



Halifax plc

(Incorporated and registered in England and Wales under
the Companies Act 1985 with registered no. 2367076)

LISTING PARTICULARS

£50,000,000	10 ¹ / ₂ per cent. Subordinated Bonds	1998	(the "1998 Bonds")
£50,000,000	Subordinated Variable Rate Notes	2001	(the "2001 Notes")
£400,000,000	8 ³ / ₄ per cent. Subordinated Bonds	2006	(the "2006 Bonds")
£200,000,000	Step-up Callable Floating Rate Subordinated Notes	2012	(the "2012 Notes")
£250,000,000 ¹	11 per cent. Subordinated Bonds	2014	(the "2014 Bonds")
£150,000,000	10 ¹ / ₂ per cent. Subordinated Bonds	2018	(the "2018 Bonds")
£500,000,000 ²	9 ³ / ₈ per cent. Subordinated Bonds	2021	(the "2021 Bonds")
(together, the "Dated Bonds")			
£75,000,000	13 ⁵ / ₈ per cent. Perpetual Subordinated Bonds		(the "A Perpetuals")
£100,000,000	12 per cent. Perpetual Subordinated Bonds		(the "B Perpetuals")
£100,000,000	8 ³ / ₄ per cent. Perpetual Subordinated Bonds		(the "C Perpetuals")

(together, the "Perpetual Bonds" and, together with the Dated Bonds, the "Bonds")

Application has been made to the London Stock Exchange Limited (the "London Stock Exchange") for each issue of Bonds, each of Halifax plc ("Halifax plc"), to be admitted to the Official List of the London Stock Exchange.

ICM2:241268.1

¹ This comprises the £100,000,000 11 pct Subordinated Bonds 2014, the £50,000,000 11 pct Subordinated Bonds 2014 and the £100,000,000 11 pct Subordinated Bonds 2014, which issues are fully fungible.

² This comprises the £300,000,000 9³/₈ pct Subordinated Bonds 2021 and the £200,000,000 9³/₈ pct Subordinated Bonds 2021, which issues are fully fungible.

The Dated Bonds were issued originally, in the case of the 1998 Bonds, 2001 Notes and 2018 Bonds, by Leeds Permanent Building Society (the "Leeds") and, in the case of the 2006 Bonds, 2012 Notes, 2014 Bonds and 2021 Bonds, by Halifax Building Society (the "Society") and are constituted by various trust deeds made between the Society and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as specified in their respective terms and conditions. It is intended that such trust deeds be supplemented by various supplemental Trust Deeds, which are, in the case of Dated Bonds issued originally by the Leeds, expected to be dated 30th May 1997 and made between the Society, Halifax plc and the Trustee and, in the case of Dated Bonds issued originally by the Society, expected to be dated 2nd June 1997 and made between Halifax plc and the Trustee. These various Supplemental Trust Deeds shall operate to effect certain modifications to the terms and conditions of the Dated Bonds to reflect the change in corporate status of the Society.

The Perpetual Bonds are being issued on 2nd June 1997 by Halifax plc and will be constituted by trust deeds dated 2nd June 1997 and made between Halifax plc and the Trustee. Each series of Perpetual Bonds replaces a class of Permanent Interest Bearing Shares ("PIBS") originally issued either by the Leeds or the Society. In common with the PIBS which they replace, the Perpetual Bonds are in registered form. The definitive certificates evidencing title will be despatched to persons whose names appeared on the PIBS register on 30th May 1997. The Perpetual Bonds may also be held in uncertificated form in CREST. No temporary documents of title will be issued.

On 1st August 1995, the Leeds transferred its engagements to the Society under section 94 of the Building Societies Act 1986 (the "Act").

The whole of the business of the Society will be transferred to Halifax plc pursuant to section 97 of the Act with effect from 2nd June 1997 (the "Vesting Date"). As a result of the operation of the relevant provisions of the Act, Halifax plc will with effect from the Vesting Date become the principal debtor in respect of the Dated Bonds and the Society will cease to have any obligations in respect thereof.

The date of these Listing Particulars (the "Listing Particulars") is 29th May 1997.

This document and the Appendix comprise listing particulars produced in compliance with the listing rules made by the London Stock Exchange under section 142 of the Financial Services Act 1986 (the "FSA") for the purpose of giving information with regard to Halifax plc and its subsidiaries and the Bonds. These listing particulars have been approved by the London Stock Exchange pursuant to section 144(2) of the FSA and delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of the FSA.

Halifax plc accepts responsibility for the information contained in this document. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person is authorised to give any information or to make any representation not contained herein and any information or representation not contained herein must not be relied upon as having been authorised by Halifax plc. Neither the delivery of this document nor any sale or purchase made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of Halifax plc since the date hereof.

This document does not constitute an offer of, or an invitation by or on behalf of Halifax plc to subscribe for or purchase, any of the Bonds. The distribution of this document and the offering of the Bonds in certain jurisdictions may be restricted by law. Halifax plc does not represent that this document may be lawfully distributed, or that the Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, save for obtaining the approval of this document as listing particulars by the London Stock Exchange and delivery of copies of this document to the Registrar of Companies in England and Wales, no action has been taken by Halifax plc which would permit a public offering of the Bonds or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this document nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document comes are required by Halifax plc to inform themselves about and to observe any such laws and regulations.

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered, sold or delivered, directly or indirectly, within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption 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.

The Dated Bonds are in bearer form, 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. The Perpetual Bonds are in registered form. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

In this document, unless otherwise specified or the context otherwise requires, references to "pounds", "sterling" and "£" are to the currency of the United Kingdom of Great Britain and Northern Ireland (the "United Kingdom"). References to the "Group" shall, as the context requires, be construed either as references to Halifax plc and its subsidiaries or as references to the Society and its subsidiaries.

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BASIS OF FINANCIAL INFORMATION

On 2nd June 1997, the business of the Society will be transferred to Halifax plc, formerly called Halifax Syndicated Loans Limited ("HSL"). HSL was re-registered on 4th December 1996 as a public limited company and renamed Halifax plc. Halifax plc is a wholly-owned subsidiary of the Society.

Against this background, it is the view of Halifax plc that financial information in relation to the former business of HSL is not relevant to holders of the Bonds. Accordingly, these Listing Particulars contain financial information only in relation to the Society and to Halifax plc following the transfer to it of the Society's business.

Copies of the audited accounts of the Group for the three financial years ended 31st January 1996 and the 11 months ended 31st December 1996 and of the Leeds and its subsidiaries for the financial year ended 30th September 1994 and the 10 months ended 31st July 1995, which have been extracted from the listing particulars dated 25th April 1997 in respect of the proposed listing of the issued share capital of Halifax plc, are set out in the Appendix.

TERMS AND CONDITIONS OF THE BONDS

The following, subject to alteration in the Trust Deed (as defined below), are the Terms and Conditions of the Bonds, substantially in the form in which they will appear on the Bonds:—

The £50,000,000 Subordinated Bonds Due 1998 (the "Bonds") of Leeds Permanent Building Society (the "Society") are constituted by a Trust Deed (the "Trust Deed") made between the Society and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the Bonds (the "Bondholders"). The issue of the Bonds was authorised by a resolution of the Board of Directors of the Society passed on 14th March, 1988. The statements in these Terms and Conditions of the Bonds include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds and the interest coupons appertaining thereto (the "Coupons"). Copies of the Trust Deed are available for inspection at the principal office of the Trustee, being at the date hereof at Princes House, 95 Gresham Street, London EC2V 7LY and at the specified offices of each of the paying agents for the time being for the Bonds (the "Paying Agents", which expression shall, if the context so requires, include the Principal Paying Agent (as defined in Condition 5)). The Bondholders and the holders of the Coupons (the "Couponholders") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed.

1. Form, Denomination and Transfer

The Bonds are issued in bearer form, serially numbered, in the denomination of £5,000 each with Coupons attached and title thereto shall pass by delivery.

The Society, the Trustee and the Paying Agents may deem and treat the holder of any Bond or Coupon as the absolute owner thereof (notwithstanding any notice to the contrary and whether or not such Bond or Coupon shall be overdue and notwithstanding any notation of ownership or other writing thereon or notice of any previous loss or theft thereof) for the purpose of receiving payment thereof or on account thereof and for all other purposes.

2. Status and Subordination

The Bonds and the Coupons are direct, unconditional and unsecured obligations of the Society and rank without any preference among themselves and the rights of the Bondholders will be subordinated in right of payment in the manner provided in the Trust Deed to the claims of depositors, other unsubordinated creditors and Investment Creditors of the Society in respect of their respective Senior Claims.

Accordingly, payments of principal and interest in respect of the Bonds are conditional upon the Society being solvent at the time of payment by the Society, and no principal or interest shall be payable except to the extent that the Society could make such payment and still be solvent immediately thereafter. For the purpose of this Condition the Society shall be solvent if (i) it is able to pay its debts as they fall due and (ii) its Assets exceed its Liabilities (other than its Liabilities which are not Senior Claims). A report as to the solvency of the Society by two directors of the Society or in certain circumstances as provided in the Trust Deed the auditors of the Society or, if the Society is in winding up, its liquidator shall in the absence of proven error be treated and accepted by the Society, the Trustee and the Bondholders and Couponholders as correct and sufficient evidence thereof.

For the purpose of this Condition 2:—

"Investment Creditors" means Investing Members (as defined in the Trust Deed) of the Society who are holders of Investment Shares (as defined in the Trust Deed) in the Society, not being Investment Shares which are called or classified as, or by their terms constitute, Deferred Shares (as defined in the Trust Deed) in their capacity as such;

"Senior Claims" means the aggregate amount of all claims which are not in respect of indebtedness of the Society the right to repayment of which by its terms is, or is expressed to be, subordinated to (or otherwise ranks after) the claims of depositors, other unsubordinated creditors and Investment Creditors of the Society, but excluding such claims to the extent that the same relate to any entitlement of Investment Creditors otherwise than in respect of the principal amount of their Investment Shares and interest due in respect thereof; and

"Assets" means the unconsolidated gross assets of the Society and "Liabilities" means the unconsolidated gross liabilities of the Society, all as shown in the latest published audited balance sheet of the Society, but adjusted for contingent assets and contingent liabilities and for subsequent events, all in such manner as the directors, the auditors or the liquidator (as the case may be) may determine.

3. Interest

The Bonds bear interest from and including 21st April, 1988 at the rate of 10½ per cent. per annum, payable in arrears on 21st April in each year, commencing on 21st April, 1989. Except as provided in the Trust Deed, interest on each Bond will cease to accrue as from the due date for redemption thereof.

4. Redemption

Mandatory Redemption

Unless previously redeemed or purchased and cancelled, each of the Bonds shall be redeemed at its principal amount on 21st April, 1998.

Redemption for Tax Reasons

If the Society satisfies the Trustee immediately prior to the giving of the notice referred to below that the Society will be required to pay additional amounts as provided in Condition 6 or to account to any taxing authority in the United Kingdom for any amount (other than any tax withheld or deducted from interest payable on the Bonds) calculated by reference to any amount payable in respect of the Bonds, then the Society may, at any time, having obtained prior Relevant Supervisory Consent and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 14, the Bondholders (which notice shall be irrevocable), redeem all, but not some only, of the Bonds at their principal amount plus accrued interest to the date of redemption. Upon the expiry of such notice the Society shall be bound to redeem the Bonds accordingly.

For the purposes of these Terms and Conditions, "Relevant Supervisory Consent" means the consent to the relevant payment, repayment or purchase, as the case may be, of the Building Societies Commission (whilst the Society is a building society) or the Bank of England (whilst the Society is an authorised institution for the purposes of the Banking Act 1987).

Purchases

The Society or any of its Subsidiaries (as defined in the Trust Deed) may, having obtained the prior Relevant Supervisory Consent, at any time purchase Bonds provided that, so long as the Bonds are listed on The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("The Stock Exchange"), (i) the price (exclusive of expenses and accrued interest) shall not, in the case of purchases made through The Stock Exchange or by tender, exceed the average of the middle market quotations taken from The Stock Exchange Daily Official List for the 10 dealing days before the purchase is made or (if the market price of the Bonds is not more than 5 per cent. above such average), in the case of a purchase made through The Stock Exchange, such market price and (ii) if purchases are made by tender, tenders are made available to all Bondholders alike.

Cancellation

All Bonds redeemed or purchased pursuant to the foregoing provisions of this Condition 4 (except purchases in the ordinary course of business of a dealer in securities) by the Society as aforesaid shall be cancelled forthwith (together with all unmatured Coupons presented therewith) and such Bonds may not be re-issued or resold.

5. Payments

Subject as provided below, all payments of principal and/or interest in respect of the Bonds shall be made against presentation and surrender of Bonds or, as the case may be, Coupons at any specified office of any of the Paying Agents. All such payments shall be made in sterling at any specified office of any Paying Agent by a sterling cheque drawn on, or, at the option of the holder, by transfer to a sterling account maintained by the payee with, a bank in London, subject in all cases to any fiscal or other laws or regulations applicable in the place of payment but without prejudice to the provisions contained in Condition 6. Notwithstanding the foregoing, the Society reserves the right to require Couponholders who are unable to make a declaration of non-residence as to the United Kingdom to present their Coupons to

a Paying Agent other than in the United Kingdom if the Society would otherwise be obliged to account to any taxing authority in the United Kingdom for any amount in respect of income tax (other than any tax withheld or deducted from interest payable on the Bonds) calculated by reference to the interest represented by the relevant Coupon.

Each Bond should be presented for payment together with all unmatured Coupons appertaining thereto, failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant Coupon not later than five years from the date on which the Coupon would have become due.

If the due date for payment of any amount in respect of any Bond or Coupon is not a business day, then the holder thereof shall not be entitled to payment of the amount due until the next following business day nor to any further interest or other payment in respect of such delay. The expression "business day" in this Condition means a day on which banks and foreign exchange markets are open for business both in the place where the Bond or Coupon is presented and in London.

The initial principal paying agent is Baring Brothers & Co., Limited (the "Principal Paying Agent"). The respective specified offices of the initial paying agents and the Principal Paying Agent are set out below.

The Society may, with the prior approval of the Trustee, vary or terminate the appointment of any Paying Agent and/or appoint additional Paying Agents and/or approve any change in the specified office of any Paying Agent, provided that so long as any Bonds remain outstanding the Society will maintain a Paying Agent with a specified office in London and a Paying Agent with a specified office in a city in continental Europe. The expression "Principal Paying Agent" and "Paying Agent" shall be deemed to refer to the principal paying agent and paying agents for the time being in respect of the Bonds. Notice of any such variation, termination or appointment and of any changes in the specified offices of the Paying Agents will be given by the Society to the Bondholders in accordance with Condition 14.

6. Taxation

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

- (i) by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Bond or Coupon; or
- (ii) at the specified office of a Paying Agent in the United Kingdom; or
- (iii) more than 30 days after the relevant date except to the extent that the holder thereof would have been entitled to such additional amount on presenting the same for payment on the last day of such period of 30 days.

For this purpose, the "relevant date" means the date on which the payment in respect of the Bond or the Coupon first becomes due and payable but if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the "relevant date" means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Bondholders in accordance with Condition 14.

References herein to principal or interest shall be deemed to include any additional amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the provisions of the Trust Deed.

7. Events of Default

(A) The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall, give notice to the Society that the Bonds are, and they shall accordingly immediately become, due and repayable (i) if default is made for a period of seven days or more in the payment of any principal due on the Bonds or any of them or for a period of 14 days or more in the payment of any interest due in respect of the Bonds or any of them, (ii) if the dissolution of the Society is commenced where the Society is to be dissolved otherwise than by virtue of Section 93(5), Section 94(10), Section 97(9) or Section 97(10) of the Building Societies Act 1986 (the "Building Societies Act") or is otherwise approved by the Trustee or by an Extraordinary Resolution of the Bondholders, (iii) if the winding up of the Society is commenced (other than a winding up which has been approved by the Trustee or by an Extraordinary Resolution of the Bondholders), or (iv) if the registration of the Society under the Building Societies Act is cancelled otherwise than under Section 103(1)(a) of that Act. If the Bonds become due and repayable, the Trustee may at its discretion institute proceedings for the winding up of the Society in England (but not elsewhere) to enforce the obligations of the Society in respect of the Bonds and the Trust Deed; provided that no repayment of principal in respect of the Bonds may be made by the Society pursuant to this Condition 7(A), nor will the Trustee accept the same, otherwise than during or after a winding up or dissolution of the Society, save with the prior Relevant Supervisory Consent.

For the purpose of this Condition, a payment shall be deemed to be due even if the condition set out in Condition 2 is not satisfied.

(B) No Bondholder or Couponholder shall be entitled to proceed directly against the Society unless the Trustee, having become bound so to proceed, fails to do so, in which case the Bondholder or Couponholder shall have only such rights against the Society as those which the Trustee is entitled to exercise. No Bondholder or Couponholder shall be entitled to institute proceedings for the winding up of the Society, or to prove in any winding up of the Society, unless the Trustee, having become bound to proceed against the Society as aforesaid, fails to do so, or, being able to prove in any winding up of the Society, fails to do so, in which event any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute proceedings for the winding up in England (but not elsewhere) of the Society and/or prove in any winding up of the Society to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do in respect of the Bonds and Coupons held by him. No remedy against the Society, other than the institution of proceedings for the winding up in England of the Society or the proving or claiming in any winding up of the Society, shall be available to the Trustee or the Bondholders or Couponholders for the recovery of amounts owing in respect of the Bonds or Coupons or under the Trust Deed.

8. Enforcement

The Trustee may at its discretion institute such proceedings against the Society as are contemplated by Condition 7 to enforce the obligations of the Society under the Trust Deed in the circumstances provided in such Condition, but it shall not be bound to institute any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter of the principal amount of the Bonds then outstanding (which term is defined in the Trust Deed) and (b) it shall have been indemnified to its satisfaction.

9. Prescription

Bonds and Coupons will become void unless presented for payment within 10 years and five years respectively from the relevant date (as defined in Condition 6) for payment thereof.

10. Meetings of Bondholders, Modification, Waiver and Substitution

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Terms and Conditions or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution shall be two or more persons holding or representing a clear majority of the principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds for the time being outstanding so held or represented, except that at any meeting the business of which includes the modification of certain of these Terms and Conditions or certain provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the

principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders.

The Trust Deed provides that the Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or to any modification which is of a formal, minor or technical nature or which is made to correct a manifest error. Any such modification, waiver or authorisation shall be binding on the Bondholders and Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 14.

The Trust Deed provides that the Trustee may agree, without the consent of the Bondholders or Couponholders, to the substitution at any time or times of any successor company of the Society (as defined in the Trust Deed), not being the successor by virtue of Section 93(5), Section 94(10), Section 97(9) or Section 97(10) of the Building Societies Act, or any other company which is under the control of the Society or any such successor company, as the principal debtor under the Trust Deed and the Bonds. Such agreement shall also be subject to the relevant provisions of the Trust Deed, including (in the case of the substitution of any company other than the Society or such successor company) the unconditional and irrevocable guarantee, in such form as the Trustee may agree, in respect of the Bonds given by the Society (the Society's liability under any such guarantee being subordinated in the same manner and to the same extent as its obligations in respect of the Bonds).

In connection with any proposed modification, waiver, authorisation or substitution as aforesaid, the Trustee shall not have regard to the consequences thereof for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with or subject to the jurisdiction of, any particular territory.

