) is:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

(a) in the case of Notes in definitive form only, the relevant place of presentation;

(b) each Additional Financial Centre specified in the applicable Final Terms; and

(ii) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

If the due date for redemption of any interest bearing Note in definitive form is not a due date for the payment of interest relating thereto, interest accrued in respect of such interest bearing Note from (and including) the last preceding due date for the payment of interest (or from (and including) the Interest Commencement Date, as the case may be) will be paid only against surrender of such interest bearing Note.

(d) ***Interpretation of Principal and Interest***

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(i) any additional amounts which may be payable with respect to principal under Condition 10 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed;

(ii) the Final Redemption Amount of the Notes;

(iii) the Early Redemption Amount of the Notes;

(iv) the Optional Redemption Amount(s) (if any) of the Notes; and

(v) any premium and any other amounts which may be payable under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 10 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

8. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 13. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

9. Agent and Paying Agents

The names of the initial Agent and the other initial Paying Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms. The Issuer will procure that so long as any Floating Rate Note remains outstanding there shall at all times be an Agent for the purposes of such Notes. In the event of the appointed office of any such bank being unable or unwilling to continue to act as the Agent, or failing duly to determine the Rate of Interest or to calculate the Interest Amounts for any Interest Period, the Issuer shall appoint the London office of such other bank as may be approved by the Trustee to act as such in its place. The Agent may not resign its duties or be removed from office without a successor having been appointed as aforesaid. The Issuer may, with the prior approval of the Trustee, vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts provided that it will, so long as any of the Notes is outstanding, maintain (i) a Paying Agent (which may be the Agent) having a specified office in a city approved by the Trustee in continental Europe other than the jurisdiction in which the Issuer is incorporated, (ii) so long as any of the Notes are listed on any stock exchange (or any other relevant authority), a Paying Agent (which may be the Agent) having a specified office in each location required by the rules and regulations of the relevant stock exchange (or any other relevant authority) and (iii) a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the fourth paragraph of Condition 7(b). Notice of any such variation, termination, appointment or change will be given by the Issuer to the Noteholders in accordance with Condition 19.

10. Taxation

All payments of principal and interest (if any) in respect of the Notes and Coupons by the Issuer will be made without withholding of, or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer will pay such additional amounts (**Additional Amounts**) as may be necessary in order that the net amounts receivable by the Noteholders and Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest (if any) which would have been receivable in respect of the Notes or Coupons (as the case may be) in the absence of such withholding or deduction, except that no such additional amounts shall be payable with respect to any Note or Coupon:

(i) presented for payment by or on behalf of a holder who (a) is able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom otherwise than merely by the holding of such Note or Coupon; or

(ii) presented for payment in the United Kingdom; or

(iii) 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 on the last day of such period of 30 days; or

(iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(v) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

For this purpose, the **relevant date** means the date on which the payment in respect of the Note or Coupon first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Agent or the Trustee on or prior to such date, the **relevant date** means the date on which, such moneys having been so received, notice to that effect shall have been given to the Noteholders in accordance with Condition 19.

11. Events of Default and Enforcement relating to Ordinary Notes

This Condition 11 only applies to Ordinary Notes. The Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 per cent. in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction), (but, in the case of the happening of any of the events mentioned in paragraphs (ii) to (vii) below (inclusive), only if the Trustee shall have certified that, in its opinion, such event is materially prejudicial to the interests of the Noteholders) give notice to the Issuer that the Notes are, and they shall accordingly immediately become, due and repayable at their Early Redemption Amount (as described in Condition 6(h)), together with accrued interest (if any) as provided in the Trust Deed, if any of the following events (each an **Event of Default**) occurs:

(i) there is default for 14 days or more in respect of the payment of principal or interest in respect of the Notes or any of them in each case when and as the same ought to be paid; or

(ii) there is default by the Issuer in the performance or observance of any covenant, condition or provision contained in the Trust Deed or in the Notes or Coupons and on its part to be performed or observed (other than the covenant to pay the principal and interest in respect of any of the Notes) and (except where the Trustee determines that such default is not capable of remedy when no such notice or continuation as is hereinafter mentioned shall be required) such default continues for the period of 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

(iii) (a) if any other present or future indebtedness of the Issuer or any Principal Subsidiary (as defined below) becomes due and payable prior to its stated maturity by reason of a default; or

(b) if any such indebtedness is not paid when due or (as the case may be) within any applicable grace period therefor as originally provided; or

(c) if the Issuer or any Principal Subsidiary fails to pay when due or (as the case may be) within any applicable grace period therefor as originally provided any amount payable by it under any present or future guarantee (other than any guarantee given in the ordinary course of its businesses) in respect of any indebtedness; or

(d) if any mortgage, charge, pledge, lien or other encumbrance present or future securing any such indebtedness or guarantee as aforesaid and created or assumed by the Issuer or any Principal Subsidiary becomes enforceable and the holder thereof takes any steps to enforce the same,

provided, however, that the aggregate principal amount of any such indebtedness shall at the time exceed £10,000,000 (or its equivalent in any other currency or currencies); or

