



Leeds Building Society

(incorporated in England under the Building Societies Act 1986 with Registered Number 320B)

£2,000,000,000

Euro Medium Term Note Programme

Under the Euro Medium Term Note Programme described in this Prospectus (the “**Programme**”), Leeds Building Society (the “**Issuer**” or the “**Society**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes (the “**Notes**” which expression shall include Senior Notes and Subordinated Notes (each as defined herein)). The aggregate nominal amount of Notes outstanding will not at any time exceed £2,000,000,000 (or the equivalent in other currencies).

Application has been made to the Financial Conduct Authority (the “**UK Listing Authority**”) under Part VI of the Financial Services and Markets Act 2000 (the “**FSMA**”) for Notes issued within 12 months 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 (the “**Market**”). References in this Prospectus to Notes being “listed” (and all related references) shall mean that such Notes have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

Each Series (as defined in “Overview of the Programme – Method of Issue”) of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a “**temporary Global Note**”) or a permanent global note in bearer form (each a “**permanent Global Note**”). If the Global Notes are stated in the applicable Final Terms to be issued in new global note (“**NGN**”) form, such Global Notes will be delivered on or prior to the issue date of the relevant Tranche (as defined in “Overview of the Programme – Method of Issue”) to a common safekeeper (the “**Common Safekeeper**”) for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, S.A (“**Clearstream, Luxembourg**”). Notes in registered form will be represented by registered certificates (each a “**Certificate**”), one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Registered Notes issued in global form will be represented by registered global certificates (“**Global Certificates**”). If a Global Certificate is held under the New Safekeeping Structure (the “**NSS**”) the Global Certificate will be delivered on or prior to the original issue date of the relevant Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg.

Global Notes which are not issued in NGN form (“**Classic Global Notes**” or “**CGNs**”) and Global Certificates which are not held under the NSS will be deposited on or prior to the issue date of the Tranche (as defined in “Overview of the Programme – Method of Issue”) with a common depository on behalf of Euroclear and Clearstream, Luxembourg (the “**Common Depository**”). The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes and the transfer of holdings of Notes represented by a Global Certificate are described in “Summary of Provisions Relating to the Notes while in Global Form”.

The Society has been assigned “A2/P-1” (negative) ratings for bank deposits by Moody’s Investors Services Ltd. (“**Moody’s**”) and an “A-/F1” (stable) rating for its senior unsecured debt by Fitch Ratings Ltd. (“**Fitch**”). Moody’s and Fitch are both established in the European Union and both entities are registered under Regulation (EC) No 1060/2009 (the “**CRA Regulation**”). Tranches of Notes (as defined in “Overview of the Programme – Method of Issue”) issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating(s) assigned to the Society, or the same as the rating assigned to any Notes already issued. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The minimum specified denominations of the Notes issued under this Programme shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

Prospective investors should have regard to the factors described under the section headed “Risk Factors” in this Prospectus.

Arranger for the Programme

NatWest Markets

Dealers

Barclays

BofA Merrill Lynch

Commerzbank

Danske Bank

Deutsche Bank

HSBC

NatWest Markets

Dated: 31 January 2017

This Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer which, according to the particular nature of the Notes is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer. For the purposes of this Prospectus, the expression “**Prospective Directive**” means Directive 2003/71/EC, as amended, including by Directive 2010/73/EU.

The Issuer accepts responsibility for the information contained in this Prospectus and the relevant Final Terms (as defined in “Overview of the Programme – Method of Issue”) for each Tranche of Notes issued under the Programme. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this 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” below).

The Issuer, having made all reasonable enquiries, confirms that (i) this document contains all information with respect to the Issuer and its subsidiaries taken as a whole (the “**Group**”) and the Notes that is material in the context of the issue and offering of the Notes, (ii) the statements contained in it relating to the Issuer and the Group are in every material particular true and accurate and not misleading, (iii) the opinions and intentions expressed in this Prospectus with regard to the Issuer and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) there are no other facts in relation to the Issuer, the Group or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading in any material respect and (v) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers or the Arranger (as defined in “Overview of the Programme”). Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Dealers and the Arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and include Notes in bearer form that 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 U.S. persons. For a description of certain restrictions on offers and sales of Notes and on distribution of this Prospectus, see “Subscription and Sale”.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Dealers to subscribe for, or purchase, any Notes.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. Sophisticated investors generally do not purchase complex financial instruments as stand-alone investments. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

One or more independent credit rating agencies may assign credit ratings to an issue of 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 or withdrawn by the relevant rating agency at any time.

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 advisors to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing, and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

To the fullest extent permitted by law, none of the Dealers or the Arranger accept any responsibility for the contents of this Prospectus or for any other statement, made or purported to be made by the Arranger or a Dealer or on its behalf in connection with the Issuer or the issue and offering of the Notes. The Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

Neither this Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger or the Dealers that any recipient of this Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arranger.

In connection with any Tranche (as defined in "Overview of the Programme – Method of Issue"), one or more of the Dealers may act as a stabilising manager(s) (each a "**Stabilising Manager**"). References in the next

paragraph to “**the issue of any Tranche**” are to each Tranche in relation to which one or more Stabilisation Manager(s) is appointed.

In connection with the issue of any Tranche, the Dealer or Dealers (if any) acting as the Stabilising Manager(s) (or any person acting on behalf of any Stabilising 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 Stabilising Manager(s) (or any person acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche 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 and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to “**pounds**”, “**penny**”, “**sterling**” and “**£**” are to the currency of the United Kingdom, references to “**euro**” are to the single currency of those member states of the European Union participating in the Third Stage of European Economic and Monetary Union from time to time and references to the “**Act**” are to the Building Societies Act 1986, which expression shall include, where applicable, any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under any such statutory modification or re-enactment.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with (i) the audited consolidated financial statements of the Issuer for each of the financial years ended 31 December 2014 and 2015, respectively, (together in each case with the audit report thereon and the annual business statement and the directors' report in respect of each such year) (ii) the unaudited but reviewed consolidated financial statements for the six months ended 30 June 2016 and (iii) the Terms and Conditions set out on pages 9 to 32 of the prospectus dated 1 April 2004 relating to the Programme, the Terms and Conditions set out on pages 36 to 63 of the prospectus dated 10 December 2013, the Terms and Conditions set out on pages 32 to 60 of the prospectus dated 23 December 2014 and the Terms and Conditions set out on pages 35 to 62 of the prospectus dated 26 November 2015 relating to the Programme which have been previously published or are published simultaneously with this Prospectus and which have been approved by the Financial Conduct Authority or filed with it. Such documents shall be deemed to be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Any document which is incorporated by reference into any of the documents deemed to be incorporated in, and form part of, this Prospectus shall not constitute a 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.

Copies of documents deemed to be incorporated by reference in this Prospectus will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Issuer or can be accessed on the Issuer's website at <http://www.leedsbuildingsociety.co.uk>. The other contents of the Issuer's website are not incorporated into, and do not form part of, this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be obtained without charge from 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.

Those parts of the prospectuses dated 1 April 2004, 10 December 2013, 23 December 2014 and 26 November 2015, respectively, which are not specifically incorporated by reference in this Prospectus are either not relevant for prospective investors in the Notes or the relevant information is included elsewhere in this Prospectus.

The table below sets out the relevant page references for the audited consolidated statements for the financial years ended 31 December 2014 and 31 December 2015 and the unaudited but reviewed consolidated financial statements for the six months ended 30 June 2016, respectively, as set out in the Issuer's Annual Report & Accounts for 2014 and 2015 and the Interim Financial Report for the period ended 30 June 2016. Information contained in the documents incorporated by reference other than information listed in the table below is for information purposes only, and does not form part of this Prospectus.

Audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2014

Leeds Building Society Annual Report & Accounts 2014

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| Directors' Report | Pages 32-33 |
| Auditors' Report | Page 56-59 |
| Income Statements | Page 60 |
| Statements of Comprehensive Income | Page 61 |
| Statements of Financial Position | Page 62 |
| Statement of Changes in Members' Interest | Page 63 |
| Statements of Cash Flows | Page 64 |
| Notes to the Accounts | Pages 65-108 |
| Annual Business Statement | Pages 109-111 |

Audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2015

Leeds Building Society Annual Report & Accounts 2015

| | |
|---|---------------|
| Directors' Report | Pages 42-43 |
| Auditors' Report | Pages 74-77 |
| Income Statements | Page 78 |
| Statements of Comprehensive Income | Page 79 |
| Statements of Financial Position | Page 80 |
| Statement of Changes in Members' Interest | Page 81 |
| Statements of Cash Flows | Page 82 |
| Notes to the Accounts | Pages 83-130 |
| Annual Business Statement | Pages 131-133 |

Unaudited consolidated financial statements for the six months ended 30 June 2016

Leeds Building Society Interim Financial Report for the period ended 30 June 2016

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|--|-------------|
| Independent Review Report | Page 22 |
| Condensed Consolidated Income Statement | Page 8 |
| Condensed Consolidated Statement of Comprehensive Income | Page 9 |
| Condensed Consolidated Statement of Financial Position | Page 10 |
| Condensed Consolidated Statement of Changes in Members' Interest | Page 11 |
| Condensed Consolidated Statement of Cash Flows | Page 12 |
| Notes to the Condensed Consolidated Financial Statements | Pages 13-21 |

SUPPLEMENTAL PROSPECTUSES

If at any time the Issuer shall be required to prepare a supplemental prospectus pursuant to Section 87(G) of the FSMA, the Issuer will prepare and make available a supplement to this Prospectus which, in respect of any subsequent issue of Senior Notes or Subordinated Notes, shall constitute a supplemental prospectus as required by the UK Listing Authority and Section 87 of the FSMA. The Issuer has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, mistake or material inaccuracy relating to information contained in this Prospectus which is capable of affecting the assessment of any Notes whose inclusion in this Prospectus or removal is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, and the rights attaching to the Senior Notes or Subordinated Notes, the Issuer shall prepare a supplement to this Prospectus or publish a replacement prospectus for use in connection with any subsequent offering of the Senior Notes or Subordinated Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

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OVERVIEW OF THE PROGRAMME

The following overview is qualified in its entirety by the remainder of this Prospectus.

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| Issuer: | Leeds Building Society |
| Description: | Euro Medium Term Note Programme |
| Size: | Up to £2,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. The Issuer may increase the size of the Programme in accordance with the terms of the Dealer Agreement. |
| Arranger: | The Royal Bank of Scotland plc (trading as NatWest Markets) |
| Dealers: | Barclays Bank PLC Commerzbank Aktiengesellschaft Danske Bank A/S Deutsche Bank AG, London Branch HSBC Bank plc Merrill Lynch International The Royal Bank of Scotland plc (trading as NatWest Markets) The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Prospectus to “ Permanent Dealers ” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “ Dealers ” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches. |
| Trustee: | The Law Debenture Trust Corporation p.l.c. |
| Issuing and Paying Agent: | HSBC Bank plc |
| Method of Issue: | The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “ Series ”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “ Tranche ”) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in final terms (“ Final Terms ”). |
| Issue Price: | Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. |
| Form of Notes: | The Notes may be issued in bearer form (“ Bearer Notes ”) or in registered form (“ Registered Notes ”). Each Tranche of Bearer |

Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in “ – Selling Restrictions” below), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as “**Global Certificates**”.

Clearing Systems:

Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer.

Initial Delivery of Notes:

On or before the issue date for each Tranche, if the relevant Global Note is intended to be issued in NGN form or the relevant Global Certificate is held under the NSS, the Global Note or Global Certificate will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is not intended to be issued in NGN form or the relevant Global Certificate is not held under the NSS, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Classic Global Notes or Global Certificates which are not held under the NSS may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer(s). Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.

Currencies:

Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealer(s).

Maturities:

Subject to compliance with all relevant laws, regulations and directives (i) Senior Notes may have any maturity between one month and 30 years; and (ii) Subordinated Notes may have a maturity between five years and 30 years.

Specified Denomination:

The minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency as at the date of issue of the Notes).

Fixed Rate Notes:

Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.

Fixed Rate Reset Notes:

Fixed Rate Reset Notes will bear interest at a fixed rate per

cent. per annum specified in the relevant Final Terms until the Reset Date specified in the relevant Final Terms or, if more than one Reset date is specified, the first Reset Date specified in the relevant Final Terms. On the Reset Date (or on each Reset Date, if more than one Reset Date is specified), the Rate of Interest will be reset to the aggregate of the applicable Subsequent Reset Reference Rate, the applicable Initial Credit Spread and the applicable Step-Up Margin (if any), as determined by the Calculation Agent. In the case of Subordinated Notes, the Step-Up Margin shall be zero.

Floating Rate Notes:

Floating Rate Notes will bear interest determined separately for each Series as follows:

(i) 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. or

(ii) by reference to LIBOR or EURIBOR as adjusted for any applicable margin.

Interest periods will be specified in the relevant Final Terms.

Zero Coupon Notes:

Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.

Interest Periods and Interest Rates:

The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.

Redemption:

The relevant Final Terms will specify the basis for calculating the redemption amounts payable.

Other Notes:

Terms applicable to high interest Notes, low interest Notes and any other type of Note that the Issuer, the Trustee and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Final Terms.

Optional Redemption:

The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.

Status of Notes:

Senior Notes will constitute unsubordinated and unsecured obligations of the Issuer and Subordinated Notes will constitute subordinated obligations of the Issuer all as described in “Terms and Conditions of the Notes – Status”.

Negative Pledge:

See “Terms and Conditions of the Notes – Negative Pledge”. Applicable to Senior Notes only.

Cross Default:

See “Terms and Conditions of the Notes – Events of Default”. Applicable to Senior Notes only.

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| Rating: | The Society has been assigned “A2/P-1” (negative) ratings for bank deposits by Moody’s and an “A-/F1” (stable) rating for its senior unsecured debt by Fitch. Moody’s and Fitch are both established in the European Union and have registered under the CRA Regulation. Notes issued under the Programme may be rated or unrated (in each as specified in the relevant Final Terms). Such rating will not necessarily be the same as the rating(s) assigned to the Society, or the same as the rating assigned to any Notes already issued. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation. A rating is not a recommendation to buy, sell or to hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. |
| Early Redemption: | Except as provided in “Optional Redemption” above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See “Terms and Conditions of the Notes – Redemption, Purchase and Options”. |
| Withholding Tax: | All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of the United Kingdom unless required by law. In that event the Issuer will, subject to customary exceptions, pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, all as described in “Terms and Conditions of the Notes – Taxation”. |
| Governing Law: | English. |
| Listing: | Application has been made to admit Notes issued under the Programme to the Official List and to admit them to trading on the Market. |
| Selling Restrictions: | <p>United States, United Kingdom and Japan. See “Subscription and Sale”.</p> <p>Category 2 selling restrictions will apply for the purposes of Regulation S under the United States Securities Act of 1933, as amended.</p> <p>The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”)) (the “D Rules”) unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the “C Rules”) or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax</p> |

Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”), which circumstances will be referred to in the relevant Final Terms 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. All 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.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below. Prospective investors should note that the risks described below are not the only risks the Issuer faces. The Issuer has described only those risks relating to its operations that it considers to be material.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents deemed to be incorporated by reference herein) 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

The Society's results may be adversely affected by general economic conditions and other business conditions

The Issuer's business activities are dependent on the level of banking, finance and financial services required by its customers. As the Issuer currently conducts the majority of its business in the United Kingdom, its performance is influenced by the level and cyclical nature of the business activity in the United Kingdom, which is in turn affected by both domestic and international economic and political events. Adverse developments in the United Kingdom economy could cause the Issuer's earnings and profitability to decline.