11. Succession and Transfer to Commercial Company

(A) The Society has covenanted with the Trustee in the Trust Deed that it will not transfer its business to a company (the "Transferee Company") within the meaning of the Companies Act 1985 pursuant to Section 97 of the Building Societies Act unless:

- (i) either it has satisfied the Trustee that, upon such transfer becoming effective, the Transferee Company will be or (as the case may be) remain an authorised institution for the purposes of the Banking Act 1987 or such transfer has been approved by an Extraordinary Resolution of the Bondholders; and
- (ii) the Society and the Transferee Company shall execute a deed supplemental to the Trust Deed which has the effect of ensuring to the satisfaction of the Trustee that (a) the Transferee Company is bound by the terms of the Trust Deed and the Terms and Conditions as fully as if all and any references therein to the Society were a reference to the Transferee Company and (b) the rights of the Bondholders (1) are subordinated and postponed to the claims of the persons who are holders of Investment Shares which are qualifying shares (as defined in Section 100(3) of the Building Societies Act) in the Society in respect of the claims arising by virtue of Section 100(2)(a) of the Building Societies Act and which are represented by those qualifying shares and to the claims of other unsecured but unsubordinated creditors but (2) will be such that they rank in priority to the holders of the issued share capital of the Transferee Company, and containing such other provisions as the Trustee (having regard in particular to the foregoing) may reasonably require provided that any variation or supplement as may be contained in such supplemental deed shall be limited to dealing with matters arising out of the procedure by which the transfer takes place and the constitution of the Transferee Company.

(B) The Society has also covenanted with the Trustee in the Trust Deed that it will not enter into any arrangement for the transfer of its engagements to another building society pursuant to Section 94 of the Building Societies Act unless it transfers all its engagements to such society or such transfer has been approved by the Trustee or by an Extraordinary Resolution of the Bondholders.

12. Replacement of Bonds and Coupons

If a Bond or Coupon is mutilated, defaced, destroyed, stolen or lost it may be replaced at the specified office of the Principal Paying Agent on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Society may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before new ones will be issued.

13. Further Issues

The Society shall be at liberty from time to time without the consent of the Bondholders or the Couponholders to create and issue further bonds or notes either (in the case of bonds) so as to form a single series with the Bonds or (in either case) upon such terms as to interest, conversion, premium, redemption and otherwise as the Society may at the time of the issue thereof determine. Any such bonds, if they are to form a single series with the Bonds, shall be constituted by a deed supplemental to the Trust Deed and may be so constituted in any other case if the Trustee so agrees. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of the bonds and notes of other series in certain circumstances where the Trustee so decides.

14. Notices

All notices to Bondholders shall be deemed to have been duly given if published in a leading daily newspaper of general circulation in London or, if this is not possible, in another leading English language newspaper having general circulation in Europe previously approved by the Trustee. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. It is expected that notices in London will be published in the *Financial Times*. If publication is not practicable in any such newspaper as is mentioned above notice will be given in such other manner and shall be deemed to have been given on such date as the Trustee shall determine.

Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

15. Indemnification of the Trustee

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

16. Governing Law

The Trust Deed, the Bonds and the Coupons are governed by, and shall be construed in accordance with, English law.

PRINCIPAL PAYING AGENT

Bankers Trust Company
1 Appold Street
London EC2A 2HE

OTHER PAYING AGENTS

Morgan Guaranty Trust Company of New York
Avenue des Arts, 35
B-1040 Brussels

Kredietbank S.A. Luxembourgeoise
43 Boulevard Royal
L-2955 Luxembourg

Swiss Bank Corporation
Aeschenvorstadt 1
CH-4002 Basle

TERMS AND CONDITIONS OF THE 2001 NOTES

THE SECOND SCHEDULE

TERMS AND CONDITIONS OF THE NOTES

The Notes (which expression in these Terms and Conditions, unless the context otherwise requires, shall mean units of £10,000 principal amount of Notes) are constituted by the Trust Deed. The issue of the Notes was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 27th June, 1988. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the remarketing agreement (the "Remarketing Agreement") dated 21st September, 1989 and made between the Issuer, Merrill Lynch International Limited as Remarketing Underwriter (the "Remarketing Underwriter") and the Trustee and the instrument by way of deed poll (the "Deed Poll") executed on 21st September, 1989 by the Remarketing Underwriter. Copies of the Trust Deed, the Remarketing Agreement, the Deed Poll, the Paying Agency Agreement and the Agent Bank Agreement (the two latter agreements being as defined in the Trust Deed) are available for inspection during normal business hours at the principal office of the Trustee, being at the date hereof at Princes House, 95 Gresham Street, London EC2V 7LY and at the specified office of each of the paying agents referred to below (the "Paying Agents"). The holders of the Notes (the "Noteholders") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Remarketing Agreement, the Deed Poll, the Paying Agency Agreement and the Agent Bank Agreement applicable to them.

1. Form, Denomination and Transfer

(a) The Notes are represented by this global Note in bearer form (the "Global Note"), without interest coupons attached, which has been deposited on behalf of the persons entitled thereto with a common depositary for Morgan Guaranty Trust Company of New York, Brussels Office, as operator of the Euro-Clear System ("Euro-clear") and Cedel S.A. ("Cedel") on its date of issue. The Global Note is transferable by delivery. Upon deposit of the Global Note, Euro-clear or Cedel (as the case may be) has credited each person entitled thereto with a principal amount of Notes equal to the principal amount thereof to which such person is entitled. The Global Note is not exchangeable for definitive Notes except in certain limited circumstances described below.

(b) For so long as the Notes are represented by the Global Note, Notes will be transferable only in accordance with the rules and procedures for the time being of Euro-clear or Cedel as appropriate.

(c) For so long as the Notes are represented by the Global Note, each person who is for the time being shown in the records of Euro-clear or of Cedel as the holder of a particular principal amount of Notes (in which regard any certificate or other document issued by Euro-clear or Cedel as to the principal amount of Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated by the Issuer and the Trustee as the holder of such principal amount of Notes (and the expression "Noteholder" and references to "holding of Notes" and to "holder of Notes" shall be construed accordingly) for all purposes other than with respect to the payment of principal and interest on Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the Global Note in accordance with and subject to its terms and the terms of the Trust Deed. Any reference herein to Euro-clear and/or Cedel shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearance system approved by the Trustee in writing.

(d) If (i) the Notes become immediately due and repayable by reason of the occurrence of an Event of Default or (ii) either Euro-clear or Cedel is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearance system satisfactory to the Trustee is available or (iii) the Trustee is satisfied that, on the occasion of the next payment in respect of any Notes, the Issuer or any Paying Agent would be required to make any deduction or withholding from any payment in respect of such Notes or to account to any taxing authority in the United Kingdom for any amount (other than any tax withheld or deducted from interest payable on such Notes) calculated by reference to any amount payable in respect of such Notes, in each case which would not be required were such Notes in definitive form, then the Issuer will issue definitive Notes (in exchange for the Global Note) within 30 days of the occurrence of the relevant

event in (i), (ii) or (iii) above. These Terms and Conditions, the Trust Deed, the Paying Agency Agreement, the Agent Bank Agreement, the Remarketing Agreement and the Deed Poll (if and to the extent necessary) will be amended in such manner as the Issuer and the Trustee may agree to be appropriate, or, in the case of (i) above, as the Trustee shall consider to be appropriate, to take account of the issue of such definitive Notes. These Terms and Conditions will (if appropriate) be amended to provide that payments with respect to principal and interest on the Notes, whether upon redemption or otherwise, will be made subject to certification as to beneficial ownership.

2. Status and Subordination

The Notes are direct, (subject as provided below) unconditional and unsecured obligations of the Issuer and rank without any preference among themselves and the rights of the Noteholders are subordinated in right of payment in the manner provided in the Trust Deed to the claims of depositors, other unsubordinated creditors and Investment Creditors of the Issuer in respect of their respective Senior Claims.

Accordingly, payments of principal and interest in respect of the Notes are conditional upon the Issuer being solvent at the time of payment by the Issuer, and no principal or interest will be payable except to the extent that the Issuer could make such payment and still be solvent immediately thereafter. For the purpose of this Condition 2 the Issuer shall be solvent if (i) it is able to pay its debts as they fall due and (ii) its Assets exceed its Liabilities (other than its Liabilities which are not Senior Claims). A report as to the solvency of the Issuer by two directors of the Issuer or in certain circumstances as provided in the Trust Deed the Auditors (as defined in the Trust Deed) or, if the Issuer is in winding up, its liquidator shall in the absence of proven error be treated and accepted by the Issuer, the Trustee and the Noteholders as correct and sufficient evidence thereof.

For the purpose of this Condition 2:—

"Investment Creditors" means Investing Members (as defined in the Trust Deed) of the Issuer who are holders of Investment Shares (as defined in the Trust Deed) in the Issuer, in their capacity as such;

"Senior Claims" means the aggregate amount of all claims which are not in respect of indebtedness of the Issuer the right to repayment of which by its terms is, or is expressed to be, subordinated to (or otherwise ranks after) the claims of depositors, other unsubordinated creditors and Investment Creditors of the Issuer, but excluding such claims to the extent that the same relate to any entitlement of Investment Creditors otherwise than in respect of the principal amount of their Investment Shares and interest due in respect thereof; and

"Assets" means the unconsolidated gross assets of the Issuer and "Liabilities" means the unconsolidated gross liabilities of the Issuer, all as shown in the latest published audited balance sheet of the Issuer, but adjusted for contingent assets and contingent liabilities and for subsequent events, all in such manner as the directors, the Auditors or the liquidator (as the case may be) may determine.

3. Interest

(a) *Interest Payment Dates and Interest Periods*

The Notes bear interest from and including (the "Issue Date") and such interest is payable on each date ("Interest Payment Date") which (save as mentioned below) falls three calendar months after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Issue Date. If any Interest Payment Date would otherwise fall on a day which is not a Business Day (as defined below) it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month in which event (i) the Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) after the foregoing (i) shall have been applied, each subsequent Interest Payment Date shall be the last Business Day of the third calendar month after the calendar month in which the preceding Interest Payment Date shall have fallen. The period from and including the Issue Date to but not including the first Interest Payment Date and each successive period from and including an Interest Payment Date to but not including the next succeeding Interest Payment Date is herein called an "Interest Period". As used in these Terms and Conditions, the expression "Business Day" means a day (not being a Saturday) upon which banks are open for business in the City of London.

(b) *Interest Accrual*

Interest shall cease to accrue on Notes as from their due dates for redemption unless, upon due presentation, payment of principal in respect thereof is improperly withheld or refused or unless default is otherwise made in respect of such payment.

(c) *Rates of Interest*

The rate of interest from time to time payable in respect of the Notes (the "Rate of Interest") will be determined by the Agent Bank (as described in paragraph (i) below) on the basis of the following provisions:—

- (i) on each "Interest Determination Date", namely the first day of the Interest Period for which such rate will apply, the Agent Bank will request the Reference Banks (as described in paragraph (i) below) to provide the Agent Bank with their offered quotations to leading banks for deposits of sterling in the London inter-bank market for such Interest Period as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for such Interest Period shall be equal to the aggregate of the Margin (as defined below) and the arithmetic mean (rounded upwards, if necessary, to the nearest $\frac{1}{32}$ of one per cent.) of such offered quotations of three out of five quoting Reference Banks (excluding, if the offered quotations of all such Reference Banks are not the same, the highest and lowest quotations and, if the highest quotation applies in respect of more than one Reference Bank, excluding the quotation in respect of one such Reference Bank and similarly if the lowest quotation applies in respect of more than one Reference Bank), as determined by the Agent Bank;
- (ii) if on any Interest Determination Date four only of the Reference Banks provide the Agent Bank with such offered quotations, the Rate of Interest for the relevant Interest Period shall be determined in accordance with (i) above on the basis of the aggregate of the Margin and the arithmetic mean (rounded as aforesaid) of the offered quotations of those Reference Banks providing such quotations (excluding the offered quotations of two such Reference Banks on the basis set out in (i) above);
- (iii) if on any Interest Determination Date two or three only of the Reference Banks provide the Agent Bank with such offered quotations, the Rate of Interest for the relevant Interest Period shall be determined in accordance with (i) above on the basis of the aggregate of the Margin and the arithmetic mean (rounded as aforesaid) of the offered quotations of those Reference Banks providing such quotations (without any exclusion as aforesaid); and
- (iv) if on any Interest Determination Date fewer than two, or none, of the Reference Banks provide the Agent Bank with such offered quotations, the Rate of Interest for the relevant Interest Period shall be equal to the aggregate of the Margin and the rate per annum which the Agent Bank determines to be (1) the arithmetic mean (rounded upwards, if necessary, to the nearest $\frac{1}{32}$ of one per cent.) of the rates at which leading London banks selected by the Agent Bank are offering sterling deposits, on the relevant Interest Determination Date, for such Interest Period, to the Reference Banks or those of them (being at least two in number) to which such offers are, in the opinion of the Agent Bank, being so made, or (2) in the event that the Agent Bank can determine no such arithmetic mean, the lowest sterling lending rate which leading London banks selected by the Agent Bank are quoting on such Interest Determination Date to leading London banks for such Interest Period, provided that, if the banks selected as aforesaid by the Agent Bank are not quoting as mentioned above, the Rate of Interest for such Interest Period shall be equal to the aggregate of the Margin and the Rate of Interest in effect for the last preceding Interest Period in relation to the Notes (excluding the Margin determined therefor) to which (i), (ii) or (iii) above shall have applied.

(d) *The Margins*

The margin (the "Margin") in respect of the first Interest Period in relation to the Notes shall be per cent. per annum which shall be deemed to be an Agreed Margin (as defined in (i) below). The Margin in

respect of each Interest Period, other than the first Interest Period, in relation to the Notes, (each a "New Interest Period") shall, subject as referred to in Condition 5(h) be determined as follows:—

- (i) not earlier than 7.00 a.m. (London time) on the ninth Business Day, nor later than 3.00 p.m. (London time) on the seventh Business Day, prior to the commencement of each New Interest Period, the Issuer and the Remarketing Underwriter shall endeavour to agree on a Margin (an "Agreed Margin") of less than 0.70 per cent. per annum (the "Alternative Margin") and, in the event of their so agreeing, such Agreed Margin shall be the relevant Margin for such New Interest Period;
- (ii) subject as provided in the Remarketing Agreement, if the Issuer and the Remarketing Underwriter shall not have agreed an Agreed Margin for such New Interest Period by 3.00 p.m. (London time) on the seventh Business Day prior to the commencement of such New Interest Period, the relevant Margin for such New Interest Period shall automatically be the Alternative Margin; and
- (iii) if an Event of Insolvency has occurred with respect to the Issuer immediately prior to the commencement of such New Interest Period or if there shall be no Remarketing Underwriter during the period for agreement referred to in (i) above, the relevant Margin for such New Interest Period shall automatically be the Alternative Margin.

(e) Publication of Margin

The Remarketing Underwriter has undertaken to the Issuer that it will as soon as possible after each Margin for each New Interest Period is determined and in any event, subject as referred to in Condition 5 (h):—

- (i) not later than 4.00 p.m. (London time) on the Business Day during which such Margin is determined (whether by agreement or automatically pursuant to paragraph (d) above), notify Euro-clear and Cedel by tested telex of such Margin;
- (ii) not later than 9.00 a.m. (London time) on the next following Business Day:—
 - (A) notify the Trustee, the Agent Bank and The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("The Stock Exchange") (or any other or further stock exchange on which the Notes are for the time being listed or quoted) in writing of such Margin; and
 - (B) cause such Margin to be displayed on the Reuters screen (or on any other or further screen or screens as may be required or approved by the Trustee), giving notice (satisfactory to the Trustee), if the Margin is an Agreed Margin, of the rights of the Noteholders as described in Condition 5(h) and the Remarketing Underwriter has undertaken to use all reasonable endeavours to ensure that such Margin and notice (if any) remain so displayed during the period which comprises the Exercise Period (as defined in the Remarketing Agreement); and
- (iii) notwithstanding the foregoing provisions of (i) and (ii) above, if there is an Agreed Margin and an Event of Insolvency has occurred with respect to the Issuer after such notifications shall have been given or after the Remarketing Underwriter shall have caused the Margin to be displayed on the Reuters screen (or on any other or further screen or screens as may be required or approved by the Trustee), (1) notify as promptly as possible each person to which any such notification shall have been so given (in each case in the appropriate manner set forth above) that the Margin for the New Interest Period shall be the Alternative Margin, (2) cause such Margin to be displayed on the Reuters screen (or on any other or further screen or screens as may be required or approved by the Trustee) and (3) give notice (satisfactory to the Trustee) to the Noteholders in accordance with Condition 11 that they shall not have the rights referred to in (ii)(B) above.

(f) Determination of Rate of Interest and Calculation of Interest Amount

The Agent Bank will, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Rate of Interest in relation to the Notes and calculate the amount of interest payable on the Interest Payment Date for the relevant Interest Period on a principal amount of

£10,000 of Notes (the "Interest Amount"). The Interest Amount shall be calculated by applying the Rate of Interest to a principal amount of £10,000, multiplying such sum by the actual number of days in the Interest Period concerned divided by 365 (or, in the case of an Interest Payment Date falling in a leap year, 366) and rounding the resultant figure to the nearest penny (half a penny being rounded upwards).

(g) Notification and Display of Rate of Interest and Interest Amount

The Agent Bank shall, as soon as practicable after the determination and calculation thereof, cause each Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to The Stock Exchange (or any other or further stock exchange on which the Notes are for the time being listed or quoted), Euro-clear and Cedel and each Rate of Interest and the Interest Payment Date to be displayed on the relevant page of the Reuters screen (or any other or further screen or screens as may be required or approved by the Trustee) and shall use reasonable endeavours to cause them to remain so displayed until the end of the relevant Interest Period. Any Interest Amount and Interest Payment Date so notified may subsequently be amended with the consent of the Trustee (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) with similar arrangements, *mutatis mutandis*, for notification and display, but without any other publication, in the event of an extension or shortening of the relative Interest Period.

(h) Determination or Calculation by Trustee

If the Agent Bank does not at any time for any reason determine the Rate of Interest in relation to the Notes or calculate the relative Interest Amount in accordance with paragraphs (c) and (f) above, the Trustee shall (i) determine such Rate of Interest, where practicable having regard to the procedure described in paragraph (c) above but, where not practicable, at such rate as, in its absolute discretion, it shall deem fair and reasonable in all the circumstances, and (ii) calculate the relative Interest Amount in the manner specified in paragraph (f) above. Any such determination or calculation shall be deemed to be a determination or calculation by the Agent Bank.

(i) Agent Bank and Reference Banks

The Issuer shall procure that so long as any of the Notes remains outstanding there shall at all times be an Agent Bank and five Reference Banks for the purposes of the Notes. The initial Reference Banks are the principal London offices of Barclays Bank PLC, Lloyds Bank Plc, Midland Bank plc, Morgan Guaranty Trust Company of New York and National Westminster Bank PLC and the initial Agent Bank is the principal London office of The Chase Manhattan Bank, N.A., but the Issuer may (with the prior approval of the Trustee) terminate the appointment of any of the Reference Banks or of the Agent Bank. In the event of the principal London office of any such bank being unable or unwilling to continue to act as a Reference Bank or as the Agent Bank (as the case may be), the Issuer shall appoint such other bank as may be approved by the Trustee to act as such in its place. The Agent Bank may in addition resign its duties as such provided that neither the resignation nor the removal of the Agent Bank shall take effect without a successor having been approved and appointed as aforesaid.

(j) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3, whether by the Remarketing Underwriter, the Reference Banks (or any of them), the Agent Bank or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Remarketing Underwriter, the Reference Banks, the Agent Bank, the Paying Agents, the Trustee and all of the Noteholders. No Noteholder shall (in the absence as aforesaid) be entitled to proceed against the Remarketing Underwriter, the Reference Banks, the Agent Bank, the Trustee or any of them in connection with the exercise or non-exercise by them of their powers, duties and discretions pursuant to such provisions.