(iv) a distress or execution or other legal process is levied or enforced or sued out upon or against the whole or any substantial part of the property, assets or revenues of the Issuer or any Principal Subsidiary and is not discharged or stayed within 30 days of having been so levied, enforced or sued out; or

(v) save for the occurrence of any of the following events in the case of the Issuer in connection with an amalgamation pursuant to Section 93 of the Act, a transfer of all of the Issuer's engagements pursuant to Section 94 of the Act or a transfer of its business pursuant to Section 97 of the Act, the Issuer or any Principal Subsidiary becomes insolvent or stops or threatens to stop payment of or is unable to pay its debts as they mature or applies for or consents to or suffers the appointment of a liquidator or an administrative or other receiver or an administrator of itself or the whole or any substantial part of its undertaking, property, assets or revenues or takes any proceedings under any law for a readjustment or deferment of its obligations or any part thereof or makes or enters into a general assignment or an arrangement or composition with or for the benefit of its creditors or, save as aforesaid or for the purposes of a reconstruction, union, transfer, merger or amalgamation effected with the consent of the Trustee or with the approval of an Extraordinary Resolution of the Noteholders, ceases or threatens to cease to carry on its business or any substantial part of its business; or

(vi) save:

(a) in the case of the Issuer, as a result of an amalgamation pursuant to Section 93 of the Act, a transfer of all of the Issuer's engagements pursuant to Section 94 of the Act or a transfer of its business pursuant to Section 97 of the Act; or

(b) in the case of a Principal Subsidiary, for a solvent winding up of such Principal Subsidiary pursuant to which the assets thereof attributable directly or indirectly to the Issuer are distributable to any one or more of the issuer and its other Subsidiaries; or

(c) in any case, for the purposes of a reconstruction, union, transfer, merger or amalgamation effected with the consent of the Trustee or with the approval of an Extraordinary Resolution of the Noteholders, an order is made or an effective resolution is passed for the winding up or dissolution of the Issuer or any Principal Subsidiary or the authorisation or registration of the Issuer is or is proposed to be cancelled, suspended or revoked, or anything analogous or similar to any of the foregoing occurs; or

(vii) the Issuer ceases to be a building society for the purposes of the Act or the Issuer transfers its assets or engagements save:

(a) as a result of an amalgamation pursuant to Section 93 of the Act, a transfer of all of the Issuer's engagements pursuant to Section 94 of the Act or a transfer of its business pursuant to Section 97 of the Act; or

(b) for the purposes of a reconstruction, union, transfer, merger or amalgamation effected with the consent of the Trustee or with the approval of an Extraordinary Resolution of the Noteholders; or

(c) as a result of an arrangement whereunder the Issuer shall cease to be a building society for the purposes of the Act the terms of which arrangement have been approved by an Extraordinary Resolution of the Noteholders.

Principal Subsidiary means a Subsidiary whose total assets (attributable to the Issuer) represent 10 per cent. or more of the consolidated total assets of the Issuer and the Subsidiaries taken as a whole (all as more particularly described in the Trust Deed). A report by the Auditors (as defined in the Trust Deed) that in their opinion a Subsidiary is or is not or was or was not at any particular time a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

The Trustee may at its discretion and without further notice take such proceedings as it may think fit to enforce the obligations of the Issuer under the Trust Deed and the Notes and Coupons, but it shall not be bound to take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by holders of at least 25 per cent. in nominal 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 shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure is continuing.

12. Events of Default and Enforcement relating to Subordinated Notes

This Condition 12 only applies to Subordinated Notes.

(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 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 the terms of which have previously been approved in writing by the Trustee or 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), 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 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 Early Redemption Amount (as described in Condition 6(h)) 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.

13. Prescription

Notes and Coupons shall become void unless presented for payment within 10 years (in the case of Notes) and five years (in the case of Coupons), in each case from the relevant date (as defined in Condition 10) therefor, subject to the provisions of Condition 7. There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition 13 or Condition 7 or any Talon which would be void pursuant to Condition 7.

14. Meetings of Noteholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Terms and Conditions or the provisions of the Trust Deed subject, in the case of modifications with respect to Subordinated Notes and Coupons, to Regulatory Approval (as defined in Condition 6(j) and compliance with the Regulatory Preconditions (as defined in Condition 6(j)). The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority of the nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes for the time being outstanding so held or represented, except that, at any meeting, the business of which includes the modification of certain of these Terms and Conditions or of certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the nominal amount of the Notes for the time being outstanding.

An Extraordinary Resolution passed at any meeting of Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Trust Deed provides that the Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification (subject as provided above) of, or to any waiver or authorisation of any breach or proposed breach of, any of the terms and conditions of the Notes or any of the provisions of the Trust Deed which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders or to any modification thereof which is of a formal, minor or technical nature or which is made to correct a manifest error. Any such modification, waiver or authorisation shall be binding on the Noteholders and Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 19.