In particular, the United Kingdom residential mortgage market performance is closely correlated to the UK economic cycle. As well as fluctuations at a national level, the UK residential mortgage market is subject to significant regional variations. 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.

The impact of global stresses on the United Kingdom economy, in particular the Eurozone, could adversely affect the Issuer's business by reducing the level of demand for, and supply of, the Issuer's products and services, exposing it to lower asset and other realisations and increased negative fair value adjustments and impairments of investments and other assets and may materially and adversely impact the Issuer's operating results, financial condition and prospects.

Monetary policy decisions taken by the Bank of England taken to control inflation or encourage economic activity has the potential to positively or negatively impact the Issuer's profitability through margin compression or otherwise. Facilities made available by the Bank of England which act as liquidity facilities or longer term funding options could be revoked at the wish of the Bank of England which may adversely impact the Issuer's contingent liquidity ability.

Were it to occur, a downturn in the UK economy, either regionally or nationally, would reduce demand for housing or consequently reduce house price growth and sales, which could result in lower levels of lending, which is the Issuer's core activity. The downturn in the United Kingdom economy that began in 2007 and worsened in 2008 had a negative effect on the housing market. A fall in property prices resulting from a deterioration in the housing market and increased unemployment could lead to increased numbers of

borrowers defaulting on their mortgage loans and result in losses being incurred by the Issuer where the net recovery proceeds are insufficient to redeem the outstanding loans. There can be no assurance that the housing market will not deteriorate and the United Kingdom's economic environment may affect the rate at which the new mortgage loans are originated and may also affect the level of attrition of the Issuer's existing borrowers.

The exact nature of the risks that the Issuer faces and the manner and the extent to which they ultimately will impact the Issuer is difficult to predict and to guard against in the light of (i) the inter related nature of the risks involved, (ii) the difficulties in predicting whether recoveries will be sustained and at what rate, and (iii) the fact that the risks are totally or partially outside the control of the Issuer.

Ratings downgrade of the sector or Issuer may have an adverse effect on the marketability and liquidity of the Notes

If sentiment towards the financial institutions operating in the United Kingdom's residential mortgage market (including the Issuer) were to deteriorate further, or if the ratings of the sector or Issuer were to be adversely affected, this may have a materially adverse impact on the market value of the Issuer's debt securities and result in a reduction in liquidity in the secondary market for such securities. In addition, such change in sentiment or reduction in ratings could result in an increase in the costs and reduction in the availability of wholesale market funding across the financial services sector, which could have a material adverse effect on the liquidity and funding of all United Kingdom financial services institutions, including the Issuer. If the ratings analysis of any agency that rates the Issuer's credit is updated to reflect lower forward-looking assumptions of systemic support in the current environment or higher assumptions of the risks in the financial sector, or otherwise modified, it could result in a further downgrade to the outlook or to the credit ratings of United Kingdom financial institutions, including the Issuer, which could have a material adverse effect on the borrowing costs, liquidity and funding of all United Kingdom financial services institutions, including the Issuer. A further downgrade could also create new obligations or requirements for the Issuer under existing contracts with its counterparties that may have a material adverse effect on the Issuer's business, financial condition, liquidity or results of operations.

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

Various governments and central banks, including the United Kingdom government and the Bank of England, have taken measures to create liquidity, resulting in greatly improved levels of liquidity at major United Kingdom banks and building societies. However, the Issuer does not have influence over the policy making behind such measures. Further, there can be no assurance that these conditions will not lead to an increase in the overall concentration risk and cost of funding of the Issuer or otherwise adversely affect the Issuer. The Issuer has availed itself of certain measures made available by the government to financial institutions over recent years including the Bank of England's Funding for Lending Scheme ("FLS").

On 4 August 2016, the Bank of England announced the Term Funding Scheme ("TFS"), which allows participants to borrow central bank reserves in exchange for eligible collateral. The drawdown period under the TFS will run from 19 September 2016 to 28 February 2018. The TFS is being made available to banks and building societies that are participants in the Bank of England's sterling monetary framework and signed up to the Discount Window Facility.

The availability of government support for UK 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 its usage is published on the Bank of England's website. The withdrawal of government support 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. This competition could further increase its funding costs and so adversely impact

its results of operations and financial position and potentially impact upon its ability to make payment on the Notes.

Political uncertainty

On 23 June 2016, the UK electorate voted to leave the European Union (the “EU”). Under the EU's rules the process for leaving commences when a member state announces that it is enacting Article 50 of the Treaty of Lisbon (the Treaty of Lisbon, amending the Treaty on European Union and the Treaty establishing the European Community). The timeframe for any subsequent exit would be two years from the date of notification, unless otherwise agreed. No EU Member State has ever triggered Article 50 and as such there is no precedent for its operation.

The UK government has announced they intend to formally enact Article 50 no later than the end of March 2017. However, there is not yet any stated UK government strategy on the forthcoming Article 50 negotiations or a stated position on the UK's desired future arrangements with the EU following an exit.

As such, no assurance can be given as to the impact of the UK leaving the EU on the Issuer. The outcome of the UK government's negotiations on the UK's exit, future regulation and the future relationship with the EU could have a material adverse effect on the Issuer's financial condition and therefore on the ability of the Issuer to fulfil its obligations under the Notes.

United Kingdom Sovereign downgrade

Any downgrade of the United Kingdom sovereign credit rating or the perception that such a downgrade may occur may severely destabilise the markets and the UK economy and have a material adverse effect on the Issuer's operating results, financial condition and prospects, as well as on the marketability of the Notes. This might also have an impact on the Issuer's own credit ratings, borrowing costs and its ability to fund itself. A United Kingdom sovereign downgrade or the perception that such a downgrade may occur would be likely to have a material effect in depressing consumer confidence, restricting the availability, and increasing the cost, of funding for individuals and companies, further depressing economic activity, increasing unemployment, reducing asset prices and consequently increasing the risk of another recession. These risks are exacerbated by concerns over the levels of the public debt of, and the weakness of the economies in, Italy, the Republic of Ireland, Greece, Portugal and Spain, in particular. Further instability within these countries or others within the Eurozone might lead to contagion which may have a material adverse effect on the Issuer's operating results, financial condition and prospects.

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.

Risks relating to Buy-to-Let mortgages

The loans secured against residential property made by the Issuer include buy-to-let loans where the relevant mortgaged properties are not owner-occupied and may be let by the relevant borrower to tenants. The borrower's ability to service payment obligations in respect of such a loan is likely to depend on the borrower's ability to lease the relevant mortgaged properties on appropriate terms. However, there can be no guarantee that each such mortgaged property will be the subject of an existing tenancy when the relevant loan is acquired by the Issuer or that any tenancy which is granted will subsist throughout the life of the loan and/or that the rental income achievable from such tenancy will be sufficient to provide the borrower with sufficient income to meet the borrower's interest obligations in respect of the loan (or that there will not be any default of payment in rent). This apparent dependency on rental income may increase the likelihood

during difficult market conditions of higher delinquency rates and losses on buy-to-let mortgages than for owner-occupied mortgages.

Upon enforcement of a mortgage in respect of a mortgaged property which is subject to an existing tenancy, vacant possession of the mortgaged Property may not be able to be obtained, in which case the property will only be able to be sold as an investment property with one or more sitting tenants. This may affect the amount which can be realised upon the sale of the mortgaged property.

However, enforcement procedures in relation to such mortgages (excluding any Scottish mortgage) include appointing a receiver of rent in which case such a receiver must collect any rents payable in respect of the mortgaged property and apply them accordingly in payment of any interest and arrears accruing under the mortgage. Under Scots law, a receiver cannot be appointed under a fixed charge (including a standard security, which is the Scottish equivalent of a land charge) and the only enforcement action which may be taken under a standard security (such as a Scottish mortgage) is a full enforcement of the charge (i.e. it cannot be enforced selectively by, for instance, attaching to rental payments). Accordingly, in Scotland, securing the rental flows will require the enforcement of the standard security.

The UK government has passed legislation restricting the amount of income tax relief that individual landlords can claim for residential property finance costs (such as mortgage interest) to the basic rate of tax. Such restriction will be introduced gradually from 6 April 2017. From 1 April 2016, a higher rate of stamp duty land tax (“SDLT”) applies to the purchase of additional residential properties (such as buy-to-let properties). The current additional rate is three per cent above the current SDLT rates. The Scottish government announced similar plans on 28 January 2016 in respect of land and buildings transaction tax (“LBTT”) and equivalent residential properties in Scotland.

The introduction of these measures may adversely affect the private residential rental market in England and Wales in general, or (in the case of the restriction of income tax relief) the ability of individual borrowers of buy to let loans to meet their obligations under those Loans.

Commercial Mortgage Portfolio

The Society faces risks associated with being an historic mortgage lender to commercial borrowers.

There is a risk that the Issuer’s profitability, financial condition or prospects could be adversely affected by any such default, in isolation or in combination, by commercial borrowers, which, in turn, could have an adverse impact on the Issuer’s ability to make payments under the Notes.

Geographic concentration of the Loans

Loans in the Portfolio may also be subject to geographic concentration risks within certain regions. To the extent that specific geographic regions have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions, a concentration of the Loans in such a region may be expected to exacerbate all of the risks relating to the Loans described in this section. Certain geographic regions rely on different types of industries. Any downturn in a local economy or particular industry may adversely affect the future regional employment levels and consequently the repayment ability of the borrowers in that region or the region that relies most heavily on that industry. The Issuer can predict neither when nor where such regional economic declines may occur nor to what extent or for how long such conditions may continue as described above. Any natural disasters in a particular region may reduce the value of affected Properties. This may result in a loss being incurred upon sale of the Property. These circumstances could affect receipts on the Loans and ultimately result in losses.

Competition in the UK personal financial services market may adversely affect the Issuer’s operations

Developments in the Issuer’s industry and increased competition could have a material adverse effect on its operation. The Issuer operates in increasingly competitive housing and savings markets in the United Kingdom. The Issuer competes mainly with other providers of personal financial services, including banks, building societies and insurance companies. Other financial services competitors provide a different range of

financial products, which may have more competitive pricing in certain areas and may have greater financial resources with which to compete. Increasing competition may have a negative effect on the Issuer's results, if the Issuer is unable to match the products and services of its competitors.

Financial Services Compensation Scheme

The Financial Services and Markets Act 2000 (the “**FSMA**”) established the Financial Services Compensation Scheme (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 UK deposit market. The FSCS levy may have a material impact on the profits of the Issuer. Claims on the FSCS are funded by loans from HM Treasury, and until such loans are repaid, increased levies on UK deposit-taking institutions fund interest payments on such loans. The attention of Noteholders is drawn to note 3 of the unaudited condensed, consolidated interim financial report of the Issuer dated 30 June 2016 in this regard. In certain circumstances, regulated UK deposit takers may further be required to fund, by way of a further increase in the FSCS levy, the capital repayment to HM Treasury of such loans.

Rules published by the Prudential Regulation Authority (the “**PRA**”) on 1 April 2015, with revisions published on 3 July 2015 and 30 July 2015, as a result of the EU recast directive on deposit guarantee schemes which was adopted in April 2014, have altered the way that the FSCS will be operated in future. The new rules have resulted in a number of changes to the United Kingdom FSCS including temporary high balance deposit protection, up to £1 million (an increase to the current £85,000 deposit protection limit), for up to six months for certain limited types of deposits, and changes to the manner and size of the FSCS's funding. It is possible that future FSCS levies on the Issuer may differ from those incurred previously, 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 UK deposit takers).

Building Societies (Financial Assistance) Order 2010

On 7 April 2010, the United Kingdom 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)) to a building society 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 to the Issuer without including it for the purpose of calculating the 50 per cent. limit on its non-member funding. The Financial Assistance Order also modifies the restriction in section 9B of the Building Societies Act on the creation of floating charges by a building society and would permit the Issuer to create a floating charge over its assets in favour of a qualifying institution in respect of any financial assistance provided. The creation of a floating charge by the Issuer in favour of a qualifying institution would allow an administrative receiver to be appointed over the assets of the Issuer.

Financial risk

Control of financial risk is one of the most important risk factors for financial institutions. Financial risk includes credit, liquidity, operational and market risk. Failure to control these risks can result in material adverse effects on the Issuer's financial performance and reputation. The Issuer's risk management structure is the overall responsibility of the Board of Directors. Assisting the Board, the Group Risk Committee and

Assets and Liabilities Committees consider all matters relating to regulatory and prudential risk and accounting requirements that may affect the Issuer and its subsidiaries. The Issuer has a formal structure for managing financial risks, including established limits for credit risk, liquidity risk, operational risk and market risk, coupled with reporting lines, mandates and control procedures.

Credit risk

Credit risk is the potential risk of financial loss arising from the failure of a customer or counterparty to settle their financial and contractual obligations as they fall due. The Issuer's retail credit exposures are managed in accordance with the Board's approved lending policy which is based upon a comprehensive analysis of both the creditworthiness of the borrower and the proposed security. Following completion of a loan, the performance of all mortgages is monitored closely and all necessary action taken to manage the collection and recovery process. Wholesale counterparty exposures are also managed through Board approved limits which include the setting of limits on individual counterparties, countries, credit ratings and type of financial instrument.

The Society has embedded a comprehensive and robust risk management framework with clear lines of accountability and oversight as part of its overall governance framework. Substantial further investment has been made in the management of credit risk. The benefits of this investment are to further improve the processes and controls used by the Society to monitor, mitigate and manage credit risk and allocate capital within the Society's risk appetite.

The Society has also developed a suite of Internal Ratings Based ("IRB") models for the assessment of the credit risk associated with its lending portfolios. The models are now in use and are used, inter alia, to support decision making on future capital requirements, mortgage pricing decisions and its collection strategies. The Issuer uses derivatives to manage its market risks. These derivatives are negotiated with and transacted with a range of counterparties. While to date there has not been a situation in which the Issuer's derivative counterparties have not honoured their obligations under the relevant derivative agreement, a failure by one or more counterparties to honour the terms of its derivatives contract with the Issuer could have an adverse effect on the business, operations and financial condition of the Issuer. However, the Issuer's derivative exposure is covered by Credit Support Annex ("CSA") agreements or cleared through the London Clearing House and therefore all of the Issuer's derivative exposure is collateralised.

Liquidity risk

Liquidity risk is the risk that the Issuer is unable to meet its current and future financial obligations as they fall due. The financial obligations include investors' deposits, both on demand and those with contractual maturity dates, as well as repayments of other borrowings and loan capital. The Issuer's liquidity policy is to maintain surplus liquid resources to cover cash flow imbalances and fluctuations in funding, in order to provide contingency and retain full public confidence in the solvency of the Issuer and to be in a position to meet its financial obligations as they fall due. This is achieved through maintaining a prudent level of both current and forecast liquid assets and through management of the growth of the business. The Issuer is at risk if it does not comply with the above and payments to Noteholders could be affected.