(k) *Remarketing Underwriter*

The Remarketing Underwriter may resign on giving not less than 12 months' notice in writing to the Issuer and the Trustee to expire at any time after a period of five years commencing on the 21st September, 1989. The appointment of the Remarketing Underwriter may also be terminated by the Issuer if there shall not have been an Agreed Margin for any Interest Period in relation to the Notes or the subordinated notes of the Issuer of any other series constituted by the Trust Deed (the Notes and all such other subordinated notes so constituted being hereinafter together called the "Programme Notes") or (*inter alia* and as set out in the Remarketing Agreement) in the event of acts of insolvency in relation to the Remarketing Underwriter or, whilst Merrill Lynch International Limited shall be Remarketing Underwriter, if it ceases to be directly or indirectly owned and controlled by Merrill Lynch & Co., Inc. The appointment of the Remarketing Underwriter may also be terminated by agreement between the Issuer and the Remarketing Underwriter or by the Issuer if it is dissatisfied with the most recent Agreed Margin and will terminate automatically if the Remarketing Underwriter ceases to be Remarketing Underwriter with respect to those of the £150,000,000 Senior Variable Rate Notes due 1994 of the Issuer for the time being outstanding (the "Senior Notes") or any other series of the Programme Notes. If there ceases to be a Remarketing Underwriter for any reason, the Issuer shall use reasonable endeavours to appoint as successor a leading institution in London (approved by the Trustee) active in dealing in securities. Subject to using such reasonable endeavours, the Issuer shall not be obliged to procure that there shall at all times be a Remarketing Underwriter. Notice of any termination or change of appointment of the Remarketing Underwriter will be promptly given by the Issuer to the Noteholders in accordance with Condition 11.

4. *Payments*

Payments of principal and interest in respect of the Notes will be made against presentation of the Global Note at the specified office of any Paying Agent outside the United States, subject in all cases to any fiscal or other laws and regulations or orders of courts of competent jurisdiction applicable in the place of payment to the Issuer, the relevant Paying Agent, the bearer of the Global Note or any person shown in the records of Euro-clear or of Cedel as the holder of a particular principal amount of the Notes, but without prejudice to the provisions of Condition 6. The sole currency of payment in respect of the Notes is pounds sterling. A record of each payment made on the Global Note, distinguishing between any payment of principal and any payment of interest, will be made on the Global Note by the Paying Agent to which the Global Note is presented for the purpose of making such payment, and such record shall be *prima facie* evidence that the payment in question has been made.

The bearer of the Global Note (or, as provided in the Trust Deed, the Trustee) is the only person entitled to receive payments of principal and interest on the Global Note and the Issuer will be discharged by payment to, or to the order of, the bearer of the Global Note (or the Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euro-clear or of Cedel as the holder of a Note must look solely to Euro-clear or Cedel, as the case may be, for its share of each payment so made by the Issuer to the bearer of the Global Note (or the Trustee, as the case may be), subject to and in accordance with the respective rules and procedures of Euro-clear or Cedel, as the case may be. No person other than the bearer of the Global Note (or, as provided in the Trust Deed, the Trustee) shall have any claim against the Issuer in respect of any payments due on the Global Note. Payments in respect of principal and interest with respect to any portion of the Global Note whether at maturity, upon early redemption or otherwise will only be made upon certification as to beneficial ownership as provided in the Global Note.

Notwithstanding the foregoing, the Issuer reserves the right to require persons shown in the records of Euro-clear and/or Cedel as the holders of Notes who are unable to prove, on a claim in that behalf made to the Inland Revenue, that they are not resident in the United Kingdom to procure the bearer of the Global Note to present it for payment of interest at the specified office of a Paying Agent situated outside the United Kingdom if the Issuer would otherwise be obliged to account to any taxing authority in the United Kingdom for any amount in respect of income tax (other than any tax withheld or deducted from interest payable on such Notes) calculated by reference to the interest due on such Notes.

Without prejudice to the generality of any of the foregoing the Issuer reserves the right to require the bearer of the Global Note or any person having a beneficial interest in the Notes to provide a Paying Agent

with such certification or information as may be required to enable the Issuer to comply with the requirements of the United States federal income tax or securities laws.

If the due date for payment of any amount of principal or interest in respect of the Global Note is not in any place of payment a business day, then the bearer thereof shall not be entitled to payment in that place of payment of the amount due until the next following day which is a business day in that place of payment and the bearer shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 4, "business day" means any day on which banks are open for business in the relevant place of payment and on which dealings in foreign exchange (including but not limited to pounds sterling) may be carried on both in London and in such place of payment.

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Terms and Conditions. The Issuer reserves the right, subject to the approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain a Paying Agent having a specified office in London and a Paying Agent having a specified office in a city in continental Europe. Notice of any such termination or appointment and of any changes in the specified offices of the Paying Agents will promptly be given to the Noteholders in accordance with Condition 11.

5. Redemption and Purchase

(a) *Mandatory Redemption*

Unless previously redeemed or purchased and cancelled as hereinafter provided, the Notes will be redeemed at their principal amount by five equal annual instalments comprising whole Notes on the Interest Payment Date falling eight years after the Issue Date and on each subsequent Interest Payment Date falling nine, ten, eleven and twelve years after the Issue Date.

(b) *Redemption for Taxation Reasons*

If the Issuer satisfies the Trustee immediately prior to the giving of the notice referred to below that, on the next Interest Payment Date, the Issuer will be required to pay additional amounts as provided under Condition 6 in relation to the Notes or to account to any taxing authority in the United Kingdom for any amount (other than any tax withheld or deducted from interest payable on the Notes) calculated by reference to any amount payable in respect of the Notes, then the Issuer may, at any time, having obtained prior Relevant Supervisory Consent and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent (as defined in the Trust Deed) and, in accordance with Condition 11 the Noteholders (which notice shall be irrevocable), redeem on such Interest Payment Date all, but not some only, of the Notes at their principal amount. Upon the expiry of such notice the Issuer shall be bound to redeem the Notes accordingly.

For the purposes of these Terms and Conditions, "Relevant Supervisory Consent" means the consent to the relevant payment, repayment or purchase, as the case may be, of the Building Societies Commission (whilst the Issuer is a building society) or the Bank of England (whilst the Issuer is an authorised institution for the purposes of the Banking Act 1987).

(c) *Redemption at the Issuer's Option*

The Issuer may, having given not less than 30 nor more than 90 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 11, the Noteholders (which notice shall be irrevocable) and having obtained prior Relevant Supervisory Consent, redeem all or, from time to time, some (being £10,000,000 in principal amount or an integral multiple thereof) of the Notes on any Interest Payment Date being the twentieth or any subsequent Interest Payment Date at their principal amount. Upon the expiry of such notice the Issuer shall be bound to redeem such Notes accordingly. Any Notes redeemed under this paragraph (c) or purchased and cancelled under paragraphs (e) and (f) below may be credited at their principal amount in satisfaction in whole or in part of any subsequent instalment in relation to the Notes under paragraph (a) above provided that they are so credited prior to the drawing (as described in paragraph (g) below) (or, where applicable, the latest date for the drawing) in respect of such instalment. The obligation

of the Issuer to make the payments required under paragraph (a) above will continue until all the Notes have been redeemed, disregarding the early redemption or purchase and cancellation of some only of the Notes under this paragraph (c) or paragraphs (e) and (f) below and accordingly the principal amount of any Notes redeemed under this paragraph (c) or purchased and cancelled under paragraphs (e) and (f) below shall, in the absence of contrary election by the Issuer, be credited against the instalments under paragraph (a) above in inverse order of maturity.

(d) Redemption on Conversion under Section 97

The Issuer may, having given not less than 30 nor more than 90 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 11, the Noteholders (which notice shall be irrevocable if the conditions referred to below are fulfilled) and having obtained prior Relevant Supervisory Consent, redeem all, but not some only, of the Notes on any Interest Payment Date at their principal amount provided that the Issuer has satisfied the Trustee immediately prior to giving such notice that it has become bound to transfer the whole of its business to a successor pursuant to Sections 97 to 102 of the Building Societies Act 1986 (the "Act"), all conditions to such transfer (other than the redemption of the Notes, if applicable) have been fulfilled or will be fulfilled on the vesting date (as defined in Section 97(12) of the Act) and such redemption is to be made on the Interest Payment Date immediately preceding or immediately succeeding the vesting date. Upon the expiry of such notice the Issuer or its successor, as the case may be, shall be bound, subject as aforesaid, to redeem the Notes accordingly.

(e) Purchases

The Issuer or any of its Subsidiaries (as defined in the Trust Deed) may, having obtained prior Relevant Supervisory Consent, at any time purchase Notes provided that, so long as the Notes are listed on The Stock Exchange, (i) the price (exclusive of expenses and accrued interest) shall not, in the case of purchases made through The Stock Exchange or by tender, exceed the average of the middle market quotations therefor derived from The Stock Exchange Daily Official List for the ten dealing days before the purchase is made or (if the market price of the Notes is not more than 5 per cent. above such average), in the case of a purchase made through The Stock Exchange, such market price and (ii) if purchases are made by tender, tenders are made available to all Noteholders alike.

(f) Cancellation

All Notes redeemed or purchased pursuant to the foregoing provisions of this Condition 5 (except Notes purchased in the ordinary course of business as a dealer in securities) will be cancelled forthwith, and may not be reissued or resold.

(g) Drawings

In the case of a redemption of less than all of the Notes, Notes to be redeemed will be selected by drawings in lots of £10,000 principal amount in accordance with the respective rules and procedures of Euroclear and/or, as the case may be, Cedel not more than 90 nor less than 30 days prior to the date fixed for redemption. Each notice relating to any redemption will specify the date fixed for redemption and, in the case of a redemption of less than all of the Notes, the aggregate principal amount of the Notes to be redeemed and the aggregate principal amount of the Notes which will be outstanding after such redemption.

(h) Remarketing Arrangements

- (i) If, in respect of any New Interest Period, there shall be an Agreed Margin in relation to the Notes, each Noteholder shall have the right, subject to no Event of Insolvency having occurred with respect to the Issuer immediately prior to the commencement of the relevant New Interest Period, to require the Remarketing Underwriter (without the Issuer or the Trustee having any obligation or liability with respect thereto) to purchase all or any of the Notes standing to the account of such Noteholder (but not the entitlement to accrued interest thereon) for settlement on the first day of the New Interest Period at a purchase price equal to the principal amount of such Notes. The obligations of the Remarketing Underwriter to purchase Notes as aforesaid is contained in the Remarketing Agreement and the Deed Poll.

For the purposes of this paragraph (h) (other than (ii) below), any reference to "Notes" shall, in respect of each New Interest Period for which there is an Agreed Margin, as of the date the Agreed Margin becomes binding on the Issuer and the Remarketing Underwriter pursuant to the Remarketing Agreement, not include Notes which are due to be redeemed in accordance with paragraph (c) above on the first day of such New Interest Period or Notes as to which the Remarketing Underwriter shall have received notification from the Issuer that such Notes have been purchased (except in the ordinary course of business of a dealer in securities) by or on behalf of the Issuer or any of its Subsidiaries.

- (ii) Neither the Issuer nor the Trustee shall have any obligation or liability under any circumstances to purchase Notes. Neither the Issuer nor the Trustee shall have any obligation or liability (x) with respect to the purchase of Notes by the Remarketing Underwriter or with regard to the enforcement of the obligations of the Remarketing Underwriter or otherwise in respect of the obligations of the Remarketing Underwriter under the Remarketing Agreement or the Deed Poll or (y) to purchase Notes or to make any payment in respect of the purchase of Notes in the event of the Remarketing Underwriter failing to meet its obligations with respect to or under the Remarketing Agreement or the Deed Poll or (z), without prejudice to the Issuer's obligation to use reasonable endeavours to appoint a successor Remarketing Underwriter as described above, by reason of the absence of a Remarketing Underwriter.
- (iii) The right to require the Remarketing Underwriter to purchase Notes may only be exercised by Noteholders giving to the Remarketing Underwriter with a copy to Euro-clear or Cedel, as the case may be, a notice of exercise in the form from time to time available from the relevant clearing system and the Remarketing Underwriter (an "Exercise Notice") (which will contain or be accompanied by a representation as to non-U.S. beneficial ownership), by tested telex, specifying the principal amount of Notes in respect of which the rights are being exercised and the relevant account number (or in such other manner and including such other information and confirmations as may from time to time be specified by the Remarketing Underwriter with the prior approval of the Issuer and the Trustee), not earlier than 9.00 a.m. (London time) on the sixth Business Day, nor later than 9.00 a.m. (London time) on the fourth Business Day, prior to the commencement of the relevant New Interest Period, subject as referred to in (vi) below.
- (iv) The Remarketing Underwriter will make payment of the purchase price against delivery of the relevant Notes, subject to any applicable fiscal or other laws and regulations, by credit to such account in Euro-clear or Cedel as shall be specified in the relevant Exercise Notice in pounds sterling for value on the first day of the relevant New Interest Period.
- (v) In the Remarketing Agreement the Issuer has acknowledged that the Remarketing Underwriter is entitled to dispose of or hold any Notes acquired by it as Remarketing Underwriter as it shall in its sole discretion determine, subject to compliance with certain selling and other restrictions. The Remarketing Underwriter has confirmed that in carrying out such activities it will be acting as principal and not as the agent of the Issuer and that no warranties or representations are to be implied to be given by the Issuer to any person by virtue of the Remarketing Agreement. The Remarketing Underwriter has acknowledged that it has no authority to make any representations or warranties of whatever nature in relation to or on behalf of the Issuer.
- (vi) The Remarketing Agreement provides for modifications to the periods and days referred to in Condition 3 and this paragraph (h) in the event of certain days proving not to be Business Days.

6. Taxation

All payments of principal and interest in respect of the Notes by the Issuer will be made without withholding of, or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by the United Kingdom or any political subdivision thereof or by any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Notes in

the absence of such withholding or deduction; except that no such additional amounts shall be payable if, and to the extent that, the Global Note is presented for payment:

- (i) where the bearer of the Global Note or any person shown in the records of Euro-clear or Cedel as a holder of a Note is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the United Kingdom other than merely holding or having a beneficial interest in such Note; or
- (ii) at the specified office of a Paying Agent in the United Kingdom; or
- (iii) more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment on the expiry of such period of 30 days.

As used in this Condition 6, the "Relevant Date" means the date on which the relevant payment first becomes due and payable but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such money having been so received, notice to that effect shall have been duly published in accordance with Condition 11.

Any reference in these Terms and Conditions to principal or interest shall be deemed also to refer to any additional amounts which may be payable under this Condition 6 or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

7. Prescription

Claims for payment of principal will become void ten years and claims for payment of interest will become void five years after the Relevant Date (as defined in Condition 6) relating thereto.

8. Events of Default

(A) The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject to being indemnified to its satisfaction), give notice to the Issuer that the Notes are, and they shall accordingly thereby immediately become, due and repayable at their principal amount together with accrued interest (i) if default is made for a period of seven days or more in the payment of any principal due on the Notes or any of them or for a period of 14 days or more in the payment of any interest due in respect of the Notes or any of them, (ii) if the dissolution of the Issuer is commenced where the Issuer is to be dissolved otherwise than by virtue of Section 93(5), Section 94(10), Section 97(9) or Section 97(10) of the Act or is otherwise approved by the Trustee or by an Extraordinary Resolution of the Noteholders, (iii) if the winding up of the Issuer is commenced (other than a winding up which has been approved by the Trustee or by an Extraordinary Resolution of the Noteholders), or (iv) if the registration of the Issuer under the Act is cancelled otherwise than under Section 103(1)(a) of the Act. If the Notes become due and repayable, the Trustee may at its discretion institute proceedings for the winding up of the Issuer in England (but not elsewhere) to enforce the obligations of the Issuer in respect of the Notes and the Trust Deed; provided that no repayment of principal in respect of the Notes may be made by the Issuer pursuant to this paragraph (A), nor will the Trustee accept the same, otherwise than during or after a winding up or dissolution of the Issuer, save with prior Relevant Supervisory Consent.

For the purpose of this Condition 8, a payment shall be deemed to be due even if the condition set out in, Condition 2 is not satisfied.

(B) No Noteholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing, in which case the Noteholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise. No Noteholder shall be entitled to institute proceedings for the winding up of the Issuer, or to prove in any winding up of the Issuer, unless the Trustee, having become bound to proceed against the Issuer as aforesaid, fails to do so within a reasonable period and such failure is continuing, or, being able to prove in

any winding up of the Issuer, fails to do so within a reasonable period and such failure is continuing, in which event any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute proceedings for the winding up in England (but not elsewhere) of the Issuer and/or prove in any winding up of the Issuer to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do in respect of the Notes held by him. No remedy against the Issuer, other than the institution of proceedings for the winding up in England of the Issuer or the proving or claiming in any winding up of the Issuer, shall be available to the Trustee or the Noteholders for the recovery of amounts owing in respect of the Notes or under the Trust Deed.

9. Enforcement

At any time after the Notes become due and repayable pursuant to Condition 8, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as are contemplated by Condition 8 to enforce the obligations of the Issuer under the Trust Deed in the circumstances provided in Condition 8, but it shall not be bound to take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by Noteholders holding at least one quarter in principal amount of the Notes outstanding and (ii) it shall have been indemnified to its satisfaction.

10. Replacement of Notes

Should any Note (including the Global Note) be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Paying Agent in London upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

11. Notices

All notices to Noteholders shall be deemed to have been duly given if published in a leading daily newspaper of general circulation in London or, if this is not possible, in another leading English language newspaper having general circulation in Europe previously approved by the Trustee. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. It is expected that notices will be published in the *Financial Times*. If publication is not practicable in any such newspaper as is mentioned above notice will be given in such other manner and shall be deemed to have been given on such date as the Trustee shall determine.

12. Meetings of Noteholders, Modifications, Waiver and Substitution

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification of these Terms and Conditions, the provisions of the Trust Deed, the Remarketing Agreement and the Deed Poll. The quorum at any such meeting for passing an Extraordinary Resolution shall be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes for the time being outstanding so held or represented, except that at any meeting the business of which includes the modification of certain of these Terms and Conditions or certain provisions of the Trust Deed (as set out therein) and (unless the modification thereof would, in the opinion of the Trustee, not be materially prejudicial to the interests of the Noteholders, is of a formal, minor or technical nature or is to correct a manifest error) the Remarketing Agreement and the Deed Poll (all of which modifications will only be effective if approved by Extraordinary Resolution), the necessary quorum for passing an Extraordinary Resolution shall be one or more persons holding or representing not less than three-quarters, or at any adjourned such meeting not less than one-quarter, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

The Trust Deed provides that the Trustee may agree, without the consent of the Noteholders, to any modification (subject as provided above) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or of any of the provisions of the Trust Deed which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders or to any modification which is of a formal, minor or technical nature or to correct a manifest error.

The Remarketing Agreement may be modified by the Remarketing Underwriter, the Issuer and the Trustee and the Deed Poll may, with the consent of the Issuer and the Trustee, be modified by the Remarketing Underwriter, in either case without the consent of the Noteholders, (a) if such modification is of a formal, minor or technical nature or is to correct a manifest error, or (b) if, in the opinion of the Trustee, such modification is not materially prejudicial to the interests of the Noteholders.

Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 11.

The Trust Deed provides that the Trustee may agree, without the consent of the Noteholders, to the substitution at any time or times of any successor company of the Issuer (as defined in the Trust Deed), not being the successor or transferee by virtue of Section 93(4), Section 94(8) or Section 97(6) of the Act, or any other company which is under the control of the Issuer or any such successor company, as the principal debtor under the Trust Deed and the Notes. Such agreement shall also be subject to the relevant provisions of the Trust Deed, including (in the case of the substitution of any company other than the Issuer or such successor company) the unconditional and irrevocable guarantee, in such form as the Trustee may agree, in respect of the Notes given by the Issuer (the Issuer's liability under any such guarantee being subordinated in the same manner and to the same extent as its obligations in respect of the Notes).