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 10 and/or any undertaking given in addition to, or in substitution for, Condition 10 pursuant to the Trust Deed.

15. Substitution

(i) Subject as provided in the Trust Deed, the Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the Noteholders, may agree, without the consent of the Noteholders or Couponholders, to the substitution of any Successor in Business of the Issuer (as defined in the Trust Deed) or of a Subsidiary of the Issuer or any such Successor in Business, not being in any such case a building society formed by the amalgamation of the Issuer and one or more other building societies pursuant to Section 93 of the Act or a building society to which the Issuer has transferred its engagements pursuant to Section 94 of the Act or the successor in accordance with Section 97 or other applicable provisions of the Act, in place of the Issuer as principal debtor under the Trust Deed, the Notes and Coupons, provided (in the case of the substitution of any company which is a Subsidiary of the Issuer or such Successor in Business) 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 (in the case of Subordinated Notes) the obligations of such Successor in Business or Subsidiary of the Issuer or of any such Successor in Business 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.

(ii) 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 without any prior approval thereof being required from the Noteholders, Couponholders or the Trustee provided that (in the case of Subordinated Notes):

(a) in the case of a proposed transfer in accordance with Section 97 and other such applicable provisions, either (1) the Issuer satisfies the Trustee that the successor will be an authorised person for the purposes of the FSMA (or any statutory modification or re-enactment thereof) or (2) if such evidence is not so delivered, procure that such transfer is approved by an Extraordinary Resolution of the Noteholders;

(b) in connection with such transfer, any variation or supplement to the Conditions must not be one which would or might cause any of the financial resources derived by the Issuer from the issue of the Notes to which the Trust Deed relates and which comprise Tier 2 Capital to be excluded from the financial resources considered appropriate by the Supervisory Authority for the purposes of paragraph 4(1) of Schedule 6 to the FSMA; and

(c) the circumstances in which such variation or supplement may take place are limited to dealing with matters arising out of the procedure by which the transfer takes place and the constitution of the transferee, which variation or supplement shall be effected by the execution of a trust deed supplemental to the Trust Deed and shall bind any successor as fully as if the successor had been named in the Trust Deed as principal debtor in place of the Issuer. A memorandum of any such supplemental trust deed shall be endorsed by the Trustee on the Trust Deed and by the Issuer on the duplicate of the Trust Deed.

(iii) Any substitution referred to in paragraphs (i) and (ii) above shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders by the Issuer as soon as practicable thereafter in accordance with Condition 19.

16. Further Issues

The Issuer is at liberty from time to time without the consent of the Noteholders or Couponholders to create and issue further notes ranking *pari passu* in all respects (or in all respects save for the date for, and the amount of, the first payment of interest thereon) with the outstanding Notes and so that the same shall be consolidated and form a single series with the outstanding Notes.

17. Replacement of Notes, Coupons and Talons

If a Note (including any Global Note), Coupon or Talon is mutilated, defaced, destroyed, stolen or lost it may be replaced at the specified office of the Agent in London, or any other place approved by the Trustee of which notice shall have been published in accordance with Condition 19, on payment of such costs as may be incurred therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

18. Indemnification

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances including provisions relieving it from instituting proceedings to enforce repayment unless indemnified to its satisfaction.

19. Notices

All notices regarding the Notes will be valid if published in the *Financial Times* or any other daily newspaper in the United Kingdom approved by the Trustee or, if this is not possible, in one other English language daily newspaper approved by the Trustee with general circulation in Europe (including the United Kingdom). The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange for any other relevant authority) on which the Notes are for the time being listed or admitted to trading. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication.

Until such time as any definitive Notes are issued, there may, so long as any Global Note is held in its entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication as aforesaid the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the Noteholders. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg, as appropriate.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any Noteholder to the Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

20. Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21. Governing Law

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

USE OF PROCEEDS

The net proceeds from each issue of Notes will be used by the Issuer for the general funding purposes of its business.

YORKSHIRE BUILDING SOCIETY

Introduction

Yorkshire Building Society's principal office is at Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ (telephone number: 01274 740740). The Society and its subsidiaries (the **Group**) was, in terms of total assets, at 31 December 2014 the second largest building society in the United Kingdom with total assets of £37.6 billion (source: Report and Accounts 2014).

The Society was formed in 1884 as The Bradford Self-Help Permanent Building Society. It was incorporated in England in 1885 under the Building Societies Act 1874. In 1975 it merged with the Huddersfield Building Society (incorporated in 1864) to become the Huddersfield and Bradford Building Society. The present name was adopted following a further merger with the West Yorkshire Building Society in 1982. The engagements of Haywards Heath Building Society were transferred to the Society on 31 December 1992. On 31 December 2001 the Gainsborough Building Society merged with the Society. The engagements of Barnsley Building Society were transferred to the Society on 31 December 2008, on 1 April 2010 the engagements of Chelsea Building Society were transferred to the Society and on 1 November 2011, the engagements of Norwich and Peterborough Building Society were transferred to the Society, in each case under section 94 of the Building Societies Act 1986. The Barnsley, Chelsea and N&P names have been retained as separate and distinct brands within the Society.