Operational risk

The Issuer's business is dependent on the ability to process a large number of transactions efficiently and accurately. The reliability of the Issuer's operational systems to accurately process data in a timely manner is important to the business of the Issuer. The Issuer is involved in making significant changes to its operational systems, in order to ensure continued operational efficacy of its systems and meeting the needs of its customers. There is a risk that the changes made to the operational platform could temporarily have an adverse effect on the processing of transactions by the Issuer. The Issuer has in place project risk management policies and procedures in order to support the smooth implementation of changes to the operational system.

Operational risk and losses can result from financial (including cyber) crime, 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, IT systems 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 wholly eliminate 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 will be unable to comply with its obligations either as a building society with securities admitted to the Official List or as a supervised firm regulated under the FSMA.

Market risk

Market risk is the risk of a reduction in or elimination of earnings from changes in interest rates, foreign exchange, equity indices rates and the prices of financial securities. In particular, the UK is experiencing a period of historically low interest rates which has reduced margins on mortgage loans. The Issuer offers numerous mortgage and savings products with varying interest rate features and maturities that create potential interest rate exposures. The Issuer manages these exposures on a continuous basis, with limits set by the Board of Directors, using a combination of both on and off balance sheet instruments. The Issuer raises funds through the sterling and euro money markets, capital markets and retail savings market. The Issuer's policy is to hedge exchange rate and equity index exposure to ensure such exposure is immaterial.

The performance of financial markets may cause changes in the value of the Issuer's investment 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.

The Issuer is continually managing its exposure to interest rate, currency and refinancing risks. If any of the variety of instruments and strategies the Issuer uses to hedge its exposure to these various types of risk is not effective, the Issuer may incur losses. The Issuer may not be able to obtain economically efficient hedging opportunities that will enable it to maintain its present hedging policies with respect to new assets and liabilities.

Reputational Risk

The Issuer's ability to attract and retain customers and conduct business with its counterparties could be adversely affected to the extent that the Issuer's reputation or the reputation of the Leeds Building Society brand is damaged. Failure to address, or appearing to fail to address, various issues that could give rise to reputational risk could cause harm to the Issuer and the Issuer's business prospects. Reputational issues include, but are not limited to: appropriately addressing potential conflicts of interest; cyber security; legal and regulatory requirements; ethical issues; adequacy of anti-money laundering processes; privacy issues; customer service issues; recordkeeping; sales and trading practices; proper identification of the legal, reputational, credit, liquidity and market risks inherent in products offered; and general company performance. A failure to address these issues appropriately could make customers, depositors and investors unwilling to do business with the Issuer, which could adversely affect the Issuer's business, financial condition and results of operations and could damage its relationships with its regulators. The Issuer cannot ensure that it will be successful in avoiding damage to its business from reputational risk.

Regulation Risk

Regulatory reforms may result in additional minimum capital requirements for the Issuer

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.

The Issuer's capital is reported as a ratio of risk-adjusted assets expressed as a percentage in different measures: Common Equity Tier 1 capital, Tier 1 capital and total capital. Recognition as capital of the legacy Tier 1 capital instruments (permanent interest bearing shares) is grandfathered in line with the provisions in CRD IV. In 2015 the PRA consulted on its approach to Pillar 2A capital and considered the extent to which firms should disclose Pillar 2A and the PRA's approach to the Pillar 2B PRA buffers. Following this consultation, the PRA published new rules that came into force in January 2016. Under these new rules, the Issuer's Pillar 2A requirements must now be met with at least 56 per cent. in Common Equity Tier 1 capital, no more than 44 per cent. in Additional Tier 1 capital and at most 25 per cent. in Tier 2 capital. If the Issuer fails, or is perceived to be likely to fail, to meet its minimum regulatory capital requirements, this may result in administrative actions or regulatory sanctions.

This recent development may adversely impact 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 April 2016, the Basel Committee issued proposed revisions to the leverage ratio framework, which was subject to comment until July 2016. The proposed revisions 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.

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 is regulated by the Financial Conduct Authority (the "FCA") and the PRA which regulate the sale of residential mortgages, deposit taking and general insurance products. The regulatory regime requires the Issuer to be compliant across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Issuer fails to be compliant 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. The current market environment is witnessing increased levels of government intervention in the banking, personal finance and real estate sectors.

The FCA and other bodies such as the Ombudsman, could impose further regulations or obligations in relation to current and past dealing with retail customers. As a result, the Issuer may incur costs in complying

with these regulations or obligations relating to its business, including potential compensation and costs relating to sales advice given to retail customers.

The imposition of such sanctions, fines or other action on the Issuer or the incurrence of such costs by the Issuer may affect the Issuer's ability to meet its obligations to Noteholders. 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 UK 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:

- (i) Other measures contained in the Financial Services (Banking Reform) Act 2013 (**the "Banking Reform Act"**), which are expected to come into force on 1 January 2019, include ring-fencing domestic retail banking services of UK banks. The majority of the PRA rules relating to ring-fencing are now in place, but a final consultation (on reporting requirements) was launched on 7 July 2016. Although this legislation carves out building societies from the ring-fence proposals, it does contain a power to enable the UK government to make provision for the purpose of ring-fencing in relation to building societies should it consider that any particular changes are necessary and may impact services provided by ring-fenced operations.
- (ii) 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 UK 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;
- (iii) On 15 May 2014, the Council and Parliament of the EU adopted the EU Bank Recovery and Resolution Directive (2014/59/EU) (the "**BRRD**") which has since 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 came into force on 1 January 2016; and
- (iv) In March 2015, the Bank of England launched its second concurrent stress test of the UK banking system. The Issuer was not part of this review. The criteria applied to stress tests are not intended to be indicative of prospective changes to the capital requirements. However, if the PRA or Bank of England were to formally introduce a minimum risk weighting measure across all UK lenders, whether generally or in respect of exposures to specified sectors, this could have an impact on the Issuer's common equity Tier I ("**CET1**") and overall capital ratios. There is also a risk that the buy to let sector could be classified as non-residential lending which would impact the level of risk weighted assets ("**RWAs**") reported by the Issuer. This would have an impact on risk based measures of capital, particularly given the exposure of the Society to the buy to let sector. Whilst the Issuer is not aware of any current proposal by the UK authorities to introduce minimum risk weights generally, the Financial Policy Committee, in its policy statement entitled "The Financial Policy Committee's powers to supplement capital requirements" published in January 2014, discusses the use of increased risk weights in other jurisdictions and expressly recognises the possibility of amending risk weights as one of the macro-prudential tools available to it within its oversight of sectoral capital requirements;

- (v) Following the 2015 stress tests, and in line with the UK Financial Policy Committee's and the PRA Board's guidance, in March 2016 the Bank of England set out details of the UK scenario for the 2016 stress tests of the seven largest UK banks and building societies. In addition, the European Banking Authority has conducted its own stress tests for certain European financial institutions. Whilst the Issuer was not the subject of such stress tests, if it were to become subject to future stress tests of this nature there is a risk that it would be required to raise further capital, including if the stress test methodology included standardised or minimum risk weights, whether generally or in respect of exposures to specified sectors, which afford higher risk-weightings to the Issuer's assets than the Issuer's own internal ratings-based model;
- (vi) On 12 June 2014, the BRRD was published in the Official Journal of the European Union, which has since been implemented in the United Kingdom (through changes to the Banking Act as discussed above). The EU technical standards relating to the minimum requirements for eligible liabilities (“**MREL**”) were published in the Official Journal in August 2016. In December 2015, the Bank of England consulted on certain provisions relating to MREL which was concluded in November 2016, including the final configuration and level of the requirement, which are due to be implemented fully in 2022; and
- (vii) On 23 November 2016, the European Commission put forward significant proposals to amend, among other things, both the Capital Requirement Regulation and the Capital Requirement Directive, including to propose a binding leverage ratio, a binding net stable funding ratio, more risk-sensitive capital requirements. A proposal was also made to amend the BRRD to implement, among other things, a revised firm-specific MREL requirement. If adopted, these reforms are expected to enter into force by 2019 at the earliest.

At this point it is difficult to predict the effect that any of the recent or 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.

Various actions may be taken in relation to any securities issued by the Issuer (including the Notes) without the consent of the holders thereof

If the Issuer were made subject to the special resolution regime (the "SRR"), HM Treasury or the Bank of England may take various actions in relation to any securities issued by the Issuer (including the Notes) without the consent of the holders thereof, including (among other things):

- (i) Reducing the amount outstanding under the Notes, including to zero;
- (ii) transferring the Notes free from any restrictions on transfer and free from any trust, liability or encumbrance;
- (iii) delisting the Notes;
- (iv) converting the Notes into another form or class (for example, into equity securities, ordinary shares or other instruments of ownership);
- (v) varying any of the terms of the Notes (including (but not limited to) varying the maturity of the Notes, disapplying any termination or acceleration rights or events of default under the terms of the Notes which would be triggered by the transfer; or
- (vi) where property is held on trust, removing or altering the terms of such trust.

The bail-in power includes the power to:

- (i) cancel or write-down (in whole or in part) certain liabilities (including reducing the amount outstanding under the Notes to zero); or
- (ii) modify the terms of certain contracts (including the Notes) for the purposes of reducing or deferring the liabilities of a United Kingdom bank under resolution; and
- (iii) convert certain liabilities (including the Notes) from one form to another.

Accordingly, there can be no assurance that the taking of any such actions would not adversely affect the rights of Noteholders and/or adversely affect the price or value of their investment or that the ability of the Issuer to satisfy its obligations under the Trust Deed, the Agency Agreement, the Dealer Agreement and the Notes would be unaffected. In such circumstances, Noteholders may have a claim for compensation under one of the compensation schemes currently existing under, or contemplated by, the Banking Act if any action is taken in respect of the Notes. However, there can be no assurance that Noteholders would thereby recover compensation promptly and equal to any loss actually incurred. The use of financial public support should only be used as a last resort after having assessed and exploited, to maximum extent possible, the resolution tools, including the bail-in tool

Cyber security

The Issuer depends on third parties whose computer systems may be subject to cybercrime attacks. Cybercrime includes attempts by computer hackers to gain access to computer systems and could include business disruption, the manipulation of data, the causing of systems failures and the stealing of personal

customer information. Such attacks are by their nature technologically sophisticated and may be difficult or impossible to detect and defend. If prevention measures do not work or are circumvented this could cause the Issuer to fail to perform its obligations. Noteholders could therefore be adversely affected.

Payment Protection Insurance

In August 2010 the FSA published a Policy Statement (PS10/12) on “The Assessment and Redress of Payment Protection Insurance Complaints”. The Statement applies to all types of Payment Protection Insurance (“**PPI**”) policies which, in the Society’s case, relate to secured lending Payment Protection Insurance products.

The Statement followed the Consultation Paper (CP10/06) and the FSA pressed forward with their measures stated in the Policy Statement (PS 10/12). Nemo Personal Finance joined with the British Bankers Association (“**BBA**”) in requesting a judicial review of the FSA’s proposed approach to the assessment and redress of complaints in respect of sales of PPI.

On 20 April 2011, the High Court ruled in favour of the FSA in concluding that banks and building societies which had sold PPI would be required to review all past PPI sales including sales to customers who had not made complaints. The BBA chose not to appeal this ruling.

Given the initial consultation process and the subsequent policy statement, the likely outcome and the impact of this process and statement on the Society or of the need to offer wider redress cannot be reliably estimated or quantified.

Other risk factors could adversely affect the Issuer’s business

Concerns about, or a default by, one institution in the Issuer’s market environment could lead to liquidity problems or losses or defaults by other institutions because the commercial soundness of many financial institutions may be closely interlinked as a result of credit, trading, clearing or other relationships between institutions. This risk is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Issuer interacts on a daily basis and therefore could adversely affect the Issuer.

UK-authorized 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 UK 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 FCA and other regulators in the UK 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 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 may settle litigation or regulatory proceedings prior to a final judgment or determination of liability in order to avoid the cost, management efforts or negative business, 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 in terms of its reputation.

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.

Pensions Act 2004

Under the Pensions Act 2004, a person that is “connected with” or an “associate” of an employer under an occupational pension scheme can be subject to either a contribution notice or a financial support direction. The Issuer is an employer under an occupational scheme.

A contribution notice could be served on a connected person if it was party to an act: (a) which has caused a material detriment to the pension scheme (whether or not intentionally); or (b) a deliberate failure to act, the main purpose or one of the main purposes of which was either (i) to prevent the recovery of the whole or any part of a debt which was, or might become, due from the employer under Section 75 of the Pensions Act 1995 or (ii) otherwise than in good faith, to prevent such a debt becoming due, to compromise or otherwise settle such a debt, or to reduce the amount of such a debt which would otherwise become due.

A financial support direction could be served on a connected person where the employer is either a service company or insufficiently resourced. An employer is insufficiently resourced if the value of its resources is less than 50 per cent. of the pension scheme’s deficit calculated on an annuity buy-out basis and there is a connected or associated person whose resources at least cover that difference. A financial support direction can only be served where the Pensions Regulator considers it is reasonable to do so, having regard to a number of factors.

As a result of the Supreme Court decision in *Re Nortel, Re Lehman Companies* [2013] UKSC 52, if the Pensions Regulator issued a financial support direction or contribution notice against a connected person then, depending on when such a direction or notice was issued (and regardless of whether a connected person was in liquidation or administration, as the case may be, at that time), any corresponding liability would not be treated as an expense of the administration or liquidation (as the case may be). As a result, such a claim would be treated as an ordinary unsecured debt and such claim would not rank in priority to, or *pari passu* with, the rights and claims of the Security Trustee under the Deed of Charge with respect to any charged asset.

If a contribution notice or financial support direction were to be served on a connected person this could adversely affect investors in the Notes.

Issuer reliance on other third parties

The Issuer is also party to contracts with a number of other third parties who have agreed to perform services for the Issuer. Failure to carry out their obligations could result in operational risks for the Issuer. In the event that third parties were to fail to perform their obligations under the respective agreements to which they are a party, Noteholders may be adversely affected.

Demutualisation, mutual society transfers and consequences of the Building Societies Act for Noteholders

The Society's Board is committed to maintaining the mutual status of the Society. Notwithstanding the above, subject to confirmation by the relevant UK regulatory authority, the Society's members and its directors determine whether it remains a building society or if it demutualises (save in circumstances where the relevant UK regulatory authority makes a direction under section 42B of the Building Societies Act or a UK Authority makes an instrument or order under the Banking Act (as amended by section 56 of the Financial Services Act), which results in demutualisation through the conversion of it into a company or the transfer of all property, rights or liabilities of the society to a company.

The Building Societies Act includes provisions under which a building society may demutualise by transferring the whole of its business to an existing company (referred to as a "takeover") or to a specially formed company (referred to as a "conversion"). In addition, the Building Societies Act (as modified by the Mutual Societies (Transfers) Order 2009 (the Mutual Transfers Order) made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (the Funding and Mutual Societies Transfers Act)) includes provisions under which a building society may transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the Funding and Mutual Societies Transfers

Act). At present, the claims of depositors and other unsubordinated creditors of the Issuer would rank ahead of share accounts (which term excludes any deferred shares) and the members' rights to any surplus in the event of a liquidation of the Issuer and the claims of subordinated creditors of the Issuer would rank behind share accounts but ahead of members' rights to any surplus in the event of a liquidation of the Issuer. If, however, the Issuer transfers its business to a specially formed company or an existing company (as defined in the Building Societies Act) or to a subsidiary of another mutual society, all the liabilities of the Issuer which immediately prior thereto were classified as share accounts will thereafter rank at least *pari passu* with all other unsecured and unsubordinated liabilities of the Issuer's successor.