In connection with the exercise by it of any of its trusts, powers or discretions, the Trustee shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and no person shall, in connection with any such exercise, be entitled to claim from the Issuer any indemnification or payments in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 6 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

13. Succession and Transfer to Commercial Company

(A) The Issuer has covenanted with the Trustee in the Trust Deed that it will not transfer its business to a company (the "Transferee Company") within the meaning of the Companies Act 1985 pursuant to Section 97 of the Act unless:

(i) either it has satisfied the Trustee that, upon such transfer becoming effective, the Transferee Company will be or (as the case may be) remain an authorised institution for the purposes of the Banking Act 1987 or such transfer has been approved by an Extraordinary Resolution or Extraordinary Resolutions of the holders of all series of the Programme Notes; and

(ii) the Issuer and the Transferee Company have executed a deed supplemental to the Trust Deed which has the effect of ensuring to the satisfaction of the Trustee that (a) the Transferee Company is bound by the terms of the Trust Deed and these Terms and Conditions as fully as if all and any references therein to the Issuer were a reference to the Transferee Company and (b) the rights of the Noteholders (1) are subordinated and postponed to the claims of the persons who are holders of Investment Shares which are qualifying shares (as defined in Section 100(3) of the Act) in the Issuer in respect of the claims arising by virtue of Section 100(2)(a) of the Act and which are represented by those qualifying shares and to the claims of other unsecured but unsubordinated creditors of the Transferee Company but (2) will be such that they rank in priority to the holders of the issued share capital of the Transferee Company, and containing such other provisions as the Trustee (having regard in particular to the foregoing) may reasonably require provided that any variation or supplement as may be contained in

such supplemental deed shall be limited to dealing with matters arising out of the procedure by which the transfer takes place and the constitution of the Transferee Company.

(B) The Issuer has also covenanted with the Trustee in the Trust Deed that it will not enter into any arrangement for the transfer of its engagements to another building society pursuant to Section 94 of the Act unless it transfers all its engagements to such society or such transfer has been approved by the Trustee or by an Extraordinary Resolution or Extraordinary Resolutions of the holders of all series of the Programme Notes.

14. Further Issues

The Issuer is at liberty from time to time without the consent of the Noteholders to create and issue further notes or bonds either (in the case of notes), subject to the consent of the Remarketing Underwriter, so as to form a single series with the Notes or (in either case) upon such terms as to ranking, interest, conversion, premium, redemption and otherwise as the Issuer may at the time of the issue thereof determine. In such case, the expression "Notes" in these Terms and Conditions, unless the context otherwise requires, shall include any further notes issued pursuant to this Condition 14 and forming a single series with the Notes. Any such notes or bonds, if they are to form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any deed supplemental thereto, shall be constituted by a deed supplemental to the Trust Deed and in any other case if the Trustee so agrees any other such notes or bonds may be so constituted. The Trust Deed contains provisions for convening a single meeting of the holders of all or any series of the Programme Notes and the holders of the notes or bonds of other series in certain circumstances where the Trustee so decides.

16. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer (or any Subsidiary) without accounting for any profit resulting from such transactions.

17. Governing Law

The Notes, the Global Note, the Trust Deed, the Remarketing Agreement and the Deed Poll are governed by and shall be construed in accordance with English law.

PRINCIPAL PAYING AGENT

The Chase Manhattan Bank, N.A.,
Woolgate House,
Coleman Street,
London EC2P 2HD.

PAYING AGENTS

Chase Manhattan Bank
Luxembourg S.A.,
5 Rue Plaetis,
L-2338 Luxembourg-Grund.

Chase Manhattan Bank (Switzerland),
63 Rue du Rhone,
CH-1204 Geneva.

Banque Bruxelles Lambert S.A.,
24 Avenue Marnix,
B-1050 Brussels.

TERMS AND CONDITIONS OF THE BONDS

The terms and conditions to be endorsed on each of the Bonds will be, subject to the removal of the paragraphs in italics, substantially in the following form:

The £400,000,000 8¾ per cent. Subordinated Bonds 2006 (the "Bonds") of Halifax Building Society (the "Issuer") are constituted by a trust deed dated 10 July 1996 (the "Trust Deed") made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the Bonds (the "Bondholders"). The issue of the Bonds was authorised by resolutions of the Board of Directors of the Issuer passed on 19 July 1995 and of a duly appointed Committee thereof passed on 17 June 1996. The statements in these terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds and the interest coupons appertaining thereto (the "Coupons"). Copies of the Trust Deed are available for inspection at the registered office of the Trustee, being at the date hereof at Princes House, 95 Gresham Street, London EC2V 7LY and at the specified office(s) of each of the Paying Agents (the "Paying Agents") referred to below. The Bondholders and the holders of the Coupons (the "Couponholders") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed.

1. Form, Denomination and Transfer

The Bonds are issued in the form of serially numbered bearer Bonds in the denominations of £10,000 and £100,000 each with Coupons attached and title thereto will pass by delivery. Bonds of one denomination may not be exchanged for Bonds of another denomination.

The Issuer, the Trustee and the Paying Agents may deem and treat the holder of any Bond or Coupon as the absolute owner thereof (notwithstanding any notice to the contrary and whether or not such Bond or Coupon shall be overdue and notwithstanding any notation of ownership or other writing thereon or notice of any previous loss or theft thereof) for the purpose of receiving payment thereof or on account thereof and for all other purposes.

2. Status and Subordination

(a) Status

The Bonds and the Coupons are unsecured, subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves and *pari passu* with its £250,000,000 11 per cent. Subordinated Bonds 2014, its £50,000,000 10½ per cent. Subordinated Bonds Due 1998, its £50,000,000 Subordinated Variable Rate Notes due 2001, its £150,000,000 10½ % Subordinated Bonds Due 2018 and its £300,000,000 9¾ per cent. Subordinated Bonds 2021 (together with any further issues which shall be consolidated and form a single series therewith).

(b) Set-Off

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

(c) Subordination

On a winding up of the Issuer, the claims of the Bondholders and the Couponholders shall be subordinated in right of payment to the claims of all Senior Creditors (as defined herein) in the manner provided in the Trust Deed. For the purposes of this paragraph, "Senior Creditors" means (i) depositors and other creditors (including persons who become holders of deposits pursuant to Section 100 of the Building Societies Act 1986 (the "Act") if the Issuer transfers its business to a successor pursuant to Section 97 of the Act but not including creditors (if any) whose claims are expressed to rank *pari passu* with or junior to the claims of the Bondholders or creditors with whose claims the Bonds are expressed to rank *pari passu* (whether only in the event of a winding up of the Issuer or otherwise)) of the Issuer and (ii) (but only in respect of a winding up while the Issuer remains a building society) all members holding shares in the Issuer (other than members holding Deferred Shares (as defined in the Trust Deed) whose claims are expressed to rank *pari passu* with or junior to the claims of the Bondholders and Couponholders (whether only in the event of a winding up of the Issuer or otherwise)).

3. Interest

The Bonds bear interest from and including 10 July 1996 at the rate of 8¾ per cent. per annum payable annually in arrear on 10 July (the "Interest Payment Date") in each of the years 1997 to 2006.

Interest accrues on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

Interest on each Bond shall cease to accrue from the due date for redemption or payment thereof unless, upon due presentation, payment of principal is improperly withheld or refused.

4. Redemption and Purchase

(a) Mandatory redemption

Unless previously redeemed or purchased and cancelled as provided below, each of the Bonds will be redeemed at its principal amount on 10 July 2006.

(b) Redemption for taxation reasons

If the Issuer satisfies the Trustee immediately prior to the giving of the notice referred to below that on the next Interest Payment Date the Issuer will be required to pay additional amounts as provided in Condition 6 or to account to any taxing authority in the United Kingdom for any amount (other than any tax withheld or deducted from interest payable in respect of the Bonds) calculated by reference to any amount payable in respect of the Bonds, then the Issuer may, having given not less than 30 nor more than 60 days' notice to the Trustee and, in accordance with Condition 15, the Bondholders (which notice shall be irrevocable), redeem at any time all, but not some only, of the Bonds at their principal amount plus accrued interest. Upon the expiry of such notice the Issuer shall be bound to redeem the Bonds accordingly.

(c) Purchases

The Issuer or any of its Subsidiaries (as defined in the Trust Deed) may at any time purchase Bonds in any manner and at any price. If purchases are made by tender, tenders must be made available to all Bondholders alike.

(d) Cancellation

All Bonds redeemed by the Issuer will be cancelled forthwith (together with all unmatured Coupons presented therewith) and such Bonds may not be reissued or resold. Bonds purchased by the Issuer or any of its Subsidiaries may be held or resold or surrendered for cancellation.

5. Payments

Subject as provided below, all payments of principal and interest in respect of the Bonds will be made against presentation and surrender of Bonds or, as the case may be, Coupons (i) in sterling at the specified office of the Paying Agent in London or (ii) at any specified office of any of the Paying Agents outside the United States of America and its possessions by transfer to a sterling account maintained by the payee with, or by sterling cheque drawn on, a bank in London, subject in all cases to any fiscal or other laws or regulations applicable in the place of payment but without prejudice to the provisions of Condition 6.

Notwithstanding the foregoing, the Issuer reserves the right to require Couponholders who do not make a declaration (such declaration being to the satisfaction of the United Kingdom Inland Revenue) that they are not resident in the United Kingdom to present their Coupons at a specified office of a Paying Agent situated outside the United Kingdom, if the Issuer would otherwise be obliged to account to any taxing authority in the United Kingdom for any amount in respect of income tax (other than any tax withheld or deducted from interest payable in respect of the Bonds) calculated by reference to the interest represented by the relevant Coupon. Each Bond should be presented for payment together with all relative unmatured Coupons. Upon the due date for early redemption of any Bond, unmatured Coupons relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Bond is presented for early redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity and/or security as the Issuer may reasonably require. If the date on which any Bond becomes due and payable is not an Interest Payment Date, interest accrued from the immediately preceding Interest Payment Date or from 10 July 1996, as the case may be, shall be payable only upon presentation of such Bond.

If the due date for payment of any amount of principal or interest in respect of any Bond is a Saturday or Sunday or is not a day on which banks are open for business in London and, where applicable, in the place where the relevant Bond or Coupon is presented for payment, then the holder thereof shall not be entitled to payment in such place of the amount due until the next following such day (other than a Saturday or Sunday) nor to any further interest or other payment in respect of any such delay.

The names of the initial Paying Agents and their specified offices are set out at the end of these Conditions. The Issuer may, with the prior approval of the Trustee, vary or terminate the appointment of any Paying Agent and/or appoint additional Paying Agents and/or approve any change in the specified office of any

Paying Agent, provided that so long as any Bonds remain outstanding the Issuer will maintain a Paying Agent with a specified office in continental Europe and, so long as the Bonds are listed on the London Stock Exchange, a Paying Agent with a specified office in London. Notice of any such variation, termination or appointment and of any changes in the specified offices of the Paying Agents will be given by the Issuer to the Bondholders in accordance with Condition 15.

6. Taxation

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

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

(ii) more than 30 days after the relevant date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days; or

(iii) in the United Kingdom.

For this purpose and for the purpose of Condition 9, the "relevant date" means the date on which the payment in respect of the Bonds or the Coupons first becomes due and payable but if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the "relevant date" means the date on which, such moneys having been so received, notice to that effect shall have been given to the Bondholders in accordance with Condition 15.

References herein to principal or interest shall be deemed to include any additional amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

7. Default

(a) If the Issuer shall not make payment of any principal or any interest in respect of the Bonds for a period of 14 days or more after the due date for the same the Trustee may institute proceedings in England (but not elsewhere) for the winding-up of the Issuer and prove in such winding-up.

(b) 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 Bonds (other than any other obligation for payment of any principal or interest in respect of Bonds or Coupons) provided that the Issuer shall not by virtue of any such proceedings be obliged to pay (i) any sum or sums representing principal or interest in respect of the Bonds or Coupons sooner than the same would otherwise have been payable by it or (ii) any damages (save in respect of the Trustee's fees and expenses incurred by it in its personal capacity).

(c) In the event of the commencement of the winding-up of the Issuer or the commencement of the dissolution of the Issuer (except in any such case a winding-up or dissolution for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a Successor in Business (as defined in the Trust Deed) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders or as a result of an amalgamation pursuant to Section 93 of the Act or a transfer of engagements pursuant to Section 94 of the Act or a transfer of its business pursuant to Section 97 of the Act), the Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. in principal amount of the Bonds then outstanding or as directed by an Extraordinary Resolution of the Bondholders shall (subject to it first being indemnified to its satisfaction) (i) declare the Bonds to be due and repayable immediately (and the Bonds shall thereby become so due and repayable) at their principal amount together with accrued interest as provided in the Trust Deed and (ii) prove in the winding-up of the Issuer.

The restriction on the payment of damages would have the effect of limiting the remedies available to the Trustee in the event of a breach of certain covenants (other than payment covenants) by the Issuer.

8. Enforcement of Rights

The Trustee shall not be bound to take any of the actions referred to in Condition 7 above to enforce the obligations of the Issuer under the Trust Deed, unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in principal amount of the Bonds then outstanding and (ii) it shall have been indemnified to its satisfaction. No Bondholder or Couponholder shall be entitled to institute proceedings 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.

No remedy against the Issuer, other than as referred to in Condition 7, shall be available to the Trustee or the Bondholders or Couponholders, whether for the recovery of amounts owing in respect of the Bonds 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 Bonds or under the Trust Deed.

9. Prescription

Bonds and Coupons will become void unless presented for payment within 12 years and six years respectively from the relevant date (as defined in Condition 6) in respect thereof.

10. Meetings of Bondholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of the terms and conditions of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority of the principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds for the time being outstanding so held or represented, except that at any meeting the business of which includes the modification of certain of the terms and conditions of the Bonds or certain of the provisions of the Trust Deed the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders.

The Trust Deed provides for a resolution in writing signed by or on behalf of the holder or holders of not less than 90 per cent. of the Bonds for the time being outstanding to be as effective and binding as if it were an Extraordinary Resolution duly passed at a meeting of the Bondholders.

The Trust Deed also provides that the Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of the terms and conditions of the Bonds or any of the provisions of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or to any modification which is of a formal, minor or technical nature or which is made to correct a manifest error. Any such modification, waiver or authorisation shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 15.

11. Substitution

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

(i) (in the case of the substitution of any company which is a Subsidiary of the Issuer or of such Successor in Business or of such holding company) that the obligations of such Subsidiary in respect of the Trust Deed, the Bonds and the Coupons shall be guaranteed by the Issuer or such Successor in Business or such holding company in such form as the Trustee may require; and

(ii) that the obligations of such Successor in Business or Subsidiary of the Issuer or of any such Successor in Business or of such holding company 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 Bonds and Coupons.

(b) If the Issuer shall amalgamate with one or more other building societies pursuant to Section 93 of the Act or transfer its engagements to another building society pursuant to Section 94 of the Act or transfer the whole of its business to a successor in accordance with Section 97 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 Bonds and the Coupons without any prior approval thereof being required from the Bondholders, the Couponholders or the Trustee.

Prospective Bondholders are referred to "General Information" below for a description of the ranking of the claims of Bondholders and Couponholders following a transfer in accordance with Section 97 of the Act.

(c) In the case of a substitution pursuant to this Condition, the Trustee may in its absolute discretion agree, without the consent of the Bondholders or Couponholders, to a change of the law governing the Bonds, the Coupons and/or the Trust Deed and/or the Paying Agency Agreement and to such other amendments to the Trust Deed and such other conditions as the Trustee may require provided that such change, amendment or condition would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders.

Any such substitution shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any such substitution shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 15.

12. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Bondholders or the Couponholders to create and issue further notes or bonds either ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and (in the case of bonds) so that the same shall be consolidated and form a single issue with the Bonds or upon such terms as to interest, premium, redemption and otherwise as the Issuer may at the time of the issue thereof determine. Any such bonds, if they are to form a single issue with the Bonds, shall be constituted by a deed supplemental to the Trust Deed and in any other case if the Trustee so agrees may be so constituted. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of notes or bonds of other series for the purpose of passing an Extraordinary Resolution in certain circumstances where the Trustee so decides.

13. Replacement of Bonds and Coupons

If a Bond or Coupon is mutilated, defaced, destroyed, stolen or lost it may be replaced at the specified office of the Principal Paying Agent on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

14. Indemnification and Exercise of Functions

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

In connection with the exercise of any of its functions (including but not limited to those relating to any proposed modification, waiver or authorisation or substitution), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Bondholder or Couponholder shall, in connection with any such modification, waiver, authorisation or substitution, be entitled to claim any indemnification or payment in respect of any tax or other consequence thereof upon individual Bondholders or Couponholders except to the extent provided for by Condition 6.

15. Notices

All notices regarding the Bonds will be valid if published in the Financial Times or any other daily newspaper in London approved by the Trustee or, if this is not possible, in one other English language daily newspaper approved by the Trustee with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication.

16. Governing Law

The Trust Deed, the Bonds and the Coupons are governed by, and shall be construed in accordance with, English law.

PRINCIPAL PAYING AGENT

Morgan Guaranty Trust Company of New York
60 Victoria Embankment,
London EC4Y 0JP

PAYING AGENTS

Banque Paribas Luxembourg
10A Boulevard Royal,
L-2093 Luxembourg

Morgan Guaranty Trust Company of New York
Avenue des Arts, 35,
B-1040 Brussels

TERMS AND CONDITIONS OF THE 2012 NOTES

The terms and conditions to be endorsed on each of the Notes will be, subject to the removal of the paragraph in italics, substantially in the following form:

The £200,000,000 Step-up Callable Floating Rate Subordinated Notes 2012 (the "Notes") of Halifax Building Society (the "Issuer") are constituted by a trust deed dated 25 April 1997 (the "Trust Deed") made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the Notes (the "Noteholders"). The issue of the Notes was authorised by resolutions of the Board of Directors of the Issuer passed on 18 December 1996. The statements in these terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes and the interest coupons appertaining thereto (the "Coupons"). Copies of the Trust Deed are available for inspection at the registered office of the Trustee, being at the date hereof at Princes House, 95 Gresham Street, London EC2V 7LY and at the specified office(s) of each of the Paying Agents (the "Paying Agents") referred to below. The Noteholders and the holders of the Coupons (the "Couponholders", which term shall include the holders of talons (the "Talons") for further Coupons) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed applicable to them.

1. Form, Denomination and Transfer

The Notes are issued in the form of serially numbered bearer Notes in the denominations of £10,000 and £100,000 each with Coupons and, if appropriate, a Talon attached and title thereto will pass by delivery. Notes of one denomination may not be exchanged for Notes of another denomination.

The Issuer, the Trustee and the Paying Agents may deem and treat the holder of any Note, Coupon or Talon as the absolute owner thereof (notwithstanding any notice to the contrary and whether or not such Note, Coupon or Talon shall be overdue and notwithstanding any notation of ownership or other writing thereon or notice of any previous loss or theft thereof) for the purpose of receiving payment thereof or on account thereof and for all other purposes.

2. Status and Subordination

(a) Status

The Notes and the Coupons are unsecured, subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves and *pari passu* with its £50,000,000 10½ per cent. Subordinated Bonds due 1998, its £50,000,000 Subordinated Variable Rate Notes due 2001, its £400,000,000 8¾ per cent. Subordinated Bonds 2006, its £75,000,000 Floating Rate Subordinated Notes 2009, its £250,000,000 11 per cent. Subordinated Bonds 2014, its £150,000,000 10½ % Subordinated Bonds Due 2018 and its £500,000,000 9¾ per cent. Subordinated Bonds 2021, (together with any further issues which shall be consolidated and form a single series therewith).

(b) Set-Off

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

(c) Subordination

On a winding up of the Issuer, the claims of the Noteholders and the Couponholders shall be subordinated in right of payment to the claims of all Senior Creditors (as defined herein) in the manner provided in the Trust Deed. For the purposes of this paragraph, "Senior Creditors" means (i) depositors and other creditors (including persons who become holders of deposits pursuant to Section 100 of the Building Societies Act 1986 (the "Act") if the Issuer transfers its business to a successor pursuant to Section 97 of the Act but not including creditors (if any) whose claims are expressed to rank *pari passu* with or junior to the claims of the Noteholders or creditors with whose claims the Notes are expressed to rank *pari passu* (whether only in the event of a winding up of the Issuer or otherwise)) of the Issuer and (ii) (but only in respect of a winding up while the Issuer remains a building society) all members holding shares in the Issuer as regards the principal of their shares and any interest due in respect of those shares in the Issuer (other than members holding Deferred Shares (as defined in the Trust Deed) whose claims are expressed to rank *pari passu* with or junior to the claims of the Noteholders and Couponholders (whether only in the event of a winding up of the Issuer or otherwise)).