On 31 October 2011, the Society acquired the mortgages and savings business of Egg Banking plc, comprising a £2.1 billion savings book and a £0.4 billion mortgage book. As part of the transaction, the Society acquired the Egg brand.

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

Constitution

The Society is regulated by the Financial Conduct Authority and the Prudential Regulation Authority and operates in accordance with the Building Societies Act and the Society's memorandum (the **Memorandum**) and rules (the **Rules**). It is an authorised building society within the meaning of the Building Societies Act and is registered under the FSMA, Registered Number 66B.

The Society, as a building society, is a mutual organisation and, unlike a company incorporated under the Companies Act 1985 or the Companies Act 2006, does not have equity shareholders in the usual sense. A share in the Society is not the same as a share in a company and voting power is not weighted according to the number or value of shares held. No individual member is entitled to more than one vote on any resolution proposed at a general meeting. Holders of investment shares may withdraw funds from their share accounts subject to the rules of the Society and the terms upon which their shares are issued. Depositors with and lenders to the Society are not members and accordingly have no voting rights.

A building society may, subject to the approval of its members (by a requisite shareholders' resolution of investing members and a borrowing members' resolution) and confirmation by the relevant regulatory authority, transfer its business to a specially formed public company limited by shares incorporated in the United Kingdom or an EEA company which has power to offer its shares or debentures to the public in a procedure commonly referred to as "conversion" or to an existing successor company which is a public company limited by shares incorporated in the United Kingdom or an EEA company with power to offer its shares or debentures to the public in a procedure commonly referred to as a "takeover".

The Mutual Societies Transfer Order modifies section 97 of the Building Societies Act to permit a building society to transfer the whole of its business to a relevant subsidiary of a building society, friendly society or registered society within the meaning of the Co-operative and Community Benefit Societies Act 2014 incorporated in the United Kingdom or other EEA mutual society (as defined in that legislation).

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

The affairs of the Society are conducted and managed by a board of directors who are elected by members of the Society and who serve in accordance with the rules of the Society. The board is responsible to the members for the proper conduct of the affairs of the Society and appoints and supervises the senior executives of the Society who are responsible to the board for the day-to-day management of the Society. Eligibility to vote at general meetings is governed by the Building Societies Act and the rules of the Society.

Board of Directors

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

Directors	*Date of birth*	*Date of appointment as a Director*	*Business Occupation*	*Other Directorships*
Edmund John Seward Anderson, B.Sc, CPFA*	22 December 1950	19 May 2003	Company Director	Airport Operators Association Ltd Opera North Ltd The Tablet Publishing Company Ltd University of Leeds
Dame Katharine Mary Barker, DBE, CBE	29 November 1957	5 November 2010	Economist	Coal Pension Trustee Services Ltd Coal Staff Superannuation Scheme Trustees Ltd Electra Private Equity Plc Essex Community Foundation Kate Barker Ltd Society of Business Economics Taylor Wimpey plc
Ian Jeffrey Bullock, B.Sc, FIA	7 November 1960	12 April 2007	Chief Customer Officer and Executive Director	Accord Mortgages Ltd BCS Loans & Mortgages Ltd Mutualplus Ltd
Andrew Mark Caton, BA	27 July 1963	1 July 2004	Chief Corporate Affairs and Treasury Officer and Executive Director	Arkose Funding Limited Bradford Enterprise Agency Ltd Chelsea Building Society Charitable Foundation Chelsea Mortgage Services Ltd Norwich and Peterborough (LBS) Ltd West and North Yorkshire Chamber of Commerce and Industry YBS Investments (No. 1) Ltd YBS Investments (No. 2) Ltd Yorkshire Building Society Charitable Foundation Yorkshire Guernsey Ltd
Lynne Frances Charlesworth, BA, MBA	24 August 1956	31 December 2006	Company Director	St. James Investments Ltd St. James Investment Company UK No. 3 Ltd
Robin James Churchouse, MA, ACA	16 January 1966	1 June 2010	Chief Operating Officer and Finance Director	BCS Loans & Mortgages Ltd Chelsea Mortgage Services Ltd Norwich and Peterborough General Insurance Services Ltd Norwich and Peterborough Insurance Brokers Ltd Norwich and Peterborough Insurance Services Ltd Norwich and Peterborough Sharedealing Services Ltd YBS Investments (No.1) Ltd YBS Investments (No. 2) Ltd Yorkshire Building Society Estate Agents Ltd Yorkshire Key Services Ltd Yorkshire Key Services (No.2) Ltd
John Richard Heaps, LLB**	8 July 1958	20 November 2014	Solicitor	Eversheds Legal Services Ltd Garden Bridge Trust
Alison Elizabeth Hutchinson	5 February 1967	4 February 2015	Non-executive Director	Your Penny Limited LMAX Ltd CAF Nominees Ltd Aviva Annuity UK Ltd Aviva Life & Pensions UK Ltd Aviva Life Holdings UK Ltd Aviva Services UK Ltd
Philip Robert Johnson, FCA***	12 October 1946	1 June 2007	Chartered Accountant	Cheadle Hulme School Cheadle Hulme School Enterprise Ltd Lakeland Ltd Rugby Football Foundation
David Victor Paige BSc, FCA	3 July 1951	31 December 2006	Company Director	IFG Group PLC Willis Ltd