Section 90B of the Building Societies Act (which was inserted by the Funding and Mutual Societies Transfers Act) 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 passing 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 shareholders (other than liabilities in respect of deferred shares) are applied in satisfying those liabilities *pari passu*.

Senior Managers and Certification Regime

The Senior Managers and Certification Regime (the “**SM&CR**”) was recently introduced and is intended to govern the conduct of senior persons within UK banks, building societies, credit unions, PRA designated investment firms and branches of foreign banks operating in the UK. The SM&CR came into force on 7 March 2016.

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 have now published the majority of their rules and guidance on the SM&CR. Amongst other things, from 7 March 2016 the SM&CR has introduced a criminal offence for reckless misconduct by senior bank staff.

On 4 May 2016, the Bank of England and the Financial Services Act 2016, which extends the scope of SM&CR to all FSMA authorised persons, received Royal Assent. The extended SM&CR is expected to come into force in early 2018.

The SM&CR will have a substantial impact on banks and building societies in the UK generally, including the Issuer and when the extended SM&CR comes into force, any of the Issuer's subsidiaries which are FSMA authorised persons at that time.

The SRR may be triggered prior to insolvency of the Issuer

The purpose of the stabilising options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties giving rise to wider public interest concerns. Accordingly, the stabilisation options may only be exercised if the PRA is satisfied that a relevant entity (such as the Issuer) (a) is failing, or is likely to fail, to satisfy the threshold conditions set out in Schedule 6 to the FSMA which are required to retain its PRA authorisation to accept deposits; and (b) having regard to timing and other relevant circumstances, the PRA determines that it is not reasonably likely that

(ignoring the stabilising options) action will be taken that will enable the relevant entity to satisfy those threshold conditions. It is therefore possible that one of the stabilisation options could be exercised prior to the point at which any application for an insolvency or administration order with respect to the relevant entity could be made.

Contractual arrangements between the Issuer, its group companies and/or the bridge bank or private sector purchaser may be created, modified or cancelled

If the Issuer were made subject to the SRR and a partial transfer of the Issuer's business to another entity were effected, the transfer may directly affect the Issuer and/or its group companies by creating, modifying or cancelling their contractual arrangements with a view to ensuring the provision of such services and facilities as are required to enable the bridge bank or private sector purchaser to operate the transferred business (or any part of it) effectively. For example, the transfer may (among other things) (i) require group companies to support and co-operate with the bridge bank or private sector purchaser; (ii) cancel or modify contracts or arrangements between the Issuer or the transferred business and a group company; or (iii) impose additional obligations on the Issuer under new or existing contracts. As at the date of this Prospectus, the Authorities have not made an instrument or order under the Banking Act in respect of the Issuer and there has been no indication that they will make any such instrument or order. There can be no assurance that the taking of any such actions would not adversely affect the ability of the Issuer to satisfy its obligations under the Trust Deed, the Agency Agreement, the Dealer Agreement and the Notes.

A partial transfer of the Issuer's business may result in a concentration of risk

If the Issuer were made subject to the SRR and a partial transfer of the Issuer's business to another entity were effected, the quality of the assets and the quantum of the liabilities not transferred and remaining with the Issuer (which may include the Notes) may result in a deterioration in the creditworthiness of the Issuer and increase the risk that the Issuer may eventually become subject to administration or insolvency proceedings pursuant to the Banking Act.

If a partial transfer were effected, under the terms of which the liabilities under the Notes were not transferred, Noteholders may have a claim for compensation under one of the compensation schemes currently existing under, or contemplated by, the Banking Act (including pursuant to The Banking Act 2009 (Third Party Compensation Arrangements for Partial Property Transfers) Regulations 2009). However, there can be no assurance that Noteholders would thereby recover compensation promptly and equal to any loss actually incurred.

At present, the United Kingdom authorities have not exercised any of the stabilisation options under the Banking Act in respect of the Issuer and there has been no indication that they will do so, but there can be no assurance that this will not change and/or that Noteholders will not be adversely affected by any such stabilisation option, if exercised.

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

Notes issued under the Programme may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. 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.

Notes issued at a substantial discount or premium

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

The Issuer's obligations under Subordinated Notes are subordinated

The Issuer's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority to Senior Claims (as defined in "Terms and Conditions of the Notes" herein) but without preference among themselves. Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Subordinated Notes will lose all or some of his investment should the Issuer become insolvent.

The BRRD contemplates that Subordinated Notes may be subject to non-viability loss absorption, in addition to the application of the general bail-in tool. See "*Regulation Risk*".

The reset of the Rate of Interest fixed with respect to Fixed Rate Reset Notes on each Reset Date could affect the market value of an investment in such Notes

Fixed Rate Reset Notes will bear interest at the fixed rate per cent. per annum specified in the relevant Final Terms (the "**Initial Rate of Interest**") until the Reset Date specified in the relevant Final Terms or, if more than one Reset Date is specified, the first Reset Date specified in the Final Terms (in each case, as defined in the Terms and Conditions). On the Reset Date (or on each Reset Date, if more than one Reset Date is specified), the Rate of Interest will be reset to the aggregate of the applicable Subsequent Reset Reference Rate, the applicable Initial Credit Spread and the applicable Step-Up Margin (if any) (each as defined in the Terms and Conditions), as determined by the Calculation Agent. Such reset Rate of Interest could be less than the Initial Rate of Interest and/or, as applicable, less than the Rate of Interest determined on any previous Reset Determination Date (as defined in the Terms and Conditions), and could accordingly affect the market value of an investment in the Notes.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally. See also the risk factor entitled "*Regulation Risk*" above, particularly in relation to the bail-in power and its use in relation to the Notes. The Notes are not eligible for FSCS protection.

Modification, waivers and substitution

The Terms and 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 Terms and Conditions of the Notes also provide that the Trustee may, without the consent of 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 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 12 of the Terms and Conditions of the Notes.

The Issuer is subject to capital requirements that could limit its operations

The Issuer is subject to capital adequacy guidelines adopted by the PRA in the United Kingdom for a building society, which provide for a minimum ratio of total capital to risk-adjusted assets both on a consolidated basis

and on a solo-consolidated basis expressed as a percentage. At least half of the total capital must be maintained in the form of Tier 1 Capital. The Issuer's failure to maintain its ratios may result in administrative actions or sanctions against it which may impact the Issuer's ability to fulfil its obligations under the Notes.

Legal Ranking of Notes

Prior to 1 January 2015, holders of Senior 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 Senior 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 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 to make 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 BRRD. This ensured 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 Senior 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, Subordinated Notes and Senior 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 Senior Notes (and the claims in respect of Senior 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 Senior 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 “*Regulation Risk*”).

Therefore, in the event of an insolvency, winding up or resolution of the Issuer, there is a real risk that investors in Senior Notes and/or Subordinated Notes would lose some or the entire amount of their investment. Furthermore, the market price of Senior 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.

Change of law

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. 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 issue of the relevant Notes.

Notes where denominations involve integral multiples

In relation to any issue of Notes which have denominations consisting of the minimum Specified Denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will 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 such that it holds an amount equal to one or more Specified Denominations.

If definitive Notes 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 brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be 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. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

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 (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) 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. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, save for the text in italics, subject to completion in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. The full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by an amended and restated trust deed (as further amended or supplemented as at the date of issue of the Notes (the “**Issue Date**”), the “**Trust Deed**”) dated 31 January 2017 between the Issuer and The Law Debenture Trust Corporation p.l.c. (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Coupons and Talons referred to below. An amended and restated agency agreement (as further amended or supplemented as at the Issue Date, the “**Agency Agreement**”) dated 10 December 2013 has been entered into in relation to the Notes between the Issuer, the Trustee, HSBC Bank plc as initial issuing and paying agent and registrar and the other agents named in it. The issuing and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Issuing and Paying Agent**”, the “**Paying Agents**” (which expression shall include the Issuing and Paying Agent), the “**Registrar**”, the “**Transfer Agents**” (which expression shall include the Registrar) and the “**Calculation Agent(s)**”. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours at the principal office of the Trustee (which, as at 10 December 2013 is at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified offices of the Paying Agents and the Transfer Agents. The applicable Final Terms will be published on the website of the London Stock Exchange through a regulatory information service.

The Noteholders, the holders of the interest coupons (the “**Coupons**”) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) relating to Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

1 FORM, DENOMINATION AND TITLE

Each Series (as defined below) of Notes is issued in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”). Bearer Notes will be issued in the Specified Denomination(s) shown hereon. Registered Notes will be issued in multiples of the Specified Denomination shown hereon.

This Note is a Fixed Rate Note, a Fixed Rate Reset Note, a Floating Rate Note or a Zero Coupon Note, depending upon the Interest and Redemption/Payment Basis shown hereon. This Note is a Senior Note or a Subordinated Note, (each as defined in the Trust Deed) if so indicated in the applicable Final Terms.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), “**holder**” (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 EXCHANGES OF NOTES AND TRANSFERS OF REGISTERED NOTES

(a) *Exchange of Notes*

Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) *Transfer of Registered Notes*

Subject as provided in Condition 2(f), Registered Notes may be transferred in whole or in part in a multiple of a Specified Denomination upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(c) *Exercise of Options or Partial Redemption in Respect of Registered Notes*

In the case of an exercise of an Issuer’s or Noteholders’ option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) *Delivery of New Certificates*

Each new Certificate to be issued pursuant to Conditions 2(b) or (c) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for such exchange, transfer or exercise. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such, form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) *Exchange Free of Charge*

Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(f) *Closed Periods*

No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3 STATUS

(a) *Status of Senior Notes*

The Senior Notes (being those Notes that specify their status as Senior) and the Coupons relating to them constitute direct, unconditional and (subject to Condition 4) unsecured obligations of the Issuer and, subject as provided below, shall at all times rank *pari passu* and without any preference among themselves, at least equally with all other outstanding unsecured and unsubordinated deposits with, and loans to, the Issuer, present and future, save for such deposits or loans which are given priority pursuant to applicable statutory provisions.

(b) *Status of Subordinated Notes*

The Subordinated Notes (being those Notes that specify their status as Subordinated) and the Coupons relating to them constitute direct and unsecured obligations of the Issuer and rank and will rank *pari passu* and without any preference among themselves, at least equally with the claims of the holders of all other subordinated obligations of the Issuer which constitute or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital of the Issuer from time to time outstanding but will rank ahead of the holders of any subordinated obligations where claims rank or are expressed to rank junior to the Subordinated Notes or the related Coupons, as the case may be, and for the avoidance of doubt, ahead of all claims in respect of any Deferred Shares (as defined below) in the Issuer.

In the event of the winding up of the Issuer, the claims of the Trustee, the Noteholders and the Couponholders against the Issuer in respect of the Subordinated Notes or the related Coupons (including, without limitation, any damages awarded for breach of any obligations hereunder), as the

case may be, will be subordinated, as provided in the Trust Deed, to the Senior Claims. In such event, the claims of the Noteholders and the Couponholders against the Issuer in respect of the Subordinated Notes will become due and payable and capable of proof in such winding up, but only to the extent that assets will remain available in such winding up after all Senior Claims on the Issuer have been satisfied in full or full provision therefor has been made. Accordingly, no payments of amounts due in respect of the Subordinated Notes and the related Coupons together with, to the extent not otherwise included within the foregoing, any other amounts attributable to such Subordinated Notes including any damages awarded for breach of any obligations, will be made to the Noteholders and the Couponholders following the commencement of the winding up of the Issuer except where all sums due from the Issuer in respect of all Senior Claims are paid in full or full provision has been made therefor. Any amounts paid to the Trustee in the winding up of the Issuer will be held on trust for distribution in satisfaction of the Senior Claims to the extent (if any) not fully paid and thereafter in or towards payment of the amounts due under the Subordinated Notes and the related Coupons together with, to the extent not otherwise included within the foregoing, any other amounts attributable to such Subordinated Notes including any damages awarded for breach of any obligations, as the case may be.

“**Deferred Shares**” means deferred shares within the meaning of the Act (as defined in Condition 10(a))

“**Senior Claims**” means the claims of all creditors of the Issuer (including, without limiting the generality of the foregoing, all contingent and prospective claims, all claims in respect of deposits with, or loans to, the Issuer and all claims to interest thereon which are admitted to proof in the winding up of the Issuer but excluding all claims in respect of Subordinated Indebtedness and, for the avoidance of doubt, all claims in respect of Deferred Shares)

“**Subordinated Indebtedness**” means the aggregate of (a) the indebtedness of the Issuer under the Subordinated Notes and related Coupons and (b) all other indebtedness of the Issuer which ranks or is expressed to rank *pari passu* with, or junior to, the Subordinated Notes and related Coupons and

“**Tier 2 Capital**” has the meaning given to it by the Supervisory Authority in accordance with the Applicable Rules (as defined in Condition 6(i)).

(c) *No Set-off*

Subject to applicable law, no holder of Subordinated Notes may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Subordinated Notes, the relative Coupons and each Noteholder and Couponholder of any Subordinated Note shall, by virtue of being the holder of any such Subordinated Note or Coupon, be deemed to have waived all such rights of set-off, both before and during any winding-up, liquidation or administration of the Issuer. Notwithstanding the provision of the foregoing sentence, if any of the said rights and claims of any Noteholder or Couponholder of Subordinated Notes against the Issuer is discharged by set-off, such Noteholder or Couponholder of Subordinated Notes will immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of winding-up of the Issuer, the liquidator of the Issuer and accordingly such discharge will be deemed not to have taken place.

4 **NEGATIVE PLEDGE (SENIOR NOTES ONLY)**

(a) *Restriction*

So long as any of the Senior Notes or related Coupons remain outstanding (as defined in the Trust Deed) the Issuer shall not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (other than a Permitted Security Interest) upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Debt, or any guarantee of or indemnity in respect of any Relevant Debt unless, at the same time or prior thereto, the Issuer’s obligations under the Senior Notes, related Coupons and the Trust Deed (A) are secured

equally and rateably therewith to the satisfaction of the Trustee or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, in each case to the satisfaction of the Trustee or (B) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Senior Noteholders.

(b) *Relevant Definitions*

For the purposes of this Condition:

- (i) “**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).
- (ii) “**Permitted Security Interest**” means any security interest:
 - (A) arising by operation of law or
 - (B) 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 the laws of England and Wales to collateralise the 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.
- (iii) “**Relevant Debt**” means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, loan stock or other securities that are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, automated trading system, over-the-counter or other securities market, having an original maturity of more than one year from its date of issue.

5 INTEREST AND OTHER CALCULATIONS

(a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(g).