3. Interest

(a) Interest Payment Dates and Interest Periods

Each Note bears interest from and including 25 April 1997 (the "Issue Date"). Such interest will be payable in arrear on each date ("Interest Payment Date") which (save as mentioned below) falls three calendar months after the preceding

Interest Payment Date or, in the case of the first Interest Payment Date, three calendar months after the Issue Date. If any Interest Payment Date would otherwise fall on a day which is not a business day (as defined below) it shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month, in which event (i) the Interest Payment Date shall be brought forward to the immediately preceding business day and (ii) thereafter each Interest Payment Date shall be the last business day of the third calendar month after the calendar month in which the preceding Interest Payment Date shall have fallen. The period from and including the Issue Date to but excluding the first Interest Payment Date and each successive period from and including an Interest Payment Date to but excluding the next succeeding Interest Payment Date is herein called an "Interest Period". As used in this Condition 3, the expression "business day" means a day (not being a Saturday or a Sunday) upon which banks are open for business in London.

(b) Interest Accrual

Interest shall cease to accrue on each Note as from the due date for redemption or payment thereof unless, upon due presentation, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

(c) Rate of Interest

The rate of interest payable from time to time in respect of the Notes (the "Rate of Interest") will be determined on the basis of the following provisions:

- (i) On the first day of each Interest Period (each an "Interest Determination Date") for which such rate will apply, Morgan Guaranty Trust Company of New York, London office, or its duly appointed successor (the "Agent Bank") will record the offered rate (expressed as a rate per annum) for three-month sterling deposits (notwithstanding that such Interest Period happens to fall short of or exceed three months) as at 11.00 a.m. (London time) on such Interest Determination Date, as displayed on the Dow Jones/Telerate Monitor as Telerate Page no. 3750, or such other page or pages as may replace Telerate Page no. 3750 on that service for the purpose of displaying such information ("Telerate Page 3750"). The Rate of Interest for such Interest Period shall be such offered rate plus the applicable Margin (as defined below).
- (ii) If for any reason Telerate Page 3750 does not display the information referred to in sub-paragraph (i) above by 1.00 p.m. (London time) on any Interest Determination Date then the Agent Bank will, on such Interest Determination Date, refer to the offered quotations (expressed as rates per annum) for three-month sterling deposits as at 11.00 a.m. (London time) on the Interest Determination Date in question, as displayed on the Dow Jones/Telerate Monitor as Telerate Page no. 3753 (being the page designated by the British Bankers' Association for the display of interest settlement rates) or such other page or pages as may replace Telerate Page no. 3753 on that service for the purpose of displaying such information provided always that, if that service does not display such information by 1.00 p.m. (London time) on such Interest Determination Date, the Agent Bank will refer to such offered quotations for three-month sterling deposits as are displayed on such other service as is approved by the Trustee following consultation with the Issuer. If at least six such offered quotations are so displayed, the Agent Bank shall calculate the arithmetic mean (rounded upwards if necessary to the nearest $\frac{1}{32}$ of one per cent.) of such offered quotations (excluding the highest two (or, if more than two, two thereof always excluding the single highest if any) and lowest two (or, if more than two, two thereof always excluding the single lowest if any) of such offered quotations). In such case, subject as provided below, the arithmetic mean of the offered quotations so calculated shall then be the offered rate for the purposes of calculating the Rate of Interest for that Interest Period, which shall be such offered rate plus the applicable Margin.
- (iii) If by 1.00 p.m. (London time) on any Interest Determination Date less than six offered quotations in respect of three-month sterling deposits are being displayed as provided in sub-paragraph (ii) above, then the Agent Bank will, on such date, request each of the Reference Banks referred to in paragraph (g) below (the "Reference Banks") to provide the Agent Bank with its offered quotation to leading banks for three-month sterling deposits in the London interbank market as at 11.00 a.m. (London time) on the Interest Determination Date in question. If at least two of the Reference Banks provide the Agent Bank with such offered quotations, the Rate of Interest for such Interest Period shall be the rate determined by the Agent Bank to be the arithmetic mean (rounded upwards if necessary to the nearest $\frac{1}{32}$ of one per cent.) of such offered quotations plus the applicable Margin.
- (iv) If on any Interest Determination Date to which the provisions of sub-paragraph (iii) above apply, one only or none of the Reference Banks provides the Agent Bank with such a quotation, the Agent Bank shall forthwith consult with the Issuer and the Trustee for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, a bank) to provide such a quotation or quotations to the Agent Bank (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) and the Rate of Interest for the then current Interest Period shall be determined in accordance with the provisions of sub-paragraph (iii) above on the

basis of the offered quotations of such bank as so agreed and the Reference Bank (or, as the case may be, the offered quotations of such banks as so agreed). If no such bank or banks is or are so agreed, or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the applicable Rate of Interest for the then current Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period (excluding the Margin applicable to such Interest Period) plus the applicable Margin for the then current Interest Period.

- (v) The margin (the "Margin") in respect of the period from and including the Issue Date to but excluding the Interest Payment Date falling in April 2007 will be 0.25 per cent. per annum and in respect of the period from and including the Interest Payment Date falling in April 2007 to but excluding the Interest Payment Date falling in April 2012 will be 1.25 per cent. per annum.

(d) Determination of Rate of Interest and Calculation of Coupon Amounts

The Agent Bank will, at or as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Rate of Interest and calculate the amounts of interest payable on the presentation and surrender of the Coupons relating to the Notes of each denomination (the "Coupon Amounts") for the relevant Interest Period. The Coupon Amounts shall be calculated by applying the Rate of Interest to the principal amount of one Note of each denomination, multiplying such sum by the actual number of days in the Interest Period concerned divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards).

(e) Publication of Rate of Interest and of Coupon Amounts

The Agent Bank will, as soon as practicable after each Interest Determination Date but in any event no later than four business days thereafter, cause the Rate of Interest and the Coupon Amounts for the relevant Interest Period and the relevant Interest Payment Date to be notified to the London Stock Exchange Limited (the "London Stock Exchange") and to be published in accordance with Condition 15. The Coupon Amounts and Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the relevant Interest Period.

(f) Determination and Calculation by Trustee

If the Agent Bank does not at any time for any reason determine the Rate of Interest or calculate the Coupon Amounts in accordance with paragraph (c) or (d) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described in paragraph (c) above), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Coupon Amounts in the manner referred to in paragraph (d) above, and each such determination or calculation shall be deemed to have been made by the Agent Bank.

(g) Agent Bank and Reference Banks

The Issuer shall procure that so long as any of the Notes remains outstanding (as defined in the Trust Deed) there shall at all times be an Agent Bank and four Reference Banks for the purposes of the Notes. The initial Reference Banks are the principal London offices of Barclays Bank PLC, Lloyds Bank Plc, Morgan Guaranty Trust Company of New York and National Westminster Bank Plc but the Issuer may (with the prior approval of the Trustee) terminate the appointment of any of the Reference Banks or of the Agent Bank. In the event of the appointed London office of any such bank being unable or unwilling to continue to act as a Reference Bank or Morgan Guaranty Trust Company of New York, London office, being unable or unwilling to continue to act as the Agent Bank, the Issuer shall appoint such other bank, acting through a London office, as may be approved by the Trustee to act as such in its place. The Agent Bank may in addition resign its duties as such provided that neither the resignation nor the removal of the Agent Bank shall take effect without a successor having been appointed and approved as aforesaid.

(h) Certificates, etc. to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3, whether by the Reference Banks (or any of them), the Agent Bank or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Reference Banks, the Agent Bank, the Paying Agents, the Trustee and all of the Noteholders and Couponholders. No Noteholder or Couponholder shall (in the absence as aforesaid) be entitled to proceed against the Reference Banks, the Agent Bank, the Trustee, the Paying Agents or any of them in connection with the exercise or non-exercise by them of their powers, duties and discretions pursuant to such provisions.

(i) Exchange of Talons

On and after the Interest Payment Date on which the final Coupon in any Coupon sheet matures, the Talon forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon

sheet including a further Talon, if appropriate, subject to the provisions of Condition 9 below. Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon in the relative Coupon sheet matures.

4. Redemption and Purchase

(a) Mandatory redemption

Unless previously redeemed or purchased and cancelled as provided below, each of the Notes will be redeemed at its principal amount on the Interest Payment Date falling in April 2012.

(b) Redemption for taxation reasons

If the Issuer satisfies the Trustee immediately prior to the giving of the notice referred to below that on the next Interest Payment Date the Issuer will be required to pay additional amounts as provided in Condition 6 or to account to any taxing authority in the United Kingdom for any amount (other than any tax withheld or deducted from interest payable in respect of the Notes) calculated by reference to any amount payable in respect of the Notes, then the Issuer may on such Interest Payment Date, having given not less than 30 nor more than 60 days' notice to the Trustee and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), redeem all, but not some only, of the Notes at their principal amount. Upon the expiry of such notice the Issuer shall be bound to redeem the Notes accordingly.

(c) Redemption at the option of the Issuer

The Issuer may, having given not less than 15 nor more than 45 days' notice to the Noteholders in accordance with Condition 15 (which notice shall be irrevocable), elect to redeem all, but not some only, of the Notes on the Interest Payment Date falling in April 2007 at their principal amount. Upon the expiry of such notice the Issuer shall be bound to redeem the Notes accordingly.

(d) Purchases

The Issuer or any of its Subsidiaries (as defined in the Trust Deed) may at any time purchase Notes in any manner and at any price. If purchases are made by tender, tenders must be made available to all Noteholders alike.

(e) Cancellation

All Notes redeemed by the Issuer will be cancelled forthwith (together with all unmatured Coupons and Talons presented therewith) and such Notes may not be reissued or resold. Notes purchased by the Issuer or any of its Subsidiaries may be held or resold or surrendered for cancellation.

5. Payments

Subject as provided below, all payments of principal and interest in respect of the Notes will be made against presentation and surrender of Notes or, as the case may be, Coupons (i) in sterling at the specified office of the Paying Agent in London or (ii) at any specified office of any of the Paying Agents outside the United States of America and its possessions by transfer to a sterling account maintained by the payee with, or by sterling cheque drawn on, a bank in London, subject in all cases to any fiscal or other laws or regulations applicable in the place of payment but without prejudice to the provisions of Condition 6.

Notwithstanding the foregoing, the Issuer reserves the right to require Couponholders who do not make a declaration (such declaration being to the satisfaction of the United Kingdom Inland Revenue) that they are not resident in the United Kingdom to present their Coupons at a specified office of a Paying Agent situated outside the United Kingdom, if the Issuer would otherwise be obliged to account to any taxing authority in the United Kingdom for any amount in respect of income tax (other than any tax withheld or deducted from interest payable in respect of the Notes) calculated by reference to the interest represented by the relevant Coupon. Each Note should be presented for payment together with all relative unmatured Coupons and the Talon (if any) appertaining thereto. Upon the due date for early redemption of any Note, unmatured Coupons and the Talon (if any) appertaining thereto relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Note is presented for early redemption without all unmatured Coupons and the Talon (if any) appertaining thereto relating to it, redemption shall be made only against the provision of such indemnity and/or security as the Issuer may reasonably require. If the date on which any Note becomes due and payable is not an Interest Payment Date, interest accrued from the immediately preceding Interest Payment Date or from the Issue Date, as the case may be, shall be payable only upon presentation of such Note.

If the due date for payment of any amount of principal or interest in respect of any Note is a Saturday or Sunday or is not a day on which banks are open for business in London and, where applicable, in the place where the relevant Note or Coupon is presented for payment, then the holder thereof shall not be entitled to payment in such place of the amount due until the next following such day (other than a Saturday or Sunday) nor to any further interest or other payment in respect of any such delay.

The names of the initial Paying Agents and their specified offices are set out at the end of these Conditions. The Issuer may, with the prior approval of the Trustee, vary or terminate the appointment of any Paying Agent and/or appoint additional Paying Agents and/or approve any change in the specified office of any Paying Agent, provided that so long as any Notes remain outstanding the Issuer will maintain a Paying Agent with a specified office in continental Europe and, so long as the Notes are listed on the London Stock Exchange, a Paying Agent with a specified office in London. Notice of any such variation, termination or appointment and of any changes in the specified offices of the Paying Agents will be given by the Issuer to the Noteholders in accordance with Condition 15.

6. Taxation

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

- (i) by or on behalf of a holder who (a) is able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon otherwise than merely by the holding of such Note or Coupon; or
- (ii) more than 30 days after the relevant date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days; or
- (iii) in the United Kingdom.

For this purpose and for the purpose of Condition 9, the "relevant date" means the date on which the payment in respect of the Notes or the Coupons first becomes due and payable but if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the "relevant date" means the date on which, such moneys having been so received, notice to that effect shall have been given to the Noteholders in accordance with Condition 15.

References herein to principal or interest shall be deemed to include any additional amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

7. Default

(a) If the Issuer shall not make payment of any principal or any interest in respect of the Notes for a period of 14 days or more after the due date for the same the Trustee may institute proceedings in England (but not elsewhere) for the winding-up of the Issuer and prove in such winding-up.

(b) The Trustee may institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Trust Deed or the Notes (other than any other obligation for payment of any principal or interest in respect of Notes or Coupons) provided that the Issuer shall not by virtue of any such proceedings be obliged to pay (i) any sum or sums representing principal or interest in respect of the Notes or Coupons sooner than the same would otherwise have been payable by it or (ii) any damages (save in respect of the Trustee's fees and expenses incurred by it in its personal capacity).

(c) In the event of the commencement of the winding-up of the Issuer or the commencement of the dissolution of the Issuer (except in any such case a winding-up or dissolution for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a Successor in Business (as defined in the Trust Deed) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders or as a result of an amalgamation pursuant to Section 93 of the Act or a transfer of engagements pursuant to Section 94 of the Act or a transfer of its business pursuant to Section 97 of the Act), the Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. in principal amount of the Notes then outstanding or as directed by an Extraordinary Resolution of the Noteholders shall (subject to it first being indemnified to its satisfaction) (i) declare the Notes to be due and repayable immediately (and the Notes shall thereby become so due and repayable) at their principal amount together with accrued interest as provided in the Trust Deed and (ii) prove in the winding-up of the Issuer.

The restriction on the payment of damages could have the effect of limiting the remedies available to the Trustee in the event of a breach of certain covenants.

8. Enforcement of Rights

The Trustee shall not be bound to take any of the actions referred to in Condition 7 above to enforce the obligations of the Issuer under the Trust Deed, unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent. in principal amount of the Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. No Noteholder or Couponholder shall be entitled to institute proceedings 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.

No remedy against the Issuer, other than as referred to in Condition 7, shall be available to the Trustee or the Noteholders or Couponholders, whether for the recovery of amounts owing in respect of the Notes or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Notes or under the Trust Deed.

9. Prescription

Notes and Coupons will become void unless presented for payment within 12 years and six years respectively from the relevant date (as defined in Condition 6) in respect thereof. There shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to this Condition 9 or Condition 5.

10. Meetings of Noteholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of the terms and conditions of the Notes or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority of the principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes for the time being outstanding so held or represented, except that at any meeting the business of which includes the modification of certain of the terms and conditions of the Notes or certain of the provisions of the Trust Deed the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Trust Deed provides for a resolution in writing signed by or on behalf of the holder or holders of not less than 90 per cent. of the Notes for the time being outstanding to be as effective and binding as if it were an Extraordinary Resolution duly passed at a meeting of the Noteholders.

The Trust Deed also provides that the Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of the terms and conditions of the Notes or any of the provisions of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or to any modification which is of a formal, minor or technical nature or which is made to correct a manifest error. Any such modification, waiver or authorisation shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 15.

11. Substitution

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

- (i) (in the case of the substitution of any company which is a Subsidiary of the Issuer or of such Successor in Business or of such holding company) that the obligations of such Subsidiary in respect of the Trust Deed, the Notes, the Coupons and the Talons shall be guaranteed by the Issuer or such Successor in Business or such holding company in such form as the Trustee may require; and
- (ii) that the obligations of such Successor in Business or Subsidiary of the Issuer or of any such Successor in Business or of such holding company 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, the Coupons and the Talons.

(b) If the Issuer shall amalgamate with one or more other building societies pursuant to Section 93 of the Act or transfer its engagements to another building society pursuant to Section 94 of the Act or transfer the whole of its business to a successor in accordance with Section 97 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, the Coupons and the Talons without any prior approval thereof being required from the Noteholders, the Couponholders or the Trustee.

Prospective Noteholders are referred to "General Information" below for a description of the ranking of the claims of Noteholders and Couponholders following a transfer in accordance with Section 97 of the Act.

(c) In the case of a substitution pursuant to this Condition, the Trustee may in its absolute discretion agree, without the consent of the Noteholders or Couponholders, to a change of the law governing the Notes, the Coupons, the Talons and/or the Trust Deed and/or the Agency Agreement and to such other amendments to the Trust Deed and such other conditions as the Trustee may require provided that such change, amendment or condition would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

Any such substitution shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such substitution shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 15.

12. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders or the Couponholders to create and issue further notes or bonds either ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and (in the case of notes) so that the same shall be consolidated and form a single issue with the Notes or upon such terms as to interest, premium, redemption and otherwise as the Issuer may at the time of the issue thereof determine. Any such notes, if they are to form a single issue with the Notes, shall be constituted by a deed supplemental to the Trust Deed and in any other case if the Trustee so agrees may be so constituted. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes or bonds of other series for the purpose of passing an Extraordinary Resolution in certain circumstances where the Trustee so decides.

13. Replacement of Notes, Coupons and Talons

If a Note, Coupon or Talon is mutilated, defaced, destroyed, stolen or lost it may be replaced at the specified office of the Principal Paying Agent on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

14. Indemnification and Exercise of Functions

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances including provisions relieving it from instituting proceedings to enforce payment unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity associated with the Issuer without accounting for profit.

In connection with the exercise of any of its functions (including but not limited to those relating to any proposed modification, waiver or authorisation or substitution), 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 resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder or Couponholder shall, in connection with any such modification, waiver, authorisation or substitution, be entitled to claim any indemnification or payment in respect of any tax or other consequence thereof upon individual Noteholders or Couponholders except to the extent provided for by Condition 6.

15. Notices

All notices regarding the Notes will be valid if published in the *Financial Times* or any other daily newspaper in London approved by the Trustee or, if this is not possible, in one other English language daily newspaper approved by the Trustee with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication.

16. Governing Law

The Trust Deed, the Notes, the Coupons and the Talons are governed by, and shall be construed in accordance with, English law.

PRINCIPAL PAYING AGENT

Morgan Guaranty Trust Company of New York
60 Victoria Embankment,
London EC4Y 0JP

PAYING AGENTS

Banque Paribas Luxembourg
10A Boulevard Royal,
L-2093 Luxembourg

Morgan Guaranty Trust Company of New York
Avenue des Arts, 35,
B-1040 Brussels

SUMMARY OF THE MAIN FINANCIAL-TERMS OF THE BONDS

The issue price of the Bonds is 102.467 per cent. of their principal amount (the "Issue Price") and is payable in full, together with an amount representing interest accrued from 17th January, 1992 to 6th March, 1992, not later than 10.00 a.m. on 6th March, 1992. The Bonds will bear interest at the rate of 11 per cent. per annum and such interest will be payable annually in arrear on 17th January in each year. The first payment of interest on the Bonds will be made on 17th January, 1993 in respect of the period from 17th January, 1992 to such date. Subject as provided in "Terms and conditions of the Bonds" set out below, the Bonds will be redeemed by the Society at par on 17th January, 2014 together with accrued interest.