Mark Andrew Pain BSc, FCA	15 June 1961	1 August 2013	Company Director	Aviva Insurance Limited Johnston Press PLC London Square (Caledonian Road) Limited London Square (Chigwell) Ltd London Square (Crimscott Street) Limited London Square Developments (Holdings) Limited London Square (Holdings) Ltd London Square (Leonard St) Limited LSQ Management Ltd Somerset House Enterprises Limited Somerset House Trust Spirit Pub Company PLC
Guy Paul Cuthbert Parsons BA	31 July 1965	1 May 2013	Company Director	Commercial Services Kent Ltd Commercial Services Trading Ltd Kent County Trading Ltd Nescot Business Services Ltd Nescot Consortium Services LLC Warmup Plc
Christopher John Pilling MA	30 March 1965	31 December 2011	Chief Executive	Department of Health
Michael Charles Regnier, MENG, MBA	30 September 1971	3 June 2014	Chief Commercial Officer and Executive Director	None

* Edmund John Seward Anderson is to retire from the Board of Directors at the conclusion of the annual general meeting of the Society on 21 April 2015.

** John Richard Heaps is to be appointed Chairman of the Board of Directors at the conclusion of the annual general meeting of the Society on 21 April 2015.

*** Philip Robert Johnson is to retire from the Board of Directors at the conclusion of the annual general meeting of the Society on 21 April 2015.

The business address of the Society's Directors is at Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ.

Management

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

C. J. Pilling, MA	*Chief Executive Officer*
A. M. Caton, BA	*Chief Corporate Affairs and Treasury Officer and Executive Director*
R. J. Churchouse, MA, ACA	*Chief Operating Officer and Finance Director*
I. J. Bullock, B.Sc, FIA	*Chief Customer Officer and Executive Director*
J.M.M. Hanson, BA, MBA	*Chief People Officer*
D. Henderson, B.Sc	*Chief Information and Change Officer*
M. Regnier, MENG, MBA	*Chief Commercial Officer and Executive Director*
R.S.Wells, FCIB	*Chief Risk Officer*

The business address of the Society's senior executives is at Yorkshire House, Yorkshire Drive, Bradford, West Yorkshire BD5 8LJ.

There exists no potential conflicts of interest between (i) any duties owed to the Society by any member of the board of directors or any of the senior executives listed above and (ii) their private interests and/or other duties.

Business and Strategy of the Society

The Group vision is to be the most trusted provider of financial services in the United Kingdom. The vision is underpinned by 5 strategic priorities: to attract and retain the best talent; to deliver a market-leading customer experience; to deliver sustainable financial performance; to deliver easy and simple products, processes and systems for all channels and brands, and to be locally famous.

Financial management of the Group is aimed at achieving a balance between delivering value and service to its members whilst maintaining financial strength for the long term. This means that products are priced to deliver long term value to members whilst generating sufficient profits to maintain the Group's strong capital position since retained profits are the Group's primary source of capital.

The Group's strategy is reflected in its business model, focused on the provision of retail financial services in the United Kingdom. The primary markets in which the Society operates are retail deposit taking, residential mortgage lending (both direct and intermediary via is wholly owns subsidiary, Accord Mortgages Limited), buy to let lending, current accounts and the sale of related general insurance, protection and investment products through third party product providers.

Further details of the Society's strategy, and the steps being taken by the Group to implement the strategy, are set out in the Annual Report and Accounts of the Society for the financial year ended 31 December 2014, which are incorporated by reference in this Prospectus.

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

Recent Developments

In 2014, the FCA imposed a fine of £4.1 million on the Society for failure to promptly identify the cause of some customers' mortgage payment difficulties and to establish their future financial prospects. Prior to the FCA action, the Society voluntarily and proactively refunded all mortgage arrears administration fees charged since 2009, plus interest. 33,900 borrowers were repaid a total of £8.4 million.

Also in 2014, the FCA found that the promotional material used for some structured deposit accounts that the Society previously offered to customers fell short of the required standard and imposed a fine of £1.4 million. Following this action, all of the affected customers have been given the option to exit their account without charge and receive an appropriate rate of interest, or to retain their account until maturity.