(b) *Interest on Floating Rate Notes*

(i) Interest Payment Dates

Each Floating Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(g). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date

which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) Business Day Convention

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) Rate of Interest for Floating Rate Notes

The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon
- (y) the Designated Maturity is a period specified hereon and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

- (x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:
 - (1) the offered quotation; or
 - (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 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 as determined by the Calculation Agent. If five or more of 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 Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

- (y) if the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and
- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest

shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Linear Interpolation

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual 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 Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

“**Applicable Maturity**” means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(c) *Zero Coupon Notes*

Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) *Fixed Rate Reset Notes*

(i) Accrual of interest

Each Fixed Rate Reset Note bears interest:

- (a) in respect of the period from (and including) the Interest Commencement Date to (but excluding) the Reset Date (or, if there is more than one Reset Period, the first Reset Date occurring after the Interest Commencement Date), at the rate per annum equal to the Initial Rate of Interest; and
- (b) after the first Reset Date following the Interest Commencement Date and in respect of each Reset Period, at such rate per annum as is equal to the relevant Subsequent Reset Rate, as determined by the Calculation Agent on the relevant Reset Determination Date in accordance with this Condition,

payable, in each case, in arrear on the relevant Interest Payment Date(s).

(ii) Subsequent Reset Rate Screen Page

If the Subsequent Reset Rate Screen Page is not available, the Calculation Agent shall request each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Subsequent Reset Reference Rate at approximately the Subsequent Reset Rate Time on the Reset Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with offered quotations, the Subsequent Reset Rate for the relevant Reset Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the applicable Initial Credit Spread and Step-Up Margin (if any), all as determined by the Calculation Agent. If on any Reset Determination Date only one or none of the Reference Banks provides the Calculation Agent with an offered quotation as provided in the foregoing provisions of this paragraph, the Subsequent Reset Rate shall be determined as at the last preceding Reset Determination Date or, in the case of the first Reset Determination Date, the Subsequent Reset Rate shall be the Initial Rate of Interest.

(e) *Accrual of Interest*

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(f) *Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding*

- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified hereon, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “**unit**” means the lowest amount of such currency that is available as legal tender in the countries of such currency.

(g) *Calculations*

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be applied to the period for which interest is required to be calculated.

(h) *Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts*

The Calculation Agent shall, as soon as practicable on each Interest Determination Date, Reset Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, Interest Period or Interest Payment Date, calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period or Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or any Optional Redemption Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange or other relevant authority and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(i) *Determination or Calculation by Trustee*

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(j) *Definitions*

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Business Day**” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”) and/or

- (iii) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the “**Calculation Period**”):

- (i) if “**Actual/Actual**” or “**Actual/Actual – ISDA**” is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)
- (ii) if “**Actual/365 (Fixed)**” is specified hereon, the actual number of days in the Calculation Period divided by 365
- (iii) if “**Actual/365 (Sterling)**” is specified hereon, the actual number of days in the Calculation 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 hereon, the actual number of days in the Calculation Period divided by 360
- (v) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

360

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30

- (vi) if “**30E/360**” or “**Eurobond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

360

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30

(vii) if “**30E/360 (ISDA)**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation 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 D₂ will be 30

(viii) if “**Actual/Actual-ICMA**” is specified hereon:

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date and

“**Determination Date**” means the date specified as such hereon or, if none is so specified, the Interest Payment Date.

“**Euro-zone**” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“**Initial Credit Spread**” has the meaning specified hereon.

“**Initial Rate of Interest**” has the meaning specified hereon.

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“**Interest Amount**” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“**Interest Commencement Date**” means the Issue Date or such other date as may be specified hereon.

“**Interest Determination Date**” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“**Interest Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“**Interest Period Date**” means each Interest Payment Date unless otherwise specified hereon.

“**ISDA Definitions**” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

“**Mid-Swap Benchmark Rate**” means EURIBOR if the Specified Currency is euro or LIBOR for the Specified Currency if the Specified Currency is not euro.

“**Mid-Swap Maturity**” has the meaning specified hereon.

“**Mid-Swap Rate**” means for any Reset Period the arithmetic mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (calculated on the day count basis customary for fixed rate payments in the Specified Currency as determined by the Calculation Agent) of a fixed-

for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term of equal to the relevant Reset Period and commencing on the relevant Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, and (iii) has a floating leg based on the Mid-Swap Benchmark Rate for the Mid-Swap Maturity as specified hereon (calculated on the day count basis customary for floating rate payments in the Specified Currency as determined by the Calculation Agent).

“**Rate of Interest**” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

“**Reference Banks**” means in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon and in the case of a determination of the Subsequent Reset Rate if the Subsequent Reset Rate Screen Page is unavailable, the principal office in the principal financial centre of four major banks in the swap, money, securities or other market most closely connected with the Subsequent Reset Reference Rate as selected by the Issuer on the advice of an investment bank of international repute.

“**Reference Bond**” means for any Reset Period a government security or securities issued by the state responsible for issuing the Specified Currency (which, if the Specified Currency is euro, shall be Germany) selected by the Issuer on the advice of an investment bank of international repute as having an actual or interpolated maturity comparable with the relevant Reset Period that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the same currency as the Notes and of a comparable maturity to the relevant Reset Period.

“**Reference Bond Price**” means, with respect to any Reset Determination Date, (i) the arithmetic average of the Reference Government Bond Dealer Quotations for such Reset Determination Date, after excluding the highest and lowest such Reference Government Bond Dealer Quotations, or (ii) if the Issuing and Paying Agent obtains fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations.

“**Reference Government Bond Dealer**” means each of five banks (selected by the Issuer on the advice of an investment bank of international repute), or their affiliates, which are (i) primary government securities dealers, and their respective successors, or (ii) market makers in pricing corporate bond issues.

“**Reference Government Bond Dealer Quotations**” means, with respect to each Reference Government Bond Dealer and the relevant Reset Determination Date, the arithmetic average, as determined by the Issuing and Paying Agent, of the bid and offered prices for the relevant Reference Bond (expressed in each case as a percentage of its nominal amount) at or around the Subsequent Reset Rate Time on the relevant Reset Determination Date quoted in writing to the Issuing and Paying Agent by such Reference Government Bond Dealer.

“**Reference Rate**” means either LIBOR or EURIBOR as specified in the relevant Final Terms.

“**Relevant Screen Page**” means such page, section, caption column or other part of a particular information service as may be specified hereon (or any successor or replacement page, section, caption, column or other part of a particular information service).

“**Reset Date**” means the Interest Payment Date(s) specified hereon.

“**Reset Determination Date**” means for each Reset Period, the date specified hereon falling on or before the commencement of such Reset Period on which the Subsequent Reset Rate applying during such Reset Period will be determined.

“**Reset Period**” means each period from (and including) one Reset Date (or the first Reset Date) to (but excluding) the next Reset Date, or (if applicable) the Maturity Date.

“**Specified Denomination(s)**” has the meaning specified hereon.

“**Step-Up Margin**” has the meaning specified hereon. In the case of Subordinated Notes only, the Step-Up Margin shall be zero.

“**Subsequent Reset Rate**” for any Reset Period means the sum of (i) the applicable Subsequent Reset Reference Rate (ii) the Initial Credit Spread and (iii) the applicable Step-Up Margin (rounded down to four decimal places, with 0.00005 being rounded down).

“**Subsequent Reset Rate Screen Page**” has the meaning specified hereon.

“**Subsequent Reset Rate Time**” has the meaning specified hereon.

“**Subsequent Reset Reference Rate**” means either:

- (i) if “Mid-Swaps” is specified hereon, the Mid-Swap Rate displayed on the Subsequent Reset Rate Screen Page at or around the Subsequent Reset Rate Time on the relevant Reset Determination Date for such Reset Period; or
- (ii) if “Reference Bond” is specified hereon, the annual yield to maturity or interpolated yield to maturity (on the relevant day count basis) of the relevant Reference Bond, assuming a price for such Reference Bond (expressed as a percentage of its nominal amount) equal to the relevant Reference Bond Price.

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(k) *Calculation Agent*

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 REDEMPTION, PURCHASE AND OPTIONS

(a) *Final Redemption*

Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount).

(b) *Early Redemption*

(i) Zero Coupon Notes

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) Other Notes

The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) *Redemption for Taxation Reasons*

If the Issuer satisfies the Trustee immediately before the giving of such notice referred to below that (i) as a result of any change in or amendment to the laws or regulations of the United Kingdom or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the relevant series, on the next Interest Payment Date the Issuer would be required (A) to pay additional amounts as described under Condition 8 or (B) to account to any taxing authority in the United Kingdom for any amount other than tax withheld or deducted from interest payable on the Notes calculated by reference to any other amount payable in respect of the Notes and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, the Issuer may,

at its option (but subject to Condition 6(i) in the case of Subordinated Notes) having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 16 (which notice shall be irrevocable) redeem all, but not some only, of the Notes on any Interest Payment Date (if this Note is a Floating Rate Note), at any time (if this Note is not a Floating Rate Note) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption). Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Persons (as defined in the Trust Deed) of the Issuer stating that the relevant requirements referred to above will apply on the next Interest Payment Date and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on Noteholders and Couponholders.

(d) Redemption at the Option of the Issuer

If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) (but subject to Condition 6(i) in the case of Subordinated Notes) redeem, all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Notes to be redeemed which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements. Where the Notes are listed on a stock exchange or other relevant authority and the rules of such stock exchange or other relevant authority, as the case may be, so require, the Issuer shall, once in each year in which there has been a partial redemption of the Notes, cause to be published in a leading newspaper of general circulation as specified by such stock exchange or other relevant authority, a notice specifying the aggregate nominal amount of Notes outstanding and a list of the Notes drawn for redemption but not surrendered.

(e) Redemption at the Option of Noteholders

If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note (other than a Subordinated Note), upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) *Redemption Upon Capital Disqualification Event*

If this Condition 6(f) is specified as being applicable hereon, then, following the occurrence of a Capital Disqualification Event (as defined below), the Issuer may (subject to Condition 6(i) (*Supervisory Consent*)) on giving not less than thirty nor more than sixty days' notice (ending, in the case of Floating Rate Notes, on an Interest Payment Date) to the Trustee (with a copy to the Principal Paying Agent) and to the Noteholders in accordance with Condition 15, redeem all, but not some only, of the Subordinated Notes (such option to redeem being referred to herein as a "**Capital Disqualification Event Early Redemption Option**") at the Capital Disqualification Event Early Redemption Price specified hereon, together with interest accrued and unpaid, if any, to the date fixed for redemption.

The Issuer may exercise the Capital Disqualification Event Early Redemption Option in respect of any Subordinated Note notwithstanding the prior exercise by the Holder thereof of its option to require the redemption of such Subordinated Note under Condition 6(e) above if the due date for redemption under this Condition 6(f) would occur prior to that under Condition 6(e) but not otherwise and, in such circumstances, the exercise of the option under Condition 6(e) shall be rendered ineffective.

Prior to giving the above notice to the Trustee pursuant to this Condition 6(f), the Issuer shall deliver to the Trustee a certificate signed by two authorised signatories of the Issuer stating that a Capital Disqualification Event has occurred and is continuing, and the Trustee shall accept such certificate without further inquiry as sufficient evidence of the same and it shall be conclusive and binding on the Noteholders.

For these purposes, a "**Capital Disqualification Event**" shall be deemed to have occurred if the Issuer determines, in good faith and after consultation with the Supervisory Authority, at any time after the Issue Date, that by reason of the non compliance with the applicable criteria for Tier 2 capital, the Subordinated Notes are fully excluded from Tier 2 capital of the Issuer (excluding for these purposes any non recognition as a result of any applicable limitations on the amount of such capital of the Issuer).

(g) *Purchases*

The Issuer and any of its Subsidiaries (as defined in the Trust Deed) (subject to obtaining a Relevant Supervisory Consent in the case of Subordinated Notes) may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

(h) *Cancellation*

All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

(i) *Supervisory Consent*

The Issuer may only exercise a right to redeem or purchase Subordinated Notes pursuant to Conditions 6(c) (*Redemption for Taxation Reasons*), 6(d) (*Redemption at the Option of the Issuer*), 6(f) (*Redemption Upon Capital Disqualification Event*) or 6(g) (*Purchases*):

- (i) in the case of a redemption pursuant to Condition 6(f) (*Redemption Upon Capital Disqualification Event*) where the date fixed for redemption falls before the fifth anniversary of the Issue Date, if the Issuer has first complied with the Regulatory Preconditions and obtained any Relevant Supervisory Consent; and
- (ii) in any other case, unless the relevant Subordinated Notes have (or will have on the date fixed for redemption or purchase) ceased fully to qualify as part of the Issuer's regulatory capital, if the Issuer has first:
 - (A) obtained any Relevant Supervisory Consent; and
 - (B) in the case of a redemption pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) where the date fixed for redemption falls before the fifth anniversary of the Issue Date, complied with the Regulatory Preconditions.

For these purposes, as between the Issuer and the Noteholders, the Issuer shall be deemed to have complied with items (i) or (ii) above (as and where applicable) if it has obtained a Relevant Supervisory Consent, and a certificate signed by two Directors of the Issuer stating that it has obtained a Relevant Supervisory Consent and complied with the Regulatory Preconditions delivered to the Trustee (who shall accept such certificate without further inquiry as sufficient evidence of the same) shall be conclusive as to the Issuer having obtained such consent and shall be binding on the Noteholders.

In these Conditions:

"**Applicable Rules**" means, at any time, the laws, regulations, requirements, guidelines and policies relating to capital adequacy (including, without limitation, as to leverage) then in effect in the United Kingdom (or if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, such other jurisdiction) including, without limitation to the generality of the foregoing, any delegated or implementing acts (such as implementing or regulatory technical standards) adopted by the European Commission and any regulations, requirements, guidelines and policies relating to capital adequacy adopted by the Supervisory Authority from time to time (whether or not such requirements, guidelines or policies are applied generally or specifically to the Issuer or to the Issuer and any holding or subsidiary company of it or any subsidiary of any such holding company) and including, as at the date hereof CRD IV and related technical standards;

"**CRD IV**" means the legislative package consisting of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, as the same may be amended or replaced from time to time and Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms of the European Parliament and of the Council of 26 June 2013, as the same may be amended or replaced from time to time;

"**Regulatory Preconditions**" means:

- (a) in the case of a redemption pursuant to Condition 6(c) (*Redemption for Taxation Reasons*), the Issuer has demonstrated to the satisfaction of the Supervisory Authority, that the relevant Taxation Event is a change in the applicable tax treatment of the relevant Subordinated Notes which is material and was not reasonably foreseeable on the Issue Date; or

- (b) in the case of a redemption pursuant to Condition 6(f) (*Redemption upon Capital Disqualification Event*), the Issuer has demonstrated to the satisfaction of the Supervisory Authority, that the relevant change in the regulatory classification of the relevant Subordinated Notes was not reasonably foreseeable on the Issue Date;

"**Relevant Supervisory Consent**" means, in relation to any redemption or purchase of any Subordinated Notes, any required permission of the Supervisory Authority for such redemption or purchase under the prevailing Applicable Rules;

"**Supervisory Authority**" means the PRA and any successor organisation responsible for the prudential supervision of building societies or authorised persons under the FSMA in the United Kingdom (or if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, such other jurisdiction); and

"**Taxation Event**" means any of the applicable events or circumstances set out in item (i) of Condition 6(c) (*Redemption for Taxation Reasons*).