TERMS AND CONDITIONS OF THE BONDS

The Bonds will be issued subject to the following terms and conditions:—

The £250,000,000 11 per cent. Subordinated Bonds 2014 of Halifax Building Society (the "Society") consisting of an issue in the aggregate principal amount of £100,000,000, a further issue in the aggregate principal amount of £50,000,000 and a further issue in the aggregate principal amount of £100,000,000 (together, the "Bonds") are constituted by a Trust Deed dated 17th October, 1988, a First Supplemental Trust Deed dated 9th November, 1988 and a Second Supplemental Trust Deed dated 6th March, 1992 (together, the "Trust Deed"), each made between the Society and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the Bonds (the "Bondholders"). The issue of the Bonds was authorised by resolutions of the Board of Directors of the Society passed on 19th July, 1988, of a duly appointed Committee thereof passed on 3rd October, 1988 and 1st November, 1988, of the Board of Directors of the Society passed on 16th May, 1990 and of a duly appointed Committee thereof passed on 24th and 25th February, 1992. The statements in 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 Bonds and the interest coupons appertaining thereto (the "Coupons"). The Society has entered into a Second Supplemental Paying Agency Agreement dated 6th March, 1992 supplemental to a Paying Agency Agreement dated 17th October, 1988 and a First Supplemental Paying Agency Agreement dated 9th November, 1988 (together, the "Paying Agency Agreement"), between the Society, the Trustee and the paying agents named therein. Copies of the Trust Deed and the Paying Agency Agreement are available for inspection at the principal office of the Trustee, being at the date hereof at Princes House, 95 Gresham Street, London EC2V 7LY and at the specified office(s) of each of the paying agents (the "Paying Agents") referred to below. The Bondholders and the holders of the Coupons (the "Couponholders") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed.

1. FORM, DENOMINATION AND TRANSFER

The Bonds are issued in the form of serially numbered bearer Bonds in the denominations of £10,000 and £100,000 each with Coupons attached and title thereto will pass by delivery.

The Society, the Trustee and the Paying Agents may deem and treat the holder of any Bond or Coupon as the absolute owner thereof (notwithstanding any notice to the contrary and whether or not such Bond or Coupon shall be overdue and notwithstanding any notation of ownership or other writing thereon or notice of any previous loss or theft thereof) for the purpose of receiving payment thereof or on account thereof and for all other purposes.

The Bonds will be represented initially by a single temporary Global Bond, without interest coupons, which will be deposited with a common depositary (the "Common Depositary") for CEDEL S.A. and Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear"), on or about 6th March, 1992. The Common Depositary will credit each subscriber with a principal amount of Bonds equal to the principal amount thereof subscribed and paid for by such subscriber. The temporary Global Bond will be exchangeable for definitive Bonds in bearer form on or after 15th April, 1992 upon certification as to beneficial ownership as required by U.S. Treasury regulations.

2. STATUS AND SUBORDINATION

The Bonds and the Coupons are unsecured, subordinated obligations of the Society and rank *pari passu* and without any preference among themselves and *pari passu* with the Society's £200,000,000 Floating Rate Subordinated Notes 1998.

On a winding up of the Society, the claims of the Bondholders and the Couponholders shall be subordinated in right of payment to the claims of all Senior Creditors (as defined herein) in the manner provided in the

Trust Deed. For the purposes of this paragraph, "Senior Creditors" means (i) depositors and other creditors (including persons who become holders of deposits pursuant to Section 100 of the Building Societies Act 1986 (the "Act")) if the Society transfers its business to a successor pursuant to Section 97 of the Act but not including creditors (if any) whose claims are expressed to rank *pari passu* with or junior to the claims of the Bondholders or creditors with whose claims the Bonds are expressed to rank *pari passu* (whether only in the event of a winding up of the Society or otherwise) of the Society and (ii) (but only in respect of a winding up while the Society remains a building society) all members holding shares in the Society as regards the principal of their shares and any interest due in respect of those shares in the Society (other than members holding Deferred Shares (as defined in the Trust Deed) whose claims are expressed to rank *pari passu* with or junior to the claims of the Bondholders and Couponholders (whether only in the event of a winding up of the Society or otherwise)).

3. INTEREST

The Bonds bear interest from and including 17th January, 1992 at the rate of 11 per cent. per annum payable annually in arrear on 17th January (the "Interest Payment Date").

Interest accrues on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

Interest on each Bond shall cease to accrue from the due date for redemption or payment thereof unless, upon due presentation, payment of principal is improperly withheld or refused.

4. REDEMPTION AND PURCHASE

(a) Mandatory redemption

Unless previously redeemed, each of the Bonds will be redeemed at its principal amount on 17th January, 2014.

(b) Redemption for taxation reasons

If the Society satisfies the Trustee immediately prior to the giving of the notice referred to below that on the next Interest Payment Date the Society will be required to pay additional amounts as provided in Condition 6 or to account to any taxing authority in the United Kingdom for any amount (other than any tax withheld or deducted from interest payable in respect of the Bonds) calculated by reference to any amount payable in respect of the Bonds, then the Society may, having given not less than 30 nor more than 60 days' notice to the Trustee and, in accordance with Condition 15, the Bondholders (which notice shall be irrevocable), redeem at any time all, but not some only, of the Bonds at their principal amount plus accrued interest. Upon the expiry of such notice the Society shall be bound to redeem the Bonds accordingly.

(c) Redemption at the option of the Society; Drawings

The Society may at any time after 18th October, 1993, having given not less than 30 nor more than 60 days' notice to the Trustee and, in accordance with Condition 15, the Bondholders (which notice shall be irrevocable), redeem all or, from time to time, some only (being £10,000,000 in principal amount or a higher integral multiple of £1,000,000) of the Bonds at the higher of par and the Adjusted Redemption Price (as defined below) together with interest accrued up to and including the date of redemption. In the case of a partial redemption of Bonds, Bonds to be redeemed will be selected individually not more than 60 days prior to the date fixed for redemption and a list of Bonds called for redemption will be published in accordance with Condition 15 not less than 30 nor more than 60 days prior to such date.

For the purposes of these Conditions, the "Adjusted Redemption Price" shall mean such price as shall be determined by a leading bank and/or broker in London selected by the Trustee as being the price at which the gross redemption yield on the Bonds (if they were to remain outstanding to their original maturity) would be equal to the gross redemption yield in respect of the 12 per cent. Exchequer Stock 2013/17 (or, if such stock is not in existence, such other stock issued by or on behalf of H.M. Government as the Trustee, on the advice of three brokers and/or gilt-edged market makers or such other three persons operating in the gilt-edged market as the Trustee may approve, may agree to be appropriate) on the basis of the arithmetic mean of the offered prices quoted for such stock on a dealing basis by three gilt-edged market makers at or about 3 p.m. on the Determination Date (as defined below) and on the basis that the gross redemption yield in respect of the Bonds and in respect of such stock shall be calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries Vol. 105, Part 1 1978, page 18. For this purpose "Determination Date" means the date falling four business days in London prior to the publication of the notice of redemption referred to in this

paragraph (c) or, in the case of a redemption pursuant to Condition 11(b), the publication of the notice of redemption referred to in that Condition.

(d) **Purchases**

The Society or any of its Subsidiaries (as defined in the Trust Deed) may (subject as provided below) at any time purchase Bonds in any manner at prices (exclusive of expenses) not exceeding (i) in the case of a purchase by tender the average of the middle market quotations therefor taken from the Daily Official List of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("The Stock Exchange") for the 10 dealing days prior to the date of purchase (the "Average Price"), or (ii) in the case of a purchase through The Stock Exchange, the greater of the Average Price and the market price if the latter is not more than five per cent. above the Average Price, or (iii) in any other case, 115 per cent. of the principal amount of the Bonds; provided, however, that the limitations in (i), (ii) and (iii) shall apply only so long as the Bonds are listed on The Stock Exchange. If purchases are made by tender, tenders must be available to all Bondholders alike.

(e) **Cancellation**

All Bonds redeemed by the Society will be cancelled forthwith (together with all unmatured Coupons presented therewith) and such Bonds may not be re-issued or resold. Bonds purchased by the Society or any of its Subsidiaries may be held or resold or surrendered for cancellation.

5. PAYMENTS

Subject as provided below, all payments of principal and/or interest in respect of the Bonds will be made against presentation and surrender of Bonds or, as the case may be, Coupons at any specified office of any of the Paying Agents. All such payments will be made in sterling at the specified office of the Paying Agent in London or, at the option of the holder, at any specified office of any Paying Agent by a sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London, subject in all cases to any fiscal or other laws or regulations applicable in the place of payment but without prejudice to the provisions of Condition 6.

Notwithstanding the foregoing, the Society reserves the right to require Couponholders who do not make a declaration that they are not resident in the United Kingdom to present their Coupons at a specified office of a Paying Agent situated outside the United Kingdom, if the Society would otherwise be obliged to account to any taxing authority in the United Kingdom for any amount in respect of income tax (other than any tax withheld or deducted from interest payable in respect of the Bonds) calculated by reference to the interest represented by the relevant Coupon. Each Bond should be presented for payment together with all relative unmatured Coupons, failing which an amount equal to the face value in sterling of any missing unmatured Coupon(s) (or, in the case of payment not being made in full, the same proportion of the aggregate amount in sterling of such missing unmatured Coupon(s) as the sum of principal so paid bears to the total principal amount due) will be deducted from the principal amount in sterling due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupons(s) not later than six years from their relevant date (as defined in Condition 6). If the date on which any Bond becomes due and payable is not an Interest Payment Date, interest accrued from the immediately preceding Interest Payment Date or from 17th October, 1988, as the case may be, shall be payable only upon presentation of such Bond.

If the due date for payment of any amount of principal or interest in respect of any Bond is a Saturday or Sunday or is not a day on which banks are open for business in London and, where applicable, in the place where the relevant Bond or Coupon is presented for payment, then the holder thereof shall not be entitled to payment in such place of the amount due until the next following day (other than a Saturday or Sunday) on which banks are open for business in London and, where applicable, in the place where the relevant Bond or Coupon is presented for payment nor to any further interest or other payment in respect of any such delay.

The names of the initial Paying Agents and their specified offices are set out at the end of these Conditions. The Society may, with the prior approval of the Trustee, vary or terminate the appointment of any Paying Agent and/or appoint additional Paying Agents and/or approve any change in the specified office of any Paying Agent, provided that so long as any Bonds remain outstanding the Society will maintain a Paying Agent with a specified office in continental Europe and, so long as the Bonds are listed on The Stock Exchange, a Paying Agent with a specified office in London. Notice of any such variation, termination or appointment and of any changes in the specified offices of the Paying Agents will be given by the Society to the Bondholders in accordance with Condition 15.

6. TAXATION

All payments of principal and interest in respect of the Bonds by the Society will be made without withholding of or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by the United Kingdom or any political subdivision thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Society will pay such additional amounts as may be necessary in order that the net amounts receivable by the holders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Bonds or, as the case may be, the Coupons in the absence of such withholding or deduction except that no such additional amounts shall be payable with respect to any Bond or Coupon presented for payment:—

- (i) by or on behalf of a holder who (a) is able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon otherwise than merely by the holding of such Bond or Coupon; or
- (ii) more than 30 days after the relevant date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days.

For this purpose, the "relevant date" means the date on which the payment in respect of the Bonds or the Coupons first becomes due and payable but if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the "relevant date" means the date on which, such moneys having been so received, notice to that effect shall have been given to the Bondholders in accordance with Condition 15.

References herein to principal or interest shall be deemed to include any additional amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

7. DEFAULT

(a) In the event of a default being made for a period of 14 days or more in the payment of any principal or interest due in respect of the Bonds or any of them as and when the same ought to be paid in accordance with these Conditions the Trustee may, in order to enforce the obligations of the Society under the Trust Deed, the Bonds or the Coupons, at its discretion without further notice, institute proceedings for the recovery of moneys then due (including proceedings for the winding up of the Society) provided that the Society shall not by virtue of the institution of any such proceedings (other than proceedings for the winding-up of the Society) be obliged to pay any sum or sums representing principal or interest in respect of the Bonds or Coupons sooner than the same would otherwise have been payable by it.

(b) The Trustee may institute such proceedings against the Society as it may think fit to enforce any obligation, condition or provision binding on the Society under the Trust Deed or the Bonds (other than any obligation for the payment of any principal or interest in respect of the Bonds or Coupons) provided that the Society shall not by virtue of any such proceedings be obliged to pay any sum or sums representing principal or interest in respect of the Bonds or Coupons sooner than the same would otherwise have been payable by it.

(c) In the event of the commencement of the winding-up of the Society or the commencement of the dissolution of the Society (except in any such case a winding-up or dissolution for the purpose of a reconstruction or amalgamation or the substitution in place of the Society 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 of the Bondholders or as a result of an amalgamation pursuant to Section 93 of the Act or a transfer of engagements pursuant to Section 94 of the Act or a transfer of its business pursuant to Section 97 of the Act), the Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. in principal amount of the Bonds then outstanding or as directed by an Extraordinary Resolution of the Bondholders shall (subject to it first being indemnified to its satisfaction), declare the Bonds to be due and repayable immediately (and the Bonds shall thereby become so due and repayable) at their principal amount together with accrued interest as provided in the Trust Deed.

8. ENFORCEMENT OF RIGHTS

The Trustee shall not be bound to take any of the actions referred to in Condition 7 above to enforce the obligations of the Society under the Trust Deed, unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in principal amount of the Bonds then outstanding and (ii) it shall have been indemnified to its satisfaction. No Bondholder or Couponholder may proceed directly against the Society unless the Trustee, having become bound to proceed, fails to do so within a reasonable time and such failure is continuing.

9. PRESCRIPTION

Bonds and Coupons will become void unless presented for payment within 12 years and six years respectively from the relevant date (as defined in Condition 6) in respect thereof.

10. MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of the terms and conditions of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing a clear majority of the principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds for the time being outstanding so held or represented, except that at any meeting the business of which includes the modification of certain of the terms and conditions of the Bonds or provisions of the Trust Deed the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders. The Trust Deed provides that the Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of the terms and conditions of the Bonds or any of the provisions of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or to any modification which is of a formal, minor or technical nature or which is made to correct a manifest error. Any such modification, waiver or authorisation shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 15.

11. SUBSTITUTION

(a) Subject as provided in the Trust Deed, the Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the Bondholders, may agree, without the consent of the Bondholders or Couponholders, to the substitution of any Successor in Business of the Society (as defined in the Trust Deed) or of a subsidiary of the Society or any such Successor in Business, not being in any such case a building society formed by the amalgamation of the Society and one or more other building societies pursuant to Section 93 of the Act or a building society to which the Society has transferred its engagements pursuant to Section 94 of the Act or the successor in accordance with Section 97 of the Act, in place of the Society as principal debtor under the Trust Deed, the Bonds and the Coupons, provided (in the case of the substitution of any company which is a subsidiary of the Society or such Successor in Business) that the obligations of the subsidiary in respect of the Trust Deed, the Bonds and the Coupons shall be guaranteed by the Society or such Successor in Business in such forms as the Trustee may require provided further that the obligations of such Successor in Business or subsidiary of the Society or of any such Successor in Business and any such guarantee shall be subordinated on a basis considered by the Trustee to be equivalent to that in respect of the Society's obligations in respect of the Bonds and Coupons.

(b) If the Society shall amalgamate with one or more other building societies pursuant to Section 93 of the Act or transfer its engagements to another building society pursuant to Section 94 of the Act or transfer the whole of its business to a successor in accordance with Section 97 of the Act the successor will, pursuant to such provisions, automatically be substituted in place of the Society as principal debtor under the Trust Deed, the Bonds and the Coupons without any prior approval thereof being required from the Bondholders, the Couponholders or the Trustee provided that, in the case of a transfer in accordance with Section 97, either (1) the Trustee is satisfied that the successor will be or (as the case may be) remain an authorised institution under the Banking Act 1987 (or any statutory modification or re-enactment thereof) or (2) such transfer is approved

by an Extraordinary Resolution of the Bondholders. In the event the Trustee is not so satisfied or the Bondholders do not approve such transfer as referred to above the Society may, upon having given not less than 30 nor more than 90 days' notice to the Trustee and, in accordance with Condition 15, the Bondholders (which notice shall be irrevocable), redeem all but not some only of the Bonds at a price which shall be the higher of par and the Adjusted Redemption Price (as defined above), together with interest accrued up to and including the date of redemption.

Prospective Bondholders are referred to "General information" below for a description of the ranking of the claims of Bondholders and Couponholders following a transfer in accordance with Section 97 of the Act.

(c) Any such substitution shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any such substitution shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 15. In connection with any proposed substitution under (a) above the Trustee shall not have regard to the consequences of such substitution for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory.

12. FURTHER ISSUES

The Society shall be at liberty from time to time without the consent of the Bondholders or the Couponholders to create and issue further notes or bonds either ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and (in the case of bonds) so that the same shall be consolidated and form a single issue with the Bonds or upon such terms as to interest, conversion, premium, redemption and otherwise as the Society may at the time of the issue thereof determine. Any such bonds, if they are to form a single issue with the Bonds, shall be constituted by a deed supplemental to the Trust Deed and in any other case if the Trustee so agrees may be so constituted. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of notes or bonds of other series for the purpose of passing an Extraordinary Resolution in certain circumstances where the Trustee so decides.

13. REPLACEMENT OF BONDS AND COUPONS

If a Bond or Coupon is mutilated, defaced, destroyed, stolen or lost it may be replaced at the specified office of the Principal Paying Agent on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Society may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

14. INDEMNIFICATION

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

15. NOTICES

All notices regarding the Bonds will be valid if published in the *Financial Times* or any other daily newspaper in London approved by the Trustee or, if this is not possible, in one other English language daily newspaper approved by the Trustee with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication.

16. GOVERNING LAW

The Trust Deed, the Bonds and the Coupons are governed by, and shall be construed in accordance with, English law.

PRINCIPAL PAYING AGENT

S. G. Warburg & Co. Ltd.
1 Finsbury Avenue
London EC2M 2PA

PAYING AGENTS

Kredietbank S.A. Luxembourgeoise
43 Boulevard Royal
L-2955 Luxembourg

Swiss Bank Corporation
Aeschenvorstadt 1
CH-4002 Basle

TERMS AND CONDITIONS OF THE BONDS

The following, subject to alteration in the Trust Deed (as defined below), are the terms and conditions of the Bonds substantially in the form in which they will be endorsed on the Bonds in definitive form:—

The £150,000,000 10½ per cent. Subordinated Bonds Due 2018 (the "Bonds") of Leeds Permanent Building Society (the "Society") are constituted by a Trust Deed dated 16th February, 1993 (the "Trust Deed") made between the Society and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the Bonds (the "Bondholders"). The issue of the Bonds was authorised by a resolution of the Board of Directors of the Society passed on 1st September, 1992. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed and of the Paying Agency Agreement dated 16th February, 1993 (the "Paying Agency Agreement") between the Society, the Trustee and the principal and other paying agents referred to below are available for inspection at the principal office of the Trustee, being at the date hereof at Princes House, 95 Gresham Street, London EC2V 7LY, and at the specified offices of each of the paying agents referred to below (the "Paying Agents", which expression shall include, unless the context otherwise requires, the Principal Paying Agent (as defined below) and shall include any duly appointed successors). The Bondholders and the holders of the interest coupons appertaining to the Bonds (the "Couponholders" and the "Coupons" respectively) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed.

1. Form, Denomination and Title

The Bonds are issued in bearer form, serially numbered, in the denominations of £10,000 and £100,000 each with Coupons attached and title thereto will pass by delivery. Bonds of one denomination may not be exchanged for Bonds of the other denomination.

The Society, the Trustee and the Paying Agents may deem and treat the holder of any Bond or Coupon as the absolute owner thereof (notwithstanding any notice to the contrary and whether or not such Bond or Coupon shall be overdue and notwithstanding any previous loss or theft thereof) for the purpose of receiving payment thereof or on account thereof and for all other purposes.

2. Status and Subordination

The Bonds and the Coupons are direct and unsecured obligations of the Society and rank without any preference among themselves and the rights of the Bondholders and the Couponholders will be subordinated in right of payment in the manner provided in the Trust Deed to the claims of depositors, other unsubordinated creditors and Investment Creditors of the Society in respect of their respective Senior Claims.