All the costs associated with these actions have been fully provided for in the Group's 2013 and 2014 financial accounts.

During 2014, the Group invested £65 million in its continuing change programme (commenced in 2012) to enhance service and product delivery, including the refurbishment of over 50 branch and office sites. The Society expects a similar level of spend in 2015 and 2016. Further details of the Group's investment programme are set out in the Annual Report and Accounts for the financial year ended 31 December 2014, which are incorporated by reference in this Prospectus.

International Financial Reporting Standards

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

Group Income

The Total Interest Receivable for the year ended 31 December 2014 amounted to £1,308.6 million. The Net Interest Income was £549.2 million, Net Fee and Commission Income was £16.3 million and Other Income and charges was a debit of £0.3 million giving a total of £565.2 million. The operating profit before tax was £188.2 million.

Group Lending

Group Lending can be summarised as follows:

	2014	*2013*	*2012*
	£'000	*£'000*	*£'000*
Average balance outstanding..	30,874,968	28,544,119	27,297,330
Interest earned	1,166,595	1,240,876	1,168,170
Annualised average yield (%)..	3.8	4.3	4.3

Mortgage Losses

The following table shows for the three years ended 31 December 2012, 2013 and 2014 charges for impairment of loans and advances to customers for the period as a percentage of mortgage balances net of impairment provisions:

	Year ended 31 December	
	Annualised charge for provisions for losses on loans and advances to customers as a percentage of mortgage balances	*Mortgages Balances at end of year £'000*
2012	0.1425	27,572,424
2013	0.0772	29,515,814
2014	0.0620	32,234,122

Liquidity

Building societies are required to hold a proportion of their assets in a readily realisable form. At 31 December 2014 the Group held liquid assets of £4,794.7 million, being 13.8 per cent. of total shares and borrowings.

The types of investment in which building societies may invest funds are laid down in rules and guidance issued by the United Kingdom regulatory authorities.

Group Reserves

At the end of December 2014, December 2013 and December 2012 the gross and free capital ratios of the Society for the purposes of the Building Societies (Accounts and Related Provisions) Regulations 1998 were as follows:

	Year ended 31 December		
	2014	*2013*	*2012*
Gross capital as a percentage of shares and borrowings	6.5	5.8	5.7
Free capital as a percentage of shares and borrowings	6.1	5.3	5.2

Gross capital represents the Group's total equity attributable to members (£1,960.3 million as at 31 December 2014) plus Tier 1 capital of £6.9 million and the existing subordinated debt of £299.5 million. Free capital represents the gross capital less the book value of fixed assets plus the collective impairment provision.

The Common Equity Tier 1 ratio is a key capital measure. The Common Equity Tier 1 ratio fell from 13.9 per cent. at 31 December 2013 to 13.8 per cent. on 31 December 2014 and is above the regulatory minimum.

Funding Activities

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

The proportion of shares and borrowings not in the form of shares held by individuals at 31 December 2014 was 21.6 per cent. compared with the statutory limit of 50 per cent.

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

The wholesale funding of the Group at 31 December 2014, 31 December 2013 and 31 December 2012 was:

	Year ended 31 December		
	2014	*2013*	*2012*
	£m	*£m*	*£m*
Amounts owed to credit institutions	3,471.3	2,621.4	911.1
Certificates of Deposit	-	-	1.0
Fixed and Floating Rate Notes	3,523.2	2,793.6	2,783.3
Other Deposits	71.5	47.5	70.6
	7,066.0	5,462.5	3,766.0

The retail funding of the Group at 31 December 2014, 31 December 2013 and 31 December 2012 was:

	Year ended 31 December		
	2014	*2013*	*2012*
	£m	*£m*	*£m*
Shares	27,241.4	26,290.3	26,817.5
Deposits	436.5	453.9	465.1
	27,677.9	26,744.2	27,222.6

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

TAXATION

United Kingdom Taxation

The following applies only to persons who are beneficial owners of Notes and is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.

A. Payments of interest on the Notes

Payments of interest on the Notes could be subject to deduction of or withholding on account of United Kingdom income tax under Section 851 or Section 889 of the Income Tax Act 2007 (**ITA 2007**).

Payments of interest on the Ordinary Notes may be made without deduction of or withholding on account of United Kingdom income tax under Section 889 ITA 2007 provided that such Ordinary Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of ITA 2007. The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the FSMA) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Ordinary Notes remain so listed, interest on the Ordinary will be payable without withholding or deduction on account of United Kingdom tax.