7 PAYMENTS AND TALONS

(a) *Bearer Notes*

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the Notes (in the case of all payments of principal and, in the case of interest, as specified in Condition 7(f)(v)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) *Registered Notes*

- (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

(c) *Payments in the United States*

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) 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 of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) *Payments subject to Fiscal Laws*

Save as provided in Condition 8, payments will be subject in all cases to any other applicable fiscal or other laws or regulations in the place of payment or other laws and regulations to which the Issuer agrees to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Appointment of Agents*

The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require (v) Paying Agents having specified offices in at least two major European cities and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee. In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders. 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.

(f) *Unmatured Coupons and unexchanged Talons*

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes such Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9) or if later, within a period of five years next following the Interest Payment Date specified on the face of such Coupon.
- (ii) Upon the due date for redemption of any Bearer Note, comprising a Floating Rate Note, unexpired Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note that provides that the relative unexpired Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unexpired Coupons, and where any Bearer Note is presented for redemption without any

unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

- (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) *Talons*

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

(h) *Non-Business Days*

If any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon and:

- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or
- (ii) (in the case of a payment in euro) which is a TARGET Business Day.

8 TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

(a) *Other connection*

to, or to a third party on behalf of, a holder who 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 other than the mere holding of the Note or Coupon or

(b) *Presentation more than 30 days after the Relevant Date*

presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.

As used in these Conditions, “**Relevant Date**” in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate) or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, all Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) “**principal**” and/or “**interest**” shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

9 PRESCRIPTION

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

10 EVENTS OF DEFAULT

(a) *Senior Notes and Enforcement*

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Senior Notes, then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified to its satisfaction), give notice to the Issuer that the Senior Notes are, and they shall accordingly thereby forthwith become, immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed, in any of the following events (each an “**Event of Default**”):

- (i) if default is made in the payment of any interest or principal due in respect of the Senior Notes, or any of them and the default continues for a period of 14 days or more (in the case of interest) or seven days or more (in the case of principal) or
- (ii) if the Issuer fails to perform or observe any of its other obligations under the Senior Notes or the Trust Deed and (except in any case where the Trustee considers the failure to be incapable of remedy when no continuation or notice as is hereinafter mentioned will be required) the failure 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) if any payment in respect of the principal of or any premium or interest on any indebtedness (as defined in the Trust Deed) for moneys borrowed having an outstanding aggregate principal amount of at least £10,000,000 (or its equivalent in any other currency or currencies) of the Issuer or any Subsidiary is not made on its due date (or by the expiry of any applicable grace period therefor) or any such indebtedness of the Issuer or any Subsidiary becomes due and payable prior to its stated maturity by reason of default or if any guarantee of or indemnity in respect of any such payment in respect of any such indebtedness of any third party by the Issuer or any Subsidiary is not honoured when due and called upon or
- (iv) if an administrative or other receiver or an administrator or other similar official is appointed in relation to the Issuer or any Material Subsidiary or in relation to the whole or a material part of the assets of any of them or if an encumbrancer takes possession of the whole or, in the opinion

of the Trustee, any material part of the assets of the Issuer or any Material Subsidiary or a distress of execution is levied or enforced upon or sued out against the whole or, in the opinion of the Trustee, any material part of the assets of the Issuer or any Material Subsidiary and, in any such case, is not discharged within 60 days or

- (v) if, except for the purposes of or pursuant to a Permitted Transfer (as defined below):
- (1) the Issuer stops payment to its creditors generally or ceases to carry on the whole or substantially the whole of its business or
 - (2) the Supervisory Authority presents a petition for the winding up of the Issuer or an effective resolution, instrument of dissolution or award for dissolution is passed, entered into or made or an order is made or an effective resolution is passed for the winding up or the dissolution of the Issuer or the Issuer is wound up or dissolved in any other manner or
 - (3) an order is made pursuant to the Act the effect of which is to prevent the Issuer from accepting the deposit of, or otherwise borrowing, any money or from accepting any payment representing the whole or any part of the amount due by way of subscription for a share in the Issuer, other than a payment which fell due before the making of the said order or
 - (4) the Issuer ceases to be an authorised person to carry on a deposit-taking business for the purposes of the FSMA or the Issuer's registration as a building society is cancelled or suspended or the Issuer is not or ceases to be a building society for the purposes of the Act or
 - (5) the Issuer amalgamates with, or transfers the whole or a material part of its engagements or its business to, another person or
- (vi) if, except for the purposes of a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders or for the purposes of a solvent winding up where the assets of a Material Subsidiary attributable directly or indirectly to the Issuer are distributed to any one or more of the Issuer and the other Material Subsidiaries:
- (1) a Material Subsidiary stops payment to its creditors generally or ceases to carry on the whole or substantially the whole of its business or
 - (2) an order is made by any competent court or resolution is passed for the winding up or dissolution of any Material Subsidiary,

provided, in the case of any Event of Default other than those described in sub-paragraphs (i) and (v)(2) above, the Trustee shall have certified to the Issuer that the Event of Default is, in its opinion, materially prejudicial to the interests of the Noteholders.

For the purposes of these Conditions:

- (A) “**Act**” means the Building Societies Act 1986 (as amended) and includes, where applicable, any statutory modification or re-enactment thereof or any statutory instrument, order or regulations made thereunder or under any such statutory modification or re-enactment
- (B) a “**Material Subsidiary**” shall mean any Subsidiary of the Issuer whose total assets (attributable to the Issuer) are equal to 10 per cent. or more of the consolidated total assets of the Issuer and its Subsidiaries, all as more particularly defined in the Trust Deed and

- (C) a “**Permitted Transfer**” shall mean:
- (i) an amalgamation of the Issuer and one or more other building societies under section 93 of the Act or
 - (ii) a transfer by the Issuer of all or substantially all (being 90 per cent. or more of the Issuer’s engagements including its obligations under the Notes, the Trust Deed and the Agency Agreement) or (on terms which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders) any smaller part of its engagements under section 94 of the Act or
 - (iii) a transfer by the Issuer of its business to a company under sections 97 to 102D of the Act or
 - (iv) an alteration in the status of the Issuer by virtue of any statute or statutory provision which alters, or permits the alteration of, the status of building societies generally or building societies which meet specified criteria to that of an institution authorised under the FSMA or to a body which is regulated on a similar basis to an institution authorised under the FSMA or
 - (v) any other reconstruction or amalgamation the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders.

At any time after any Senior Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed, the Senior Notes or the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one- quarter in nominal amount of the Senior Notes outstanding, and (b) it shall have been indemnified to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

(b) *Subordinated Notes and Enforcement*

- (i) In the event of default being made for a period of seven days or more in the payment of any principal or interest in respect of the Subordinated 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 Subordinated Notes and Coupons, at its discretion without further notice, institute proceedings for the recovery of the moneys then due provided that the Issuer shall not by virtue of the institution of any such proceedings (other than proceedings for the winding up of the Issuer) be obliged to pay any sum or sums including any damages awarded for breach of any obligations in respect of the Subordinated Notes or Coupons sooner than the same would otherwise have been payable by it.
- (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 Subordinated Notes or Coupons (other than any obligation for the payment of any principal or interest in respect of the Subordinated Notes or Coupons including any damages awarded for breach of any obligations) provided that the Issuer shall not by virtue of the institution of any such proceedings (other than proceedings for the winding up of the Issuer) be obliged to pay any sum or sums including any damages awarded for breach of any obligations in respect of the Subordinated Notes or Coupons sooner than the same would otherwise have been payable by it.
- (iii) In the event of the cancellation of the Issuer’s registration under the Act (except pursuant to Section 103(1)(a) of the Act), 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 reconstruction or amalgamation or the substitution in place of the Issuer of a Successor in Business (as defined in the Trust Deed) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution 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 give notice to the Issuer that the Subordinated Notes are, and they shall accordingly thereby forthwith become, immediately due and repayable at their nominal amount together with accrued interest (if any) as provided in the Trust Deed.

- (iv) The Trustee shall not be bound to take any of the actions referred to above to enforce the obligations of the Issuer under the Trust Deed and the Subordinated Notes and Coupons, unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Subordinated Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.
- (v) No remedy against the Issuer, other than as referred to in this Condition 10(b), shall be available to the Trustee or the Noteholders, whether for the recovery of amounts owing in respect of the Subordinated Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Subordinated Notes or under the Trust Deed. Nothing in the Trust Deed or these Conditions shall affect or prejudice the payment of the costs, fees, charges, expenses, liabilities or remuneration of the Trustee under the Trust Deed or the rights and remedies of the Trustee in respect thereof.

11 MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than two thirds, or at any adjourned meeting not less than one third, in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

(b) *Modification of the Trust Deed*

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

(c) *Entitlement of the Trustee*

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

12 SUBSTITUTION

- (a) If the Issuer shall amalgamate with one or more other building societies under Section 93 of the Act or transfer all or substantially all (being 90 per cent. or more of the Issuer's engagements including its obligations under the Notes, the Trust Deed and the Agency Agreement) of its engagements to another building society under Section 94 of the Act or transfer its business to a successor in accordance with Sections 97 to 102D of the Act, the successor will, pursuant to such provisions, automatically be substituted in place of the Issuer as principal debtor under the Trust Deed, the Notes and Coupons without prior approval thereof being required from the Noteholders, the Couponholders or the Trustee, provided that in the case of Subordinated Notes:
- (i) in the case of a proposed transfer in accordance with Section 97 and other such applicable provisions, either (1) the Issuer satisfies the Trustee by a certificate signed by two Authorised Persons that the successor will be or (as the case may be) remain an authorised institution under the FSMA (or any statutory modification or re-enactment thereof) or (2) such transfer is approved by an Extraordinary Resolution of the Noteholders
 - (ii) in connection with such transfer, any variation or supplement to these 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 of the FSMA and
 - (iii) 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 in form and substance acceptable to the Trustee 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.
- (b) Without prejudice to paragraph (a) above and subject as provided in the Trust Deed, the Trustee may agree, without the consent of the Noteholders or Couponholders, if it is satisfied that so to do would not be materially prejudicial to the interest of the Noteholders, to the substitution of either a Successor in Business to the Issuer or a Subsidiary of the Issuer or a subsidiary of a Successor in Business to the

Issuer, 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 Sections 97 to 102D or other applicable provisions of the Act, in place of the Issuer as principal debtor under the Trust Deed, the Notes and Coupons, provided that in the case of a substitution of a company which is a Subsidiary of the Issuer or a subsidiary of a Successor in Business to the Issuer, the obligations of such substitute in respect of the Trust Deed, the Notes and Coupons shall be guaranteed by the Issuer or the Successor in Business to the Issuer, as the case may be, 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 to the Issuer or Subsidiary of the Issuer or subsidiary of a Successor in Business to the Issuer, as the case may be, 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.

- (c) Any substitution referred to in paragraphs (a) and (b) 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 the Conditions.

13 INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit. The Trustee may rely without liability to Noteholders or Couponholders on any certificate or report prepared by the Auditors (as defined in the Trust Deed) pursuant to the Conditions and/or the Trust Deed whether or not the Auditor's liability in respect thereof is limited by a monetary cap or otherwise and shall be obliged to do so where the certificate or report is delivered pursuant to the obligation of the Issuer to procure such delivery under these Conditions; any such certificate shall be conclusive and binding on the Issuer, the Trustee, the Noteholders and the Couponholders.

14 REPLACEMENT OF NOTES, CERTIFICATES, COUPONS AND TALONS

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

15 FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with a Series. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

16 NOTICES

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in the United Kingdom (which is expected to be the *Financial Times*). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in the United Kingdom. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

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

17 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that the Notes expressly provide for such Act to apply to any of their terms.

18 GOVERNING LAW

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

PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

1 Initial Issue of Notes

If the Global Notes or the Global Certificates are to be issued in NGN form or to be held under the NSS (as the case may be) such Global Notes or the Global Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. If the relevant Global Notes or Global Certificates are to be issued in NGN form or are to be held under the NSS (as the case may be), the Issuer shall confirm to the Issuing and Paying Agent and to the clearing systems whether or not such Global Notes or Global Certificates are intended to be held in a manner which would allow recognition as eligible collateral for Eurosystem monetary policy and intra-day credit operations and if such relevant Global Note or relevant Global Certificate (as the case may be) is to be deposited with one of the ICSDs as Common Safekeeper and registered in the name of a nominee of one of the ICSDs acting as Common Safekeeper. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global Notes which are issued in CGN form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depository.

If the Global Note is a CGN, upon the initial deposit of such Global Note with a common depository for Euroclear and Clearstream, Luxembourg (the “**Common Depository**”) or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depository, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is a NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depository may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system (an “**Alternative Clearing System**”) as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such clearing system (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

3 Exchange

(a) *Temporary Global Notes*

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Final Terms indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see “Overview of the Programme – Selling Restrictions”), in whole, but not in part, for the Definitive Notes defined and described below and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

In relation to any issue of Notes which are represented by a Temporary Global Note which is expressed to be exchangeable for definitive bearer Notes at the option of the Noteholders, such Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or, if more than one Specified Denomination, the lowest Specified Denomination and multiples thereof).

(b) *Permanent Global Notes*

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, in part for Definitive Notes, unless otherwise specified in the applicable Final Terms, if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

(c) *Global Certificates*

If the Final Terms states that the Notes are to be represented by a Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(c) may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so
- (ii) if principal in respect of any Notes is not paid when due or
- (iii) with the consent of the Issuer

provided that, in the case of the first transfer of part of a holding pursuant to 3(c)(i) or 3(c)(ii) above, the Registered Holder has given the Registrar not less than 30 days’ notice at its specified office of the Registered Holder’s intention to effect such transfer.

(d) *Partial Exchange of Permanent Global Notes*

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes if so provided in, and in accordance with, the Conditions.

(e) *Specified Denominations*

The exchange upon notice option should not be expressed to be applicable under Form of Notes in the applicable Final Terms if the relevant Notes have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount. Furthermore, Notes should not be issued which have such denominations if such Notes are to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.

(f) *Delivery of Notes*

If the Global Note is a CGN, on or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes or if the Global Note is a NGN, the Issuer will procure that details of such exchange be entered pro rata in the records of the relevant clearing system. In this Prospectus, “**Definitive Notes**” means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons in respect of interest that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

(g) *Exchange Date*

“**Exchange Date**” means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and (except in the case of exchange pursuant to paragraph 3(b)(iv) above) in the city in which the relevant clearing system is located.

4 **Amendment to Conditions**

The temporary Global Notes permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

(a) *Payments*

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the

form set out in the Agency Agreement. All payments in respect of Notes represented by a Classic Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. If the Global Note is a NGN or the Global Certificate is held under the NSS, the Issuer shall procure that details of each such payment shall be entered pro rata in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 7(h).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "Clearing System Business Day" means Monday to Friday inclusive except 25 December and 1 January.

(b) *Prescription*

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

(c) *Meetings*

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the specified currency of the Notes. (All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.)

(d) *Cancellation*

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note.

(e) *Purchase*

Notes represented by a permanent Global Note may only be purchased by the Issuer or any of its subsidiaries if they are purchased together with the rights to receive all future payments of interest thereon.

(f) *Issuer's Option*

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any

option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg (to be reflected in the records of such clearing system as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

(g) Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the permanent Global Note is a CGN, presenting the permanent Global Note to the Issuing and Paying Agent, or to a Paying Agent acting on behalf of the Issuing and Paying Agent, for notation. Where the Global Note is a NGN or where the Global Certificate is held under the NSS, the Issuer shall procure that details of such exercise shall be entered pro rata in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

(h) NGN nominal amount

Where the Global Note is a NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

(i) Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

(j) Notices

So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note.