Accordingly, payments of principal and interest in respect of the Bonds are conditional upon the Society being solvent at the time of payment by the Society, and no principal or interest shall be payable except to the extent that the Society could make such payment and still be solvent immediately thereafter. For the purpose of this Condition the Society shall be solvent if (i) it is able to pay its debts as they fall due and (ii) its Assets exceed its Liabilities (other than its Liabilities which are not Senior Claims). A report as to the solvency of the Society by two directors of the Society or in certain circumstances as provided in the Trust Deed the auditors of the Society or, if the Society is in winding up, its liquidator shall in the absence of proven error be treated and accepted by the Society, the Trustee, the Bondholders and the Couponholders as correct and sufficient evidence thereof.

For the purpose of this Condition 2:

"Investment Creditors" means Investing Members (as defined in the Trust Deed) of the Society who are holders of Investment Shares (as defined in the Trust Deed) in the Society, not being Investment Shares which are called or classified as, or by their terms constitute, Deferred Shares (as defined in the Trust Deed) in their capacity as such;

"Senior Claims" means the aggregate amount of all claims in respect of indebtedness of the Society other than any claim the right to repayment of which by its terms is, or is expressed to be, subordinated to (or otherwise ranks after) (a) the claims of depositors, (b) other unsubordinated creditors and (c) Investment Creditors of the Society in respect of the principal amount of their Investment Shares and interest due in respect thereof; and

"Assets" means the unconsolidated gross assets of the Society and "Liabilities" means the unconsolidated gross liabilities of the Society, all as shown in the latest published audited balance sheet of the Society, but adjusted for contingent assets and contingent liabilities and for subsequent events, all in such manner as the directors, the auditors or the liquidator of the Society (as the case may be) may determine.

3. Interest

The Bonds bear interest from and including 16th February, 1993 at the rate of 10½ per cent. per annum, payable annually in arrear on 16th February in each year, the first such payment to be made on 16th February, 1994. Each Bond will cease to bear interest on the due date for redemption thereof unless, upon due presentation, payment of the principal in respect thereof is improperly withheld or refused or unless default is otherwise made in respect of such payment. In such event it shall continue to accrue interest as provided in the Trust Deed. When interest is required to be calculated in respect of a period of less than one year, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

4. Redemption and Purchase

(a) *On maturity*

Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on 16th February, 2018.

(b) *Redemption for taxation reasons*

If the Society satisfies the Trustee immediately prior to the giving of the notice referred to below that, on the next date for the payment of interest, the Society will be required to pay additional amounts as provided under Condition 6 or to account to any taxing authority in the United Kingdom for any amount in respect of income tax (other than any tax withheld or deducted from interest payable on the Bonds) calculated by reference to any amount payable in respect of the Bonds, then the Society may at any time, having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 10, the Bondholders (which notice shall be irrevocable), and having obtained Relevant Consent redeem all, but not some only, of the Bonds at their principal amount plus accrued interest to the date of redemption. Upon the expiry of such notice, the Society shall be bound to redeem the Bonds accordingly. As used herein, the term "Relevant Consent" means the consent to the relevant payment, repayment or purchase as the case may be, of the Building Societies Commission (while the Society is a building society) or the Bank of England (while the Society is an authorised institution for the purposes of the Banking Act 1987).

(c) *Purchases*

The Society or any of its Subsidiaries (as defined in the Trust Deed) may, having obtained prior Relevant Consent and subject to any relevant laws or regulations, at any time purchase Bonds at any price provided that all unmatured Coupons appertaining thereto are purchased therewith. Any purchase by tender shall be made to all Bondholders alike.

(d) Cancellation

All Bonds redeemed or purchased pursuant to the foregoing provisions of this Condition (except Bonds purchased in the ordinary course of business of a dealer in securities) will be cancelled forthwith, together with all unmatured Coupons surrendered or purchased therewith, and may not be reissued or resold.

5. Payments

Payments of principal and interest will be made against presentation and surrender of Bonds or Coupons, as the case may be, at the specified office of any Paying Agent by sterling cheque drawn on, or at the option of the holder by transfer to a sterling account maintained by the payee with, a bank in the City of London, subject in all cases to any fiscal or other laws or regulations applicable in the place of payment but without prejudice to the provisions contained in Condition 6. Notwithstanding the foregoing, the Society reserves the right to require Couponholders who are unable to make a declaration of non-residence as to the United Kingdom to present their Coupons at a Paying Agent other than in the United Kingdom if the Society would otherwise be obliged to account to any taxing authority in the United Kingdom for any amount in respect of income tax (other than any tax withheld or deducted from interest payable on the Bonds) calculated by reference to the interest represented by the relevant Coupon. The initial principal paying agent is Morgan Guaranty Trust Company of New York, London Office (the "Principal Paying Agent", which expression shall include any duly appointed successor), the other initial Paying Agents and their respective specified offices appear below.

Upon the due date for redemption of any Bond, unmatured Coupons relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Bond is presented for redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Society may reasonably require. If such due date for redemption is not 16th February in any year, the interest accrued from the immediately preceding 16th February shall be payable only against presentation of the relevant Bond.

If the due date for payment of any amount in respect of any Bond or Coupon is not at any place of presentation a business day, then the holder will not be entitled to payment at such place of the amount due until the next following business day at such place and will not be entitled to any further interest or other payment in respect of any such delay. In this Condition and in Condition 6, "business day" means a day on which commercial banks and foreign exchange markets settle payments in the relevant place of presentation and (in the case of payment by transfer to a sterling account) in London.

The Society may at any time (with the previous approval of the Trustee) vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will at all times maintain a Paying Agent having a specified office in London or such other place in England as may be approved by the International Stock Exchange of the United Kingdom and the Republic of Ireland Limited and a Paying Agent having a specified office in a city in continental Europe approved by the Trustee. Notice of any such termination or appointment and of any change in the specified office through which any Paying Agent will act will be given promptly in accordance with Condition 10.

6. Taxation

All payments of principal and interest in respect of the Bonds by the Society shall be made without withholding of, or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by the United Kingdom or any political subdivision thereof or by any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Society will pay such additional amounts as may be necessary in order that the net amounts receivable by the holders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Bonds or, as the case may be, Coupons in the absence of such withholding or deduction except that no such additional amounts shall be payable with respect to any Bond or Coupon presented for payment:—

- (i) by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of his having some connection with the United Kingdom other than merely by the holding of such Bond or Coupon; or
- (ii) at the specified office of a Paying Agent in the United Kingdom; or
- (iii) more than 30 days after the relevant date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment on the last business day of such period of 30 days.

For this purpose (and for the purposes of Condition 7) the "relevant date" means the date on which the payment in respect of the Bond or the Coupon first becomes due and payable but if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date the "relevant date" means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Bondholders in accordance with Condition 10.

References herein to principal and interest shall be deemed to include any additional amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

7. Prescription

Bonds and Coupons will become void unless presented for payment within ten years and five years respectively from their respective relevant dates.

8. Events of Default and Enforcement

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the nominal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall, give notice to the Society that the Bonds are, and they shall accordingly immediately become, due and payable, together with accrued interest, if any of the following events shall occur and be continuing:—

- (i) if default is made for a period of 7 days or more in the payment of any principal due on the Bonds or any of them or for a period of 14 days or more in the payment of any interest due on the Bonds or any of them; or
- (ii) if the dissolution of the Society is commenced where the Society is to be dissolved otherwise than by virtue of Section 93(5), Section 94(10) or Section 97(9) or (10) of the Building Societies Act 1986 (the "Act") or as otherwise approved by the Trustee or by an Extraordinary Resolution of the Bondholders; or
- (iii) if the winding up of the Society is commenced (other than a winding up which has been approved by the Trustee or by an Extraordinary Resolution of the Bondholders); or
- (iv) if the registration of the Society under the Act is cancelled otherwise than under Section 103(1)(a) of the Act.

If the Bonds become due and repayable the Trustee may at its discretion institute proceedings for the winding up of the Society in England (but not elsewhere) to enforce the obligations of the Society in respect of the Bonds and the Trust Deed provided that no payment of principal in respect of the Bonds may be made by the Society pursuant to this Condition, nor will the Trustee accept the same, otherwise than during or after a winding up or dissolution of the Society, save with prior Relevant Consent.

For the purposes of this Condition, a payment shall be deemed to be due even if the condition set out in Condition 2 is not satisfied.

The Trustee may at its discretion institute any such proceedings as are referred to above, but it shall not be bound to institute any such proceedings unless (i) it shall have been so directed by an Extraordinary

Resolution of the Bondholders or so requested in writing by holders of at least one-quarter in nominal amount of the Bonds then outstanding; and (ii) it shall have been indemnified to its satisfaction. No holder of Bonds or Coupons shall be entitled to institute proceedings directly against the Society unless the Trustee, having become bound so to proceed, fails to do so, in which case the holder of such Bonds or Coupons shall have only such rights against the Society as those which the Trustee is entitled to exercise. No Bondholder or Couponholder shall be entitled to institute proceedings for the winding up of the Society, or to prove in any winding up of the Society, unless the Trustee, having become bound to proceed against the Society as aforesaid, fails to do so, or, being able to prove in any winding up of the Society, fails to do so, in which event any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute proceedings for the winding up in England (but not elsewhere) of the Society and/or prove in any winding up of the Society to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do in respect of the Bonds and/or Coupons held by him. No remedy against the Society, other than the institution of proceedings for the winding up in England of the Society or the proving or claiming in any winding up of the Society shall be available to the Trustee or the Bondholders or Couponholders for the recovery of amounts owing in respect of the Bonds and Coupons or under the Trust Deed.

9. Replacement of Bonds and Coupons

Should any Bond or Coupon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at any specified office of any Paying Agent in England upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Society may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

10. Notices

All notices regarding the Bonds will be valid if published in a leading London daily newspaper (which is expected to be the *Financial Times*). If this is not possible, publication will be made in a leading English language newspaper, having circulation in Europe, approved by the Trustee, or if this is not possible, in one other English language daily newspaper having general circulation in Europe previously approved by the Trustee. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

11. Meetings of Bondholders; Modifications; Waiver

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including proposals to modify by Extraordinary Resolution these Terms and Conditions or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, except that, at any meeting the business of which includes the modification of certain of these Terms and Conditions and provisions of the Trust Deed (as set out therein), the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than three-quarters or at any such adjourned meeting not less than one-quarter of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders.

The Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification (subject as provided above) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or of any of the provisions of the Trust Deed which, in the

opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any modification thereof which is of a formal, minor or technical nature or to correct a manifest error. Any such modification, waiver or authorisation shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Bondholders as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers or discretions, the Trustee shall have regard to the interests of the Bondholders as a class and, in particular, but without prejudice to the generality of the foregoing, shall not have regard to the consequences of such exercise for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory.

12. Substitution

If the Society shall amalgamate with one or more other building societies under Section 93 of the Act or transfer all or some of its engagements (where such engagements include its liability as principal debtor under the Trust Deed, the Bonds and the Coupons appertaining thereto) to another building society under Section 94 of the Act or transfer its business to a successor in accordance with Sections 97 to 102 of the Act, the merged or transferee building society or the successor will, pursuant to such provisions, automatically be substituted in place of the Society as principal debtor under the Trust Deed, the Bonds and the Coupons without any prior approval thereof being required from the Bondholders, the Couponholders or the Trustee.

Without prejudice to the foregoing, the Trustee may agree (the Society having obtained Relevant Consent) without the consent of the Bondholders or Couponholders, if it is satisfied that so to do would not be materially prejudicial to the interests of the Bondholders, to the substitution of either a Successor in Business (as defined in the Trust Deed) or a Subsidiary of the Society or such Successor in Business in place of the Society as principal debtor under the Trust Deed, the Bonds and the Coupons, provided that in the case of the substitution of a Subsidiary of the Society or such Successor in Business the obligations of the Subsidiary in respect of the Trust Deed, the Bonds and the Coupons shall be guaranteed on a subordinated basis by the Society or, as the case may be, such Successor in Business in such form as the Trustee may require.

Any such substitution shall be binding on the relevant Bondholders and Couponholders and, unless the Trustee agrees otherwise, any such substitution shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 10.

The Society has covenanted with the Trustee in the Trust Deed, in relation to the Bonds, that it will not transfer its business to a company (the "Transferee Company") within the meaning of the Companies Act 1985 pursuant to Section 97 of the Act unless:—

- (i) either it has satisfied the Trustee that, upon such transfer becoming effective, the Transferee Company will be or (as the case may be) remain an authorised institution for the purposes of the Banking Act 1987 or such transfer has been approved by an Extraordinary Resolution of the Bondholders; and
- (ii) the Society and the Transferee Company shall execute a deed supplemental to the Trust Deed which has the effect of ensuring to the satisfaction of the Trustee that (a) the Transferee Company is bound by the terms of the Trust Deed and the Terms and Conditions as fully as if all and any references therein to the Society were a reference to the Transferee Company and (b) the rights of the Bondholders (1) are subordinated and postponed to the claims of the persons who are holders of Investment Shares which are qualifying shares (as defined in section 100(3) of the Act) in the Society in respect of the claims arising by virtue of section 100(2)(a) of the Act and which are represented by those qualifying shares and to the claims of other unsecured but unsubordinated creditors but (2) will be such that they rank in priority to the holders of the issued share capital of the Transferee Company, and containing such other provisions as the Trustee (having regard in particular to the foregoing) may reasonably require provided that any variation or supplement as may be contained in such supplemental deed shall be limited to

dealing with matters arising out of the procedure by which the transfer takes place and the constitution of the Transferee Company.

The Society has also covenanted with the Trustee in the Trust Deed that it will not enter into any arrangement for the transfer of its engagements to another building society pursuant to Section 94 of the Act unless it transfers all its engagements to such society or such transfer has been approved by the Trustee or by an Extraordinary Resolution of the Bondholders.

13. Further Issues

The Society is at liberty from time to time without the consent of the Bondholders or the Couponholders to create and issue further bonds or notes either (in the case of bonds) so as to form a single series with the Bonds or (in either case) upon such terms as to interest, conversion, premium, redemption and otherwise as the Society may at the time of the issue thereof determine. In such case, the expression "Bonds" in these Terms and Conditions, unless the context otherwise requires, shall include any further bonds issued pursuant to this Condition and forming a single series with the Bonds. Any such bonds, if they are to form a single series with the Bonds, shall be constituted by a deed supplemental to the Trust Deed and in any other case if the Trustee so agrees any other such bonds or notes may be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of the bonds or notes of other series in certain circumstances where the Trustee so decides.

14. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Society (or any Subsidiary) without accounting for any profit resulting from such transactions.

15. Governing Law

The Bonds, the Coupons and the Trust Deed are governed by and shall be construed in accordance with English law.

PRINCIPAL PAYING AGENT

Morgan Guaranty Trust Company of New York
London Office
60 Victoria Embankment
London EC4Y 0JP

PAYING AGENTS

Banque Paribas Luxembourg S.A.
10A Boulevard Royal
L-2093 Luxembourg

Credit Suisse
P.O.Box 590
Paradeplatz 8
Ch-8021 Zurich

Morgan Guaranty Trust Company
of New York
Brussels Office
Avenue des Arts 35
B-1040 Brussels

TERMS AND CONDITIONS OF THE 2021 BONDS

TERMS AND CONDITIONS OF THE BONDS

The terms and conditions to be endorsed on each of the Bonds will be, subject to the removal of the paragraph in italics, substantially in the following form:

The £500,000,000 9½ per cent. Subordinated Bonds 2021 (the "Bonds") of Halifax Building Society (the "Issuer") consisting of an issue in the aggregate principal amount of £300,000,000 (the "Original Bonds") and a further issue (the "New Bonds") in the aggregate principal amount of £200,000,000 (together the "Bonds", which expression shall in these Terms and Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 12 and forming a single series with the Bonds) are constituted by a trust deed dated 15 May 1996 (the "Original Trust Deed") and a Supplemental Trust Deed (the "Supplemental Trust Deed") dated 7 February 1997 (together, the "Trust Deed") each made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the Bonds (the "Bondholders"). The New Bonds shall rank *pari passu* in all respects with, have the same terms as (except for the first payment of interest thereon), and from, and including, 15 May 1997 be consolidated and form a single series with, the Original Bonds. The issue of the Original Bonds was authorised by resolutions of the Board of Directors of the Issuer passed on 19 July 1995 and of a duly appointed Committee thereof passed on 29 April 1996. The issue of the New Bonds was authorised by resolutions of the Board of Directors of the Issuer passed on 18 December 1996. The statements in these terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds and the interest coupons appertaining thereto (the "Coupons"). Copies of the Trust Deed are available for inspection at the registered office of the Trustee, being at the date hereof at Princes House, 95 Gresham Street, London EC2V 7LY and at the specified office(s) of each of the Paying Agents (the "Paying Agents") referred to below. The Bondholders and the holders of the Coupons (the "Couponholders") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed.

1. Form, Denomination and Transfer

The Bonds are issued in the form of serially numbered bearer Bonds in the denominations of £10,000 and £100,000 each with Coupons attached and title thereto will pass by delivery. Bonds of one denomination may not be exchanged for Bonds of another denomination.

The Issuer, the Trustee and the Paying Agents may deem and treat the holder of any Bond or Coupon as the absolute owner thereof (notwithstanding any notice to the contrary and whether or not such Bond or Coupon shall be overdue and notwithstanding any notation of ownership or other writing thereon or notice of any previous loss or theft thereof) for the purpose of receiving payment thereof or on account thereof and for all other purposes.

2. Status and Subordination

(a) Status

The Bonds and the Coupons are unsecured, subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves and *pari passu* with its £250,000,000 11 per cent. Subordinated Bonds 2014, its £50,000,000 10½ per cent. Subordinated Bonds Due 1998, its £50,000,000 Subordinated Variable Rate Notes due 2001 and its £150,000,000 10½ per cent. Subordinated Bonds Due 2018 (together with any further issues which shall be consolidated and form a single series therewith).

(b) Set-Off

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

(c) Subordination

On a winding up of the Issuer, the claims of the Bondholders and the Couponholders shall be subordinated in right of payment to the claims of all Senior Creditors (as defined herein) in the manner provided in the Trust Deed. For the purposes of this paragraph, "Senior Creditors" means (i) depositors and other creditors (including persons who become holders of deposits pursuant to Section 100 of the Building Societies Act 1986 (the "Act") if the Issuer transfers its business to a successor pursuant to Section 97 of the Act but not including creditors (if any) whose claims are expressed to rank *pari passu* with or junior to the claims of the Bondholders or creditors with whose claims the Bonds are expressed to rank *pari passu* (whether only in the event of a winding up of the Issuer or otherwise)) of the Issuer and (ii) (but only in respect of a winding up while the Issuer remains a building society) all members holding shares in the Issuer as regards the principal of their shares and any interest due in respect of those shares in the Issuer (other than members holding Deferred Shares (as defined in the Trust Deed) whose claims are expressed to rank *pari passu* with or junior to the claims of the Bondholders and Couponholders (whether only in the event of a winding up of the Issuer or otherwise)).

3. Interest

The Original Bonds bear interest from and including 15 May 1996 at the rate of $9\frac{3}{8}$ per cent. per annum payable annually in arrear on 15 May (the "Interest Payment Date") in each of the years 1997 to 2021.

The New Bonds bear interest from and including 7 February 1997 at the rate of $9\frac{3}{8}$ per cent. per annum payable annually in arrear on each Interest Payment Date, except that the first payment, to be made on 15 May 1997, shall be in respect of the period from, and including, 7 February 1997 to, but excluding, 15 May 1997 and shall amount to £255.21 per £10,000 principal amount of the New Bonds.

Interest accrues on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

Interest on each Bond shall cease to accrue from the due date for redemption or payment thereof unless, upon due presentation, payment of principal is improperly withheld or refused.

4. Redemption and Purchase

(a) Mandatory redemption

Unless previously redeemed or purchased and cancelled as provided below, each of the Bonds will be redeemed at its principal amount on 15 May 2021.