Payments of interest on a Subordinated Note that qualifies or has qualified as a Tier 2 instrument under Article 63 of the Capital Adequacy Regulations and that forms or has formed a component of the Issuer's Tier 2 capital for the purposes of the Capital Adequacy Regulations may be paid without withholding or deduction of United Kingdom tax under Section 889 of ITA 2007 by virtue of the Taxation of Regulation Capital Securities Regulations 2013 (the **Regulations**), provided that there are not arrangements the main purpose, or one of the main purposes, of which is to obtain a tax advantage for any person as a result of the application of the Regulations.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax under Section 889 of ITA 2007 where interest on such Notes is paid by a company and the Issuer reasonably believes that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest at the time the payment is made, provided that HM Revenue & Customs (**HMRC**) has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

Interest on the Notes may be paid without withholding or deduction on account of United Kingdom tax under Section 851 of ITA 2007 provided that the Notes are listed on a recognised stock exchange, or are capable of being so listed.

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

If Notes are issued at a discount to their principal amount, any such discount element should not generally constitute interest and so should not be subject to any United Kingdom withholding tax. If Notes are redeemed at a premium to their principal amount (as opposed to being issued at a discount) then, depending on the circumstances, such a premium may constitute a payment of interest for United Kingdom tax purposes and hence, subject to the exemptions described above, be subject to United Kingdom withholding tax. In these circumstances an amount must generally be withheld from payments of interest on the Notes at the basic rate (currently 20 per cent.).

B. Information reporting provisions

HMRC has powers, in certain circumstances, to obtain information about: payments derived from securities (whether income or capital); certain payments of interest (including the amount payable on the redemption of a deeply discounted security); and securities transactions.

The persons from whom HMRC can obtain information include: a person who receives (or is entitled to receive) a payment derived from securities; a person who makes such a payment (received from, or paid on behalf of another person); a person by or through whom interest is paid or credited; a person who effects or is a party to securities transactions (which includes an issue of securities) on behalf of others; registrars or administrators in respect of securities transactions; and each registered or inscribed holder of securities.

The information HMRC can obtain includes: details of the beneficial owner of securities; details of the person for whom the securities are held, or the person to whom the payment is to be made (and, if more than one, their respective interests); information and documents relating to securities transactions; and, in relation to interest paid or credited on money received or retained in the United Kingdom, the identity of the security under which interest is paid. HMRC is generally not able to obtain information (under its power relating solely to interest) about a payment of interest to (or a receipt for) a person that is not an individual. This limitation does not apply to HMRC's power to obtain information about payments derived from securities.

HMRC has indicated that it will not use its information-gathering power on interest to obtain information about amounts payable on the redemption of deeply discounted securities which are paid before 6 April 2015.

In certain circumstances the information which HMRC has obtained using these powers may be exchanged with tax authorities in other jurisdictions.

C. Further United Kingdom Income Tax Issues

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

Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident for tax purposes in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the issuer of the Notes and does not consider the tax consequences of any such substitution.

European Union Directive on the Taxation of Savings Income

Under the EU Savings Directive, EU Member States are required to provide to the tax authorities of other EU Member States details of certain payments of interest or similar income paid or secured by a person established in its jurisdiction to or for the benefit of an individual resident, or certain limited types of entities established in that other EU Member State.

On 24 March 2014, the Council of the European Union adopted the Amending Directive, which will when implemented amend and broaden the scope of the requirements described above. EU Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities. The Amending Directive will also expand the circumstances in which payments must be reported or paid subject to withholding (including if those payments indirectly benefit an individual resident in an EU Member State). This approach may apply to payments made to (or for the benefit of), or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union (and outside any third country or territory that has adopted similar measures to the EU Savings Directive).

For a transitional period, Austria is required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The changes referred to above will broaden the types of payments subject to withholding in those EU Member States which operate a withholding system when they are implemented.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (FATCA) impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a **foreign financial institution**, or **FFI** (as defined by FATCA)) that does not become a **Participating FFI** by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Issuer (a **Recalcitrant Holder**). The Issuer is classified as an FFI.

The new withholding regime is now in effect for payments from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) and payments of gross proceeds (including principal repayments) from the disposition of property that can produce U.S. source interest or dividends no earlier than 1 January 2017. FATCA withholding in respect of foreign passthru payments would potentially apply to payments in respect of (i) any Notes characterised as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued after the "grandfathering date", which is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified after the grandfathering date and (ii) any Notes characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Notes are issued on or before the grandfathering date, and additional Notes of the same series are issued on or after that date, the additional Notes may not be treated as grandfathered, which may have negative consequences for the existing Notes, including a negative impact on market price.

The United States and a number of other jurisdictions have entered into intergovernmental agreements to facilitate the implementation of FATCA (each, an "IGA"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a **Reporting FI** not subject to withholding under FATCA on any payments it receives. Further, an FFI in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being **FATCA Withholding**) from payments it makes. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and the United Kingdom have entered into an agreement (the **US-UK IGA**) based largely on the Model 1 IGA.

If the Issuer is treated as a Reporting FI pursuant to the US-UK IGA it does not anticipate that it will be obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Issuer will be treated as a Reporting FI, or that it would in the future not be required to deduct FATCA Withholding from payments it makes. Accordingly, the Issuer and financial institutions through which payments on the Notes are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Notes are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any paying agent and the Common Depositary or Common Safekeeper, given that each of the entities in the payment chain between the Issuer and the participants in the clearing systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Notes will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and the US-UK IGA, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Notes.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States)**.