(k) Electronic Consent and Written Resolution

While any Global Note is held on behalf of, or any Global Certificate is registered in the name of any nominee for, a clearing system, then:

- (i) approval of a resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding (an “**Electronic Consent**” as defined in the Trust Deed) shall, for all purposes (including

matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the Special Quorum was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders and holders of Coupons and Talons whether or not they participated in such Electronic Consent; and

- (ii) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by (a) accountholders in the clearing system with entitlements to such Global Note or Global Certificate or, (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement held. For the purposes of establishing the entitlement to give any such consent or instruction, the Issuer and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the “relevant clearing system”) and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above.
- (iii) Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

The net proceeds of the issue of any Notes will be used by the Issuer in its general business operations.

LEEDS BUILDING SOCIETY

Introduction

Leeds Building Society (the “**Issuer**” or the “**Society**”), formed in 1875, is the fifth largest building society in the United Kingdom¹ with assets at 30 June 2016 of £14.9 billion.

The Society generates business from a number of sources including a network of 62 high street branch offices in the United Kingdom, Ireland and Gibraltar, a customer telephone service centre, the Leeds Building Society website, postal savings and financial intermediaries.

The Society’s network of branches stretches from Aberdeen in the North to Southampton in the South and Belfast in the West to Norwich in the East. There are 25 branches in the Society’s heartland of Leeds and the rest of Yorkshire. The Society also operates outside of the United Kingdom in Gibraltar and Ireland.

The Society is committed to remaining an independent mutual building society. It strongly supports the concept of mutuality by seeking to give additional value to borrowers and investors and the communities it serves.

Constitution

The Society was incorporated in England on 21 January 1875 for an indefinite duration with registered number 320B. It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and operates in accordance with the Building Societies Act 1986 (the “**Act**”), the Financial Services and Markets Act 2000 and the Society’s Memorandum and Rules. It is an authorised building society within the meaning of the Act and is registered with the Financial Conduct Authority and the Prudential Regulation Authority, registered number 164992.

The affairs of the Society are conducted and managed by a Board of Directors who are appointed by the Society’s members and who serve in accordance with the Society’s Rules and Memorandum. The Board is responsible to the Society’s 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.

The Society is a mutual organisation with qualifying retail investors and borrowers having membership rights. Eligibility to vote at General Meetings is governed by the Act and the Society’s Rules. No individual member is entitled to more than one vote on any resolution proposed at a General Meeting.

The Society’s registered and head office address is 105 Albion Street, Leeds LS1 5AS and the telephone number is 0113 2257777.

Subsidiaries

The Society operates the following principal wholly owned subsidiary companies:

- (i) Leeds Mortgage Funding Ltd – for the provision of mortgage finance.
- (ii) Leeds Financial Services Ltd – as a non-trading entity.
- (iii) Headrow Commercial Property Services Ltd – as a non-trading entity.

The following entities are not legally owned by the Society but are in substance equal to being a 100 percent owned subsidiary:

¹ Source: www.bsa.org.uk website

- (i) Leeds Building Society Covered Bonds LLP – a provider of mortgage assets and guarantor of covered bonds (although incorporated as an LLP, the Society’s interest is, in substance, equal to being a 100 per cent owned subsidiary).
- (ii) Leeds Covered Bonds Holdings Company Ltd - holding company for Leeds Covered Bond Designated Members (No.1) Limited and Leeds Covered Bonds Designated Members (No.2) Limited.
- (iii) Albion No.2 PLC – a provider of residential mortgage backed securities (the Society’s interest is, in substance, equal to being a 100 per cent owned subsidiary).
- (iv) Albion No.2 Holdings PLC - a holding company for Albion No.2 PLC.
- (v) Albion No.3 PLC – a provider of residential mortgage backed securities (the Society’s interest is, in substance, equal to being a 100 per cent owned subsidiary).
- (vi) Albion No.3 Holdings PLC - a holding company for Albion No.3 PLC.
- (vii) Guildford No.1 PLC - a provider of residential mortgage backed securities (the Society’s interest is, in substance, equal to being a 100 per cent owned subsidiary).
- (viii) Guildford No.1 Holdings PLC - a holding company for Guildford No.1 PLC.

Board of Directors

The Directors of Leeds Building Society are listed below:

| <i>Directors</i> | <i>Position</i> |
|------------------|-------------------------------------|
| Robin Ashton | Chairman |
| Les Platts | Vice Chairman |
| Andrew Greenwood | Chief Risk Officer |
| Karen Wint | Chief Operating Officer |
| Peter Hill | Chief Executive Officer |
| Richard Fearon | Chief Commercial Officer |
| Robin Litten | Chief Financial Officer |
| David Fisher | Non-Executive Director |
| Gareth Hoskin | Non-Executive Director |
| John Hunt | Non-Executive Director |
| Philip Jenks | Non-Executive Director |
| Philippa Brown | Non-Executive Director |
| Susan Cooklin | Non-Executive Director ¹ |

A list of each Director’s outside directorships as at 31 December 2015 can be found in the Society’s 2015 annual business statement (a copy of which is incorporated by reference into this Prospectus).

¹ Susan Cooklin will be a Non-Executive Director until 6 April 2017

Documents may be served on the above named directors at: c/o Deloitte LLP (Ref DH), 1 City Square, Leeds, LS1 2AL.

Robin Ashton has disclosed to the Society that a potential conflict of interest could arise between his duties to the Society and his separate duties as a director of Shawbrook Group Plc (company number 07240248) and its subsidiary Shawbrook Bank Limited (company number 00388466), (both of which have their registered office at Lutea House, The Drive, Warley Hill Business Park, Great Warley, Brentwood, Essex, United Kingdom, CM13 3BE). Shawbrook Group Plc is the parent company for Shawbrook Bank Limited which operates as a banking institution (regulated by the FCA with authorised number 204574) accepting private and business deposits from small to medium sized enterprises.

David Fisher has disclosed to the Society that a potential conflict of interest could arise between his duties to the Society and his separate duties as chairman of Amicus Finance PLC (having its registered office at 7 Air Street, London, W1B 5AD (having company number **06994954**) Amicus Finance PLC deliver property finance, commercial finance and asset finance solutions.

Philip Jenks has disclosed to the Society that a potential conflict of interest could arise between his duties to the Society and his separate duties as a director of Charter Court Financial Services Group Ltd (company number 06712054) and its subsidiaries Charter Court Financial Services Ltd (company number 06749498), Charter Mortgages Ltd (company number 06749495) and Exact Mortgage Experts Ltd (company number 06749563) all of which have their registered office at 2 Charter Court, Broadlands, Wolverhampton, WV10 6TD. Charter Court Financial Services Group Ltd offers financial service solutions whilst Charter Mortgages Ltd operates as an originator of mortgages and Exact Mortgage Experts Ltd as an originator and a servicer of mortgages. These businesses may from time to time securitise loans originated by them under the name of Precise Mortgage Funding.

Les Platts has disclosed to the Society that a potential conflict of interest could arise between his duties to the Society and his separate duties as a director of AJ Bell Holdings Ltd (having its registered office at Trafford House, Chester Road, Manchester, M32 0RS (having company number 4503206)). AJ Bell Holdings Ltd is one of the UK's largest providers of investment platforms and stockbroker services. It operates exclusively on an execution-only basis and also provides white labelling, dealing, custody and investment administration services to other financial services firms.

It is possible that in the future a potential conflict of interest could arise from the above mentioned businesses. The Society has a Board Conflicts of Interest Policy which governs how a potential or actual conflict should be managed.

Other than as set out above, no Director has any actual or potential conflict of interest between his or her duties to the Society and his or her private interests or other duties.

Executive Management

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

| <i>Directors and Executives</i> | <i>Position</i> |
|---------------------------------|--------------------------|
| Peter Hill | Chief Executive Officer |
| Andrew Greenwood | Chief Risk Officer |
| Karen Wint | Chief Operating Officer |
| Richard Fearon | Chief Commercial Officer |
| Robin Litten | Chief Financial Officer |
| Alison Port | Director of Strategy |

| | |
|-------------------|--|
| Andrew Mellor | Director of Prudential & Enterprise Risk |
| Andrew Moody | Director of Credit Risk |
| Becky Hewitt | Director of People |
| Gary Mitchell | Director of Finance Operations |
| Jaedon Green | Director of Products and Distribution |
| Karen Bassett | Chief Internal Auditor |
| Martin Richardson | Director of Operations |
| Nikki Marsh | Director of Communications & Digital |
| Paul Riley | Director of Treasury |
| Stuart Whittle | Deputy Finance Director |
| Thomas Clark | Chief Information Officer |
| Thomas Tinkler | Director of Change |

A list of each Director and Executive's outside directorships as at 31 December 2015 can be found in the Society's 2015 annual business statement (a copy of which is incorporated by reference into this Prospectus).

Documents may be served on the above named executives at: c/o Deloitte LLP (Ref DH), 1 City Square, Leeds, LS1 2AL.

No executive has any actual or potential conflict of interest between his or her duties to the Society and his or her private interests or other duties.

Business

General

The principal business of the Society as stated in Clause 3 of its Memorandum is making loans which are secured on residential property and are funded substantially by its members.

The Society obtains funds from the retail market through a range of personal savings accounts and also raises funds in the wholesale funding markets. It makes loans to borrowers on the security of first charge mortgages on freehold and leasehold property.

Mortgage Lending Activities

The Society operates primarily in the UK mortgage market and also lends in Gibraltar. The Society offers a range of competitive fixed, capped, discounted, tracker and variable rate products, whilst maintaining an emphasis on high asset quality.

In the first six months of 2016, the Society lent approximately £1,926 million to customers.

Arrears and Loan Loss Provision

At 30th June 2016, 242 mortgages held by the Society were over 12 months in arrears.

| | Group | |
|---|---------|------|
| | H1 2016 | 2015 |
| | % | % |
| Charge to loan loss provisions / average loans..... | -0.008 | 0.17 |

| | | |
|---|------|------|
| Loan loss reserves / average loans..... | 0.48 | 0.59 |
|---|------|------|

Retail Funding

In the first half of 2016 the Society's savings balances remained stable at £10,569 million.

Wholesale Funding

The Society's strategy is to access wholesale funding markets to supplement retail funding. The following table sets out the level of wholesale funding at 30 June 2016.

| | £m | % |
|--|---------|-------|
| Amounts owed to credit institutions..... | 32.4 | 1.1 |
| Amounts owed to other customers..... | 369.9 | 12.3 |
| Debt securities in issue..... | 2,594.8 | 86.6 |
| Total wholesale funding..... | 2,997.1 | 100.0 |

At 30 June 2016 the Society's wholesale deposit funding was 22.1 per cent of shares and borrowings. At 30 June 2016 total Group shares and borrowings were £13,566.4 million.

Liquidity

During the first half of 2016 the Society's unencumbered liquid assets portfolio remained stable and represented a ratio of 15.3 per cent. of shares, deposits and liabilities.

Capital Resources

Group pre-tax profits compared to June 2015 increased by 5.5 per cent to £58 million. At the end of June 2016 and at the end of 2015 the consolidated gross and free capital and solvency ratios of the Society were as follows:

| | Group | |
|---|---------|------|
| | H1 2016 | 2015 |
| | % | % |
| Gross capital ratio as a percentage of shares and borrowings..... | 6.31 | 6.55 |
| Free capital ratio..... | 6.19 | 6.44 |
| Solvency ratio..... | 16.2 | 16.4 |

Operational Efficiency

The management expenses/assets ratio is an appropriate measure of efficiency for a building society. The Group's management expenses/assets ratio increased to 0.63 per cent in first half of 2016. The Group's management expenses/income ratio increased slightly to 43 per cent.

Non-Interest Income

In the first half of 2016, the Group's revenues from non-interest sources amounted to £6.0 million.

Credit Ratings

Moody's Investors Services Ltd. ("**Moody's**") has assigned ratings to the Society of A2/P-1 for bank deposits; with senior unsecured debt rated at A2. The current ratings outlook is negative.

Fitch Ratings Ltd ("**Fitch**") has assigned ratings to the Society of A-/F1 for the Long Term/Short Term issuer default rating; with senior unsecured debt rated at A-. The current ratings outlook is stable.

Moody's and Fitch are both established in the European Union and both entities are registered under the CRA Regulation. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation.

TAXATION

1 UNITED KINGDOM

The comments below are of a general nature based on current United Kingdom law as applied in England and Wales and HM Revenue & Customs (“HMRC”) practice which may not be binding on HMRC and which may be subject to change sometimes with retrospective effect. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their Notes and Coupons and may not apply to certain classes of persons such as dealers or certain professional investors. Noteholders should be aware that the particular terms of issue of any Tranche of Notes as specified in the relevant Final Terms may affect the tax treatment of that and other Tranches of a Series of Notes. The comments below deal primarily with certain United Kingdom withholding tax issues which arise on payments of interest in respect of the Notes. They are not exhaustive and they do not address in detail any other United Kingdom taxation implications of acquiring, holding or disposing of Notes and Coupons. They also assume that there will be no substitution of the Issuer and do not address the consequences of any such substitution (notwithstanding that such substitution may be permitted by the terms and conditions of the Notes). Any Noteholders and Couponholders who are in doubt as to their personal tax position should consult their professional advisers. In particular, Noteholders and Couponholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or an account of taxation under the laws of the United Kingdom.

References in this part to “interest” shall mean amounts that are treated as interest for the purposes of United Kingdom taxation.

Interest

The Notes issued will constitute “quoted Eurobonds” provided they carry a right to interest and are and continue to be listed on a recognised stock exchange (in the case of securities to be traded on the London Stock Exchange, which is a recognised stock exchange, this condition will be satisfied if the securities are included in the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange) within the meaning of Section 1005 Income Tax Act 2007.

Whilst the Notes are and continue to be quoted Eurobonds, payments of interest and other distributions by the Issuer on or in respect of the Notes may be made without withholding or deduction for or on account of United Kingdom tax under Section 889 of the Income Tax Act 2007.

Payments of interest on the Notes may also be made without deduction of or withholding on account of United Kingdom income tax under Section 889 of the Income Tax Act 2007 by virtue of the Taxation of Regulatory Capital Securities Regulations 2013 (the “**Regulations**”) provided that such Notes qualify or have qualified as Tier 2 instruments under Article 63 of the CRR and form, or have formed, a component of Tier 2 Capital for the purposes of the CRR and provided further 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.

In all other cases interest and other distributions will generally be paid by the Issuer under deduction of income tax at the basic rate (currently 20 per cent.) subject to any direction to the contrary from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty or subject to the availability of other reliefs.

If Notes are issued at a discount to their principal amount, any payments made in respect of the accrued discount will not be subject to United Kingdom withholding tax as long as they do not constitute payments of interest or distributions. When Notes are to be, or may fall to be, redeemed at a premium then any such

elements of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax and reporting requirements as outlined in this section.

Payments of interest on a Note issued by the Issuer have a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment irrespective of the residence of the Noteholder. However, where payments are made without withholding or deduction for or on account of United Kingdom income tax, the interest will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a branch or agency or, in the case of a corporate holder, carries on a trade through a permanent establishment in the United Kingdom, in each case in connection with which the interest is received or to which those Notes are attributable, in which case (subject to certain exemptions for payments received by certain specified categories of agent, such as some brokers and investments managers) tax may be levied on the United Kingdom branch or agency, or permanent establishment.

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

Disposal (including Redemption)

Noteholders which are within the charge to United Kingdom corporation tax (including non-resident Noteholders whose Notes are used, held or acquired for the purposes of a trade carried on in the United Kingdom through a permanent establishment) will generally be subject to United Kingdom corporation tax on all profits and gains from their holding, disposal or redemption of Notes. The nature of the tax charge will depend on the terms of the Note in question and the particular circumstances of the relevant Noteholder. In particular, Noteholders within the charge to United Kingdom corporation tax should have regard, among other matters, to the provisions of the “loan relationship” legislation contained in the Corporation Tax Act 2009.

Noteholders who are resident for tax purposes in the United Kingdom or who carry on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable but who are not within the charge to United Kingdom corporation tax may be subject to United Kingdom income or capital gains tax on their holding, disposal or redemption of Notes. The nature of the tax charge will depend on the terms of the Note in question and the particular circumstances of the relevant Noteholder. In particular, such Noteholders should have regard to, among other matters, the chargeable gains legislation, the “accrued income scheme” and the “deeply discounted securities” legislation.

2 THE PROPOSED FINANCIAL TRANSACTIONS TAX

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common financial transactions tax (“**FTT**”) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to 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 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.

However, the proposed FTT 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 Notes are advised to seek their own professional advice in relation to the FTT.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, as amended commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply to foreign passthru payments prior to 1 January 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an Amended and Restated Dealer Agreement dated 10 December 2013 (as further amended and/or supplemented from time to time, the “**Dealer Agreement**”) between the Issuer, the Permanent Dealers and the Arranger, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arranger for its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis will be stated in the relevant Final Terms.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

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 the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Notes in bearer form having a maturity of more than one year 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. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and regulations thereunder.

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 Dealer Agreement, it will not offer, sell or deliver the Notes of any identifiable Tranche, (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the Issuer, by the Issuing and Paying Agent, or in the case of Notes issued on a syndicated basis, the Lead Manager, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells 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.

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

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States. Distribution of this Prospectus by any non-U.S. person outside the United States to any U.S.

person or to any other person within the United States is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

United Kingdom

Each Dealer has represented and agreed that:

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

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the “**Financial Instruments and Exchange Act**”). Accordingly, each of the Dealers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive.

Neither the Issuer nor any Dealer has made any representation that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Prospectus, any other offering material or any Final Terms and neither the Issuer nor any other Dealer shall have responsibility therefor.

FORM OF FINAL TERMS

Final Terms dated [●]

LEEDS BUILDING SOCIETY

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the £2,000,000,000 Euro Medium Term 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 31 January 2017 [and the supplemental Prospectus dated [[●]] which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC, as amended (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 and must be read in conjunction with such 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. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at [address] [and] [website] and copies may be obtained from [address].

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) contained in the Trust Deed dated [original date] and set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [[●]] and incorporated by reference into the Prospectus dated [current date] and which are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [[●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. The Prospectuses [and the supplemental Prospectus] are available for viewing [at [website]] [and] during normal business hours at [address] [and copies may be obtained from [address]].]

- | | | | |
|---|---------|--|---|
| 1 | [(i)] | Series Number | [] |
| | [(ii)] | Tranche Number: | [] |
| 2 | | Specified Currency or Currencies: | [] |
| 3 | | Aggregate Nominal Amount of Notes: | |
| | [(i)] | Series: | [] |
| | [(ii)] | Tranche: | [] |
| | [(iii)] | Date on which the Notes become fungible: | [Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with [] on [insert date/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [20] below [which is expected to occur on or about []].] |
| 4 | | Issue Price: | [] per cent. of the Aggregate Nominal Amount [plus accrued interest from []] |
| 5 | (i) | Specified Denominations: | [[] and integral multiples of [] in excess thereof up to and including []] |
| | (ii) | Calculation Amount: | [] |
| 6 | (i) | Issue Date: | [] |

- (ii) Interest Commencement Date: [[]/Issue Date/Not Applicable]
- 7 Maturity Date: []
- 8 Interest Basis: [[] per cent. Fixed Rate]
 [Fixed Rate Reset]
 [[*LIBOR/EURIBOR*] +/- [] per cent. Floating Rate]
 [Zero Coupon]
- 9 Redemption/Payment Basis: [Subject to any purchase and 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]
- 12 (i) Status of the Notes: [Senior/Subordinated]
- (ii) Date approval by committee of the Board of Directors 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 [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [] in each year from and including [●] to and including the Maturity Date
- (iii) Fixed Coupon Amount[(s)]: [] per Calculation Amount
- (iv) Broken Amount(s): [] per Calculation Amount payable on the Interest Payment Date falling in/on [] / [Not Applicable]
- (v) Day Count Fraction: [Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360/360/360 /Bond Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual (ICMA)]
- (vi) [Determination Dates: [] in each year
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/[]]
- 14 Fixed Rate Reset Note Provisions [Applicable/Not Applicable]
- (i) Initial Rate of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [] in each year from and including [●] to and including the Maturity Date
- (iii) Broken Amount(s): [] per Calculation Amount payable on the Interest Payment Date falling in/on [] / [Not Applicable]
- (iv) Day Count Fraction: [Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360/360/360 /Bond Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual (ICMA)]

- (v) Determination Date: [] in each year
- (vi) Party responsible for calculating the []
Rate(s) of Interest and/or Interest Amount(s)
(if not the [Agent]):
- (vii) Reset Date(s): []
- (viii) Subsequent Reset Reference [Mid swaps/Reference Bond]
Rate(s):
- (ix) Initial Credit Spread: [] per cent. per annum
- (x) Step-Up Margin: [[] per cent. per annum/Not Applicable]
- (xi) Subsequent Reset Rate Screen [[] / Not Applicable]
Page:
- (xii) Mid Swap Maturity: [[] / Not Applicable]
- (xiii) Reset Determination Date: The [] Business Day prior to the commencement of
the applicable Reset Period
- (xiv) Subsequent Reset Rate Time: []
- 15 Floating Rate Note Provisions [Applicable/Not Applicable]
- (i) Interest Period(s): [] [, subject to adjustment in accordance with the
Business Day Convention set out in (v) below/, not subject
to any adjustment[, as the Business Day Convention in (v)
below is specified to be Not Applicable]]
- (ii) Specified Interest Payment Dates: [] [, subject to adjustment in accordance with the
Business Day Convention set out in (v) below/, not subject
to any adjustment[, as the Business Day Convention in (v)
below is specified to be Not Applicable]]
- (iii) Interest Period Date: [Not Applicable]/ [[] in each year[, subject to adjustment
in accordance with the Business Day Convention set out in
(v) below/, not subject to any adjustment[, as the Business
Day Convention in (v) below is specified to be Not
Applicable]]
- (iv) First Interest Payment Date: []
- (v) Business Day Convention: [Floating Rate Convention/Following Business Day
Convention/Modified Following Business Day
Convention/Preceding Business Day Convention]
- (vi) Business Centre(s): []
- (viii) Manner in which the Rate(s) of [Screen Rate Determination/ISDA Determination/other]
Interest is/are to be determined:
- (ix) Party responsible for calculating the []
Rate(s) of Interest and/or Interest Amount(s)
(if not the [Agent]):
- (x) Screen Rate Determination:
– Reference Rate: [LIBOR/EURIBOR]
– Interest Determination Date(s): [Second London business day prior to the first day of each
Interest Accrual Period] [First day of each Interest Accrual
Period] [Second TARGET business day prior to the first

| | | |
|----|---|--|
| | | day of each Interest Accrual Period] |
| | – Relevant Screen Page: | [] |
| | (xi) ISDA Determination: | |
| | – Floating Rate Option: | [] |
| | – Designated Maturity: | [] |
| | – Reset Date: | [] |
| | (xii) Linear Interpolation: | [Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation] |
| | (xiii) Margin(s): | [+/-][] per cent. per annum |
| | (xiv) Minimum Rate of Interest: | [] per cent. per annum |
| | (xv) Maximum Rate of Interest: | [] per cent. per annum |
| | (xvi) Day Count Fraction: | [[Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360/360/360/ Bond Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual (ICMA)]] |
| 15 | Zero Coupon Note Provisions | [Applicable/Not Applicable] |
| | (i) Amortisation Yield | [●] per cent. per annum |
| | (ii) [Day Count Fraction in relation to Early Redemption Amounts: | [[Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360/360/360/ Bond Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual (ICMA)]] |

PROVISIONS RELATING TO REDEMPTION

| | | |
|----|---|---------------------------------|
| 16 | Call Option | [Applicable/Not Applicable] |
| | (i) Optional Redemption Date(s): | [] |
| | (ii) Optional Redemption Amount(s) of [] per Calculation Amount each Note and method, if any, of calculation of such amount(s): | |
| | (iii) If redeemable in part: | |
| | (a) Minimum Redemption Amount: | [] per Calculation Amount |
| | (b) Maximum Redemption Amount: | [] per Calculation Amount |
| | (iv) Notice Period: | [] |
| 17 | Put Option | [Applicable/Not Applicable] |
| | (i) Optional Redemption Date(s): | [] |
| | (ii) Optional Redemption Amount(s) of [] per Calculation Amount each Note and method, if any, of calculation of such amount(s): | |
| | (iii) Notice period | [] |
| 18 | Final Redemption Amount of each Note: | [] per Calculation Amount |
| 19 | Early Redemption Amount | [] |

Early Redemption Amount(s) per Calculation
Amount payable on redemption for taxation
reasons or on event of default or other early
redemption:

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 20 Form of Notes: Bearer Notes:
[Temporary Global Note exchangeable for a
Permanent Global Note which is exchangeable for
Definitive Notes in the limited circumstances
specified in the Permanent Global Note]
[Temporary Global Note exchangeable for Definitive
Notes on [] days' notice]
[Permanent Global Note exchangeable for Definitive
Notes in the limited circumstances specified in the
Permanent Global Note]
Registered Notes:
[Global Certificate ([•] nominal amount) registered in
the name of a nominee for [a common depository for
Euroclear and Clearstream, Luxembourg/a common
safekeeper for Euroclear and Clearstream,
Luxembourg (that is, held under the NSS)]]
- 21 New Global Note: [Yes] [No]
- 22 Financial Centre(s) or other special provisions
relating to payment dates: [Not Applicable/[]]
- 23 Talons for future Coupons (and dates on which such
Talons mature): [No/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.]
- 24 US Selling Restrictions: [Reg. S Compliance Category: 2, /TEFRA C/TEFRA
D/TEFRA Not Applicable]

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 [•], no facts have been
omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By:
Duly authorised

PART B – OTHER INFORMATION

1 LISTING AND TRADING

- (i) Admission to listing and to trading: Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc's regulated market 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:
[Moody's: []]
[Fitch: []]
[The Notes to be issued have not been specifically rated.]

3 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer 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.

4 *[Fixed Rate Notes only]* – [] per cent. per annum YIELD

- Indication of yield: The yield is calculated at the Issue Date on the basis of the Issue price. It is not an indication of future yield.]

5 OPERATIONAL INFORMATION

- ISIN: []
- Common Code: []
- Any clearing system(s) other than Euroclear Bank SA/ NV and Clearstream Banking, S.A. and the relevant identification number(s): [Not Applicable/[]]
- Delivery: Delivery [against/free of] payment
- Names and addresses of initial Paying Agent(s): []
- Names and addresses of additional Paying Agent(s) (if any): []
- Names and addresses of Dealer[s]: []

GENERAL INFORMATION

- (1) The admission of the Notes to the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that each Tranche of the Notes which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of a temporary or permanent Global Note (or one or more Certificates) in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or before 3 February 2017. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules.
- (2) The Issuer has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the establishment of the Programme. The establishment of the Programme was authorised by a resolution of the Board of Directors of the Issuer passed on 5 August 2002 and a resolution of a duly constituted committee of such Board passed on 19 August 2002. The update of the Programme was authorised by resolutions of the Board passed on 26 January 2017. By further resolution also passed on 26 January 2017 the Board of Directors of the Issuer renewed its authority to the committee of the Board established in August 2006 to authorise each issue of Notes under the Programme.
- (3) There has been no significant change in the financial or trading position of the Group since 30 June 2016 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2015.
- (4) There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus, which may have or has had in the recent past a significant effect on the financial position or profitability of the Issuer and/or the Group.
- (5) Each Bearer Note having a maturity of more than one year, and any Coupon or Talon with respect to such a Bearer Note will bear the following legend: “Any United States person 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”.
- (6) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.
- (7) The issue price and the amount of the relevant Notes will be determined at the time of the offering of each Tranche based on then prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issue of Notes.
- (8) For so long as Notes may be issued pursuant to this Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Issuer:
 - (i) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons and the Talons);
 - (ii) the Agency Agreement;
 - (iii) the Rules and Memorandum of the Issuer;

- (iv) the published annual report and audited consolidated financial statements of the Issuer for the financial years ended 31 December 2014 and 31 December 2015, respectively; and
- (v) a copy of this Prospectus together with any Supplement to this Prospectus or further Prospectus.

This Prospectus and any Final Terms will be published on the website of the Regulatory News Service operated by the London Stock Exchange at:

www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html

- (9) Copies of the latest annual report and audited consolidated financial statements of the Issuer may be obtained, and copies of the Trust Deed and the Agency Agreement will be available for inspection, at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Notes is outstanding.
- (10) Deloitte LLP (Chartered Accountants and registered auditor whose address is 1 City Square, Leeds LS1 2AL) have audited, and rendered unqualified audit reports on, the audited consolidated financial statements of the Issuer for the financial years ended 31 December 2014 and 31 December 2015, respectively.
- (11) **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.

ISSUER

Leeds Building Society
105 Albion Street
Leeds LS1 5AS

TRUSTEE

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

ISSUING AND PAYING AGENT, REGISTRAR, TRANSFER AGENT AND CALCULATION AGENT

HSBC Bank plc
8 Canada Square
London E14 5HQ

PAYING AGENT AND TRANSFER AGENT

Banque Internationale à Luxembourg, société anonyme
69, route d'Esch
L-2953 Luxembourg

LEGAL ADVISERS

To the Issuer
gunnercooke llp
53 King Street
Manchester M2 4LQ

To the Dealers and the Trustee
Linklaters LLP
One Silk Street
London EC2Y 8HQ

ARRANGER

The Royal Bank of Scotland plc (trading as NatWest Markets)
250 Bishopsgate
London EC2M 4AA

DEALERS

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB

Commerzbank Aktiengesellschaft
Kaiserstraße 16 (Kaiserplatz)
60311 Frankfurt am Main

Danske Bank A/S
Holmens Kanal 2-12
DK-1092 Copenhagen K

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB

HSBC Bank plc
8 Canada Square
London E14 5HQ

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ

The Royal Bank of Scotland plc (trading as NatWest Markets)
250 Bishopsgate
London EC2M 4AA

AUDITORS TO THE ISSUER

Deloitte LLP
1 City Square
Leeds LS1 2AL