The Commission's Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

The Dealers have in an amended and restated Programme Agreement (as further amended and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 6 March 2015 agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement for any particular purchase by a Dealer will extend to those matters stated under "*Terms and Conditions of the Notes*" and "*Form of the Notes*" above. The Issuer may pay the Dealers commissions from time to time in connection with the sale of any Notes. In the Programme Agreement the Issuer has agreed to reimburse and indemnify the Dealers for certain of their expenses and liabilities in connection with the establishment of the Programme and the issue of the Notes. The Dealers are entitled to be released and discharged from their obligations in relation to any agreement to issue and purchase Notes under the Programme Agreement in certain circumstances prior to payment to the Issuer.

(a) United States

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

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Programme Agreement, it will not offer, sell or deliver Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, as determined and certified by the Agent to such Dealer, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether TEFRA D rules apply or whether TEFRA is not applicable.

(b) Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

(a) the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; and

(b) the expression **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in each Relevant Member State.

(c) United Kingdom

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue of any Notes in circumstances in which Section 21(1) of the FSMA would not, if the Issuer were not an authorised person, apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

(d) Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws and regulations of Japan.

(e) General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief having made all reasonable enquiries) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor. Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other selling restrictions as the Issuer and the relevant Dealer(s) shall agree as a term of issuance and purchase.

GENERAL INFORMATION

Listing

It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange's Regulated Market will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market. The listing of the Programme in respect of Notes is expected to be granted on or about 11 March 2015.

Authorisation

The establishment of the Programme was authorised by a resolution of the Board of Directors of the Issuer passed on 20 April 1993. The increase in the aggregate outstanding amount of the Programme to £750,000,000 was authorised by a resolution of the Board of Directors of the Issuer passed on 26 July 1994. The further increase in the aggregate outstanding amount to £1,000,000,000 was authorised by a resolution of the Board of Directors passed on 24 September 1996. The further increase in the aggregate outstanding amount to £1,500,000,000 was authorised by a resolution of the Board of Directors passed on 22 September 1998. The further increase in the aggregate outstanding amount to £3,000,000,000 was authorised by a resolution of the Board of Directors passed on 20 March 2001. The further increase in the aggregate outstanding amount to £5,000,000,000 was authorised by a resolution of the Board of Directors passed on 22 March 2005. The current update of the Programme and the issue of Notes has been duly authorised by a resolution of a committee of the Board of Directors dated 27 February 2015.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and ISIN allocated by Euroclear and Clearstream, Luxembourg in respect of each Tranche of Notes will be specified in the applicable Final Terms. Transactions will normally be effected for settlement not earlier than two days after the date of the transaction. If the Notes are to clear through an additional or alternative ICSD the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, société anonyme, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Auditors

The consolidated accounts of the Issuer for the financial years ended 31 December 2013 and 31 December 2014 have been audited, without qualification, in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, by Deloitte LLP of 1 City Square, Leeds LS1 2AL. The auditors of the Issuer have no material interest in the Issuer.

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer and its subsidiaries since 31 December 2014 and no material adverse change in the financial position or prospects of the Issuer and its subsidiaries since 31 December 2014.

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had during the previous 12 months a significant effect on the Issuer's financial position or profitability or that of the Issuer and its subsidiaries taken as a whole.

Documents Available

From the date hereof throughout the duration of the Programme, and while any Notes remain outstanding, copies of the following documents will, when published, be available at the registered chief office of the Issuer and from the specified office in London of the Agent:

(i) the Memorandum and the Rules of the Issuer and the Act;

(ii) the Report and Accounts 2013 and the Report and Accounts 2014, which respectively include the audited consolidated annual accounts of the Issuer and its subsidiaries for each of the years ended 31 December 2013 and 2014, together with any audit or review reports prepared in connection therewith;

(iii) the most recently available audited consolidated annual accounts of the Issuer and its subsidiaries, together with any audit or review reports prepared in connection therewith;

(iv) the Trust Deed (which contains the forms of the Temporary and Permanent Global Notes, and the definitive Notes, the Talons and the Coupons) and the Agency Agreement and all amendments and supplements thereto and restatements thereof;

(v) this Prospectus; and

(vi) any future prospectuses, offering circulars, information memoranda and supplements (including Final Terms) to this Prospectus and any other documents incorporated herein or therein by reference.

Certificates and Reports of the Auditors

Any certificate or report of the auditors of the Issuer or any other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts stated therein whether or not such certificate or report and/or any engagement letter or other document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of such auditors or such other person in respect thereof. However, the Trustee will have no recourse to the auditors in respect of such certificates or reports unless the auditors have agreed to address such certificates or reports to the Trustees.

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and its affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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