(b) Redemption for taxation reasons

If the Issuer satisfies the Trustee immediately prior to the giving of the notice referred to below that on the next Interest Payment Date the Issuer will be required to pay additional amounts as provided in Condition 6 or to account to any taxing authority in the United Kingdom for any amount (other than any tax withheld or deducted from interest payable in respect of the Bonds) calculated by reference to any amount payable in respect of the Bonds, then the Issuer may, having given not less than 30 nor more than 60 days' notice to the Trustee and, in accordance with Condition 15, the Bondholders (which notice shall be irrevocable), redeem at any time all, but not some only, of the Bonds at their principal amount plus accrued interest. Upon the expiry of such notice the Issuer shall be bound to redeem the Bonds accordingly.

(c) Purchases

The Issuer or any of its Subsidiaries (as defined in the Trust Deed) may at any time purchase Bonds in any manner and at any price. If purchases are made by tender, tenders must be made available to all Bondholders alike.

(d) Cancellation

All Bonds redeemed by the Issuer will be cancelled forthwith (together with all unmatured Coupons presented therewith) and such Bonds may not be reissued or resold. Bonds purchased by the Issuer or any of its Subsidiaries may be held or resold or surrendered for cancellation.

5. Payments

Subject as provided below, all payments of principal and interest in respect of the Bonds will be made against presentation and surrender of Bonds or, as the case may be, Coupons (i) in sterling at the specified office of the Paying Agent in London or (ii) at any specified office of any of the Paying Agents outside the United States of America and its possessions by transfer to a sterling account maintained by the payee with, or by sterling cheque drawn on, a bank in London, subject in all cases to any fiscal or other laws or regulations applicable in the place of payment but without prejudice to the provisions of Condition 6.

Notwithstanding the foregoing, the Issuer reserves the right to require Couponholders who do not make a declaration (such declaration being to the satisfaction of the United Kingdom Inland Revenue) that they are not resident in the United Kingdom to present their Coupons at a specified office of a Paying Agent situated outside the United Kingdom, if the Issuer would otherwise be obliged to account to any taxing authority in the United Kingdom for any amount in respect of income tax (other than any tax withheld or deducted from interest payable in respect of the Bonds) calculated by reference to the interest represented by the relevant Coupon. Each Bond should be presented for payment together with all relative unmatured Coupons. Upon the due date for early redemption of any Bond, unmatured Coupons relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Bond is presented for early redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity and/or security as the Issuer may reasonably require. If the date on which any Bond becomes due and payable is not an Interest Payment Date, interest accrued from the immediately preceding Interest Payment Date or from 15 May 1996, as the case may be, shall be payable only upon presentation of such Bond.

If the due date for payment of any amount of principal or interest in respect of any Bond is a Saturday or Sunday or is not a day on which banks are open for business in London and, where applicable, in the place where the relevant Bond or Coupon is presented for payment, then the holder thereof shall not be entitled to payment in such place of the amount due until the next following such day (other than a Saturday or Sunday) nor to any further interest or other payment in respect of any such delay.

The names of the initial Paying Agents and their specified offices are set out at the end of these Conditions. The Issuer may, with the prior approval of the Trustee, vary or terminate the appointment of any Paying Agent and/or appoint additional Paying Agents and/or approve any change in the specified office of any Paying Agent, provided that so long as any Bonds remain outstanding the Issuer will maintain a Paying Agent with a specified office in continental Europe and, so long as the Bonds are listed on the London Stock Exchange, a Paying Agent with a specified office in London. Notice of any such variation, termination or appointment and of any changes in the specified offices of the Paying Agents will be given by the Issuer to the Bondholders in accordance with Condition 15.

6. Taxation

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

- (i) by or on behalf of a holder who (a) is able to avoid such withholding or deduction by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon otherwise than merely by the holding of such Bond or Coupon; or
- (ii) more than 30 days after the relevant date except to the extent that the holder thereof would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days; or
- (iii) in the United Kingdom.

For this purpose and for the purpose of Condition 9, the "relevant date" means the date on which the payment in respect of the Bonds or the Coupons first becomes due and payable but if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the "relevant date" means the date on which, such moneys having been so received, notice to that effect shall have been given to the Bondholders in accordance with Condition 15.

References herein to principal or interest shall be deemed to include any additional amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

7. Default

(a) If the Issuer shall not make payment of any principal or any interest in respect of the Bonds for a period of 14 days or more after the due date for the same the Trustee may institute proceedings in England (but not elsewhere) for the winding-up of the Issuer and prove in such winding-up.

(b) 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 Bonds (other than any other obligation for payment of any principal or interest in respect of Bonds or Coupons) provided that the Issuer shall not by virtue of any such proceedings be obliged to pay (i) any sum or sums representing principal or interest in respect of the Bonds or Coupons sooner than the same would otherwise have been payable by it or (ii) any damages (save in respect of the Trustee's fees and expenses incurred by it in its personal capacity).

(c) In the event of the commencement of the winding-up of the Issuer or the commencement of the dissolution of the Issuer (except in any such case a winding-up or dissolution for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a Successor in Business (as defined in the Trust Deed) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders or as a result

of an amalgamation pursuant to Section 93 of the Act or a transfer of engagements pursuant to Section 94 of the Act or a transfer of its business pursuant to Section 97 of the Act), the Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. in principal amount of the Bonds then outstanding or as directed by an Extraordinary Resolution of the Bondholders shall (subject to it first being indemnified to its satisfaction) (i) declare the Bonds to be due and repayable immediately (and the Bonds shall thereby become so due and repayable) at their principal amount together with accrued interest as provided in the Trust Deed and (ii) prove in the winding-up of the Issuer.

8. Enforcement of Rights

The Trustee shall not be bound to take any of the actions referred to in Condition 7 above to enforce the obligations of the Issuer under the Trust Deed, unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in principal amount of the Bonds then outstanding and (ii) it shall have been indemnified to its satisfaction. No Bondholder or Couponholder shall be entitled to institute proceedings 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.

No remedy against the Issuer, other than as referred to in Condition 7, shall be available to the Trustee or the Bondholders or Couponholders, whether for the recovery of amounts owing in respect of the Bonds 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 Bonds or under the Trust Deed.

9. Prescription

Bonds and Coupons will become void unless presented for payment within 12 years and six years respectively from the relevant date (as defined in Condition 6) in respect thereof.

10. Meetings of Bondholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of the terms and conditions of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority of the principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds for the time being outstanding so held or represented, except that at any meeting the business of which includes the modification of certain of the terms and conditions of the Bonds or certain of the provisions of the Trust Deed the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders.

The Trust Deed provides for a resolution in writing signed by or on behalf of the holder or holders of not less than 90 per cent. of the Bonds for the time being outstanding to be as effective and binding as if it were an Extraordinary Resolution duly passed at a meeting of the Bondholders.

The Trust Deed also provides that the Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of the terms and conditions of the Bonds or any of the provisions of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or to any modification which is of a formal, minor or technical nature or which is made to correct a manifest error. Any such modification, waiver or authorisation shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 15.

11. Substitution

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

- (i) (in the case of the substitution of any company which is a Subsidiary of the Issuer or of such Successor in Business or of such holding company) that the obligations of such Subsidiary in respect of the Trust Deed, the Bonds and the

Coupons shall be guaranteed by the Issuer or such Successor in Business or such holding company in such form as the Trustee may require; and

- (ii) that the obligations of such Successor in Business or Subsidiary of the Issuer or of any such Successor in Business or of such holding company 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 Bonds and Coupons.

(b) If the Issuer shall amalgamate with one or more other building societies pursuant to Section 93 of the Act or transfer its engagements to another building society pursuant to Section 94 of the Act or transfer the whole of its business to a successor in accordance with Section 97 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 Bonds and the Coupons without any prior approval thereof being required from the Bondholders, the Couponholders or the Trustee.

Prospective Bondholders are referred to "General Information" below for a description of the ranking of the claims of Bondholders and Couponholders following a transfer in accordance with Section 97 of the Act.

(c) In the case of a substitution pursuant to this Condition, the Trustee may in its absolute discretion agree, without the consent of the Bondholders or Couponholders, to a change of the law governing the Bonds, the Coupons and/or the Trust Deed and/or the Paying Agency Agreement and to such other amendments to the Trust Deed and such other conditions as the Trustee may require provided that such change, amendment or condition would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders.

Any such substitution shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any such substitution shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 15.

12. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Bondholders or the Couponholders to create and issue further notes or bonds either ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and (in the case of bonds) so that the same shall be consolidated and form a single issue with the Bonds or upon such terms as to interest, premium, redemption and otherwise as the Issuer may at the time of the issue thereof determine. Any such bonds, if they are to form a single issue with the Bonds, shall be constituted by a deed supplemental to the Trust Deed and in any other case if the Trustee so agrees may be so constituted. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of notes or bonds of other series for the purpose of passing an Extraordinary Resolution in certain circumstances where the Trustee so decides.

13. Replacement of Bonds and Coupons

If a Bond or Coupon is mutilated, defaced, destroyed, stolen or lost it may be replaced at the specified office of the Principal Paying Agent on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

14. Indemnification and Exercise of Functions

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

In connection with the exercise of any of its functions (including but not limited to those relating to any proposed modification, waiver or authorisation or substitution), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Bondholder or Couponholder shall, in connection with any such modification, waiver, authorisation or substitution, be entitled to claim any indemnification or payment in respect of any tax or other consequence thereof upon individual Bondholders or Couponholders except to the extent provided for by Condition 6.

15. Notices

All notices regarding the Bonds will be valid if published in the *Financial Times* or any other daily newspaper in London approved by the Trustee or, if this is not possible, in one other English language daily newspaper approved by the Trustee with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication.

16. Governing Law

The Trust Deed, the Bonds and the Coupons are governed by, and shall be construed in accordance with, English law.

PRINCIPAL PAYING AGENT

Morgan Guaranty Trust Company of New York
60 Victoria Embankment,
London EC4Y 0JP

PAYING AGENTS

Banque Paribas Luxembourg
10A Boulevard Royal,
L-2093 Luxembourg

Morgan Guaranty Trust Company of New York
Avenue des Arts, 35,
B-1040 Brussels

TERMS AND CONDITIONS OF THE £75,000,000 13 5/8 PER CENT. PERPETUAL SUBORDINATED BONDS

The following are the terms and conditions in, or substantially in, the form which will be endorsed on each Perpetual Subordinated Bond:

The £75,000,000 13 5/8 per cent. Perpetual Subordinated Bonds (the "Bonds") of Halifax plc (the "Issuer") are constituted by a trust deed dated 2nd June 1997 (the "Trust Deed") between the Issuer and The Law Debenture Trust Corporation p.l.c., as trustee, (the "Trustee" which expression shall include its successors). The Trustee acts as trustee for the Holders (as defined below) of the Bonds in accordance with the provisions of the Trust Deed. The Bondholders (as defined below) are bound by, and are deemed to have notice of, all the provisions contained in a registrar's agreement dated 2nd June 1997 (the "Registrar's Agreement") between the Issuer, Independent Registrars Group Limited as registrar (the "Registrar" which expression shall include its successors) and the Trustee. Copies of the Trust Deed and the Registrar's Agreement are available for inspection at the registered office for the time being of the Trustee (presently at Princes House, 95 Gresham Street, London EC2V 7LY) and at the specified office of the Registrar. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions contained in the Trust Deed.

1. Form, Denomination and Transfers

- (a) The Bonds are in registered form in principal amounts of £50,000 (each such principal amount of £50,000 being referred to herein as a "Bond") or integral multiples thereof ("authorised denominations") without interest coupons.

The Bonds may be issued in certificated or uncertificated form in accordance with the Uncertificated Securities Regulations 1995 (as from time to time amended or replaced) (the "Regulations") and may be changed from certificated form to uncertificated form and from uncertificated form to certificated form (in either case in accordance with and subject as provided in the Regulations). Where Bonds are issued in or changed into uncertificated form, the Issuer shall provide to any holder of such Bonds in uncertificated form a copy of these Conditions on request by him or on such other

basis as the Trustee may reasonably require, but so that joint holders of such Bonds shall be entitled to receive one copy only of these Conditions in respect of the Bonds held jointly by them, which copy shall be delivered to that one of the joint holders whose name stands first in the register of Bonds in respect of that holding (the "representative joint holder"). Holders of Bonds in certificated form will be entitled to receive one bond certificate (a "Bond Certificate") in respect of a holding, such Bond Certificate evidencing registration on the register (the "Register") which the Issuer shall procure to be kept by the Registrar. Words and expressions defined in the Regulations shall have the same meanings in these Conditions.

For the avoidance of doubt, these Terms and Conditions shall be and remain applicable to Bonds in uncertificated form (and accordingly the Issuer shall continue to comply with these Terms and Conditions in accordance with the provisions thereof).

After an exchange of Bonds in uncertificated form for Bonds in certificated form, the Issuer may request or require, or may procure that the Registrar or any other person acting on behalf of the Registrar requests or requires, the cancellation or deletion of any computer-based entries in the relevant system concerned that relate to the relevant Bonds *mutatis mutandis* in accordance with the procedure referred to in Condition 4(c) below.

- (b) Legal title to the Bonds passes by registration in the Register, provided that, in the case of Bonds in uncertificated form, the registration has been effected in accordance with the Regulations.

In these Terms and Conditions "Bondholder" and, in relation to a Bond, "Holder" mean the person or persons in whose name a Bond is registered. The Holder of any Bond shall be deemed to be, and shall be treated as, the absolute owner thereof for the purpose of receiving payment thereof or payment or delivery on account thereof (in the case of a Bond in certificated form notwithstanding any writing thereon or notice of ownership) and for all other purposes whether or not such Bond shall be overdue.

- (c) Bonds in certificated form may, subject to the terms of the Registrar's Agreement and to paragraph (g) of this Condition, be transferred by lodging the relevant Bond

Certificate (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar. No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

- (d) The Issuer will procure that the Registrar will within seven London business days (as defined in Condition 5(a) below) (not including any day during which neither the Issuer nor the Registrar is required to register the transfer of any Bond pursuant to paragraph (g) of this Condition) of any duly made application for the transfer of a Bond in certificated form deliver a Bond Certificate to the transferee (and, in the case of a transfer of part only of a holding of Bonds represented by a Bond Certificate, deliver a Bond Certificate for the untransferred balance to the transferor) at the specified office of the Registrar or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Bond Certificate by ordinary mail to such address, other than an address in the United States, as the transferee or, as the case may be, the transferor may request.
- (e) Transfers of Bonds in uncertificated form shall be effected by means of a relevant system in the manner provided for in, and subject to, the Regulations and the facilities and requirements of the relevant system concerned. The holdings in certificated form and uncertificated form of the same Holder or joint Holders will be treated as separate holdings unless the Directors of the Issuer otherwise determine.
- (f) Any such transfer referred to in paragraph (c) of this Condition will be effected without charge by the Issuer and subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges payable in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Trustee and the Registrar.

Any such transfer referred to in paragraph (e) of this Condition will be effected without charge by the Issuer. Holders of Bonds in uncertificated form may, however, be required to pay any transfer or other charges levied by any relevant system and any stamp duty reserve tax or other governmental charge that may be imposed in relation to the registration or transfer.

- (g) Neither the Issuer nor the Registrar will be required to register the transfer of any Bond during the period of seven London business days immediately prior to any date fixed for payment in respect of the Bonds provided, in the case of Bonds in uncertificated form, that the consent of the Operator of the relevant system to such suspension of registration has been obtained.

2. Status and Subordination

(a) Status

The Bonds are unsecured, subordinated obligations of the Issuer, conditional as described in paragraph (c) below and rank *pari passu* and without any preference among themselves and *pari passu* in point of subordination with its £100,000,000 12 per cent. Perpetual Subordinated Bonds and its £100,000,000 8 3/4 per cent. Perpetual Subordinated Bonds (together with any further issues which shall be consolidated and form a single series therewith) but junior in point of subordination to its £50,000,000 10 1/2 per cent. Subordinated Bonds due 1998, its £50,000,000 Subordinated Variable Rate Notes due 2001, its £400,000,000 8 3/4 per cent. Subordinated Bonds 2006, its £75,000,000 Floating Rate Subordinated Notes 2009, its £200,000,000 Step-up Callable Floating Rate Subordinated Notes 2012, its £250,000,000 11 per cent. Subordinated Bonds 2014, its £150,000,000 10 1/2 per cent. Subordinated Bonds Due 2018 and its £500,000,000 9 3/8 per cent. Subordinated Bonds 2021, (together with any further issues which shall be consolidated and form a single series therewith).

(b) Set-Off

Subject to applicable law, no Bondholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising

under or in connection with the Bonds and each Bondholder shall, by virtue of being the Holder of any Bond, be deemed to have waived all such rights of set-off, compensation or retention.

(c) Subordination

The rights of the Bondholders are subordinated to the claims of Senior Creditors (as defined below) and accordingly payments of principal and interest (including the PIBS Interest Payment, as defined in Condition 3(b)) are conditional upon the Issuer being solvent at the time for payment by the Issuer and no principal or interest (including the PIBS Interest Payment) shall be payable in respect of the Bonds except to the extent that the Issuer could make such payment and still be solvent immediately thereafter. For the purpose of this Condition the Issuer shall be solvent if (i) it is able to pay its debts as they fall due and (ii) its Assets exceed its Liabilities (other than its Liabilities to persons who are not Senior Creditors). A report as to the solvency of the Issuer by two Directors of the Issuer or, in certain circumstances as provided in the Trust Deed, the auditors of the Issuer or, if the Issuer is in winding-up, its liquidator shall in the absence of manifest error be treated and accepted by the Issuer, the Trustee, the Bondholders and all other interested parties as correct and sufficient evidence thereof.

If at any time an order is made or an effective resolution is passed for the winding-up in England of the Issuer (except in any such case a solvent winding-up solely for the purpose of a 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 reconstruction, amalgamation or substitution (i) have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders and (ii) do not provide that the Bonds shall thereby become repayable), there shall be payable on each Bond (in lieu of any other payment), but subject as provided in this Condition, such amount, if any, as would have been payable to the Holder thereof if, on the day prior to the commencement of the winding-up and thereafter, such Bondholder were the holder of a preference share in the capital of the Issuer having a preferential right to a return of assets in the winding-up over the holders of all issued shares for the time being in the capital of the Issuer on the assumption that such preference share was entitled to receive on a return of assets in such winding-up an amount equal to the

principal amount of such Bond together with Arrears of Interest (as defined in Condition 3(e)), if any, and any interest (other than Arrears of Interest) which has accrued up to (but excluding) the date of repayment (as provided in the Trust Deed) in respect thereof.

For the purposes of these Terms and Conditions: "Senior Creditors" means depositors and other creditors of the Issuer (other than creditors (if any) in respect of claims which are expressed to rank *pari passu* with the claims of the Bondholders or creditors in respect of claims with which the Bonds are expressed to rank *pari passu* (whether only in the event of a winding-up of the Issuer or otherwise)); "Assets" means the unconsolidated gross assets of the Issuer; and "Liabilities" means the unconsolidated gross liabilities of the Issuer, all as shown by the latest published audited balance sheet of the Issuer (or, until the publication of the audited accounts of the Issuer for the period ending 31st December 1997, of Halifax Building Society) but adjusted for contingent assets and contingent liabilities and for subsequent events, all in such manner as the certifying Directors of the Issuer, the auditors or the liquidator (as the case may be) may determine.

The obligations of the Issuer in respect of the Bonds are conditional upon the Issuer being solvent for the purpose of this Condition immediately before and after payment by the Issuer. If this condition is not satisfied, any amounts which might otherwise have been allocated in or towards payment of principal and interest in respect of the Bonds may be used to absorb losses. In the event of a winding-up of the Issuer, each Bondholder will be treated as the holder of a preference share as described above.

3. Interest

- (a) The Bonds bear interest from and including 2nd June 1997 at the rate of 13 5/8 per cent. per annum, payable, subject as provided in these Terms and Conditions, in arrear by equal half-yearly instalments on 10th June and 10th December in each year (each an "Interest Payment Date"), save that the first such payment, to be made on 10th June 1997 (the "First Interest Payment Date"), shall be in respect of the period from and including 2nd June 1997 to but excluding the First Interest Payment Date and shall

amount to £149.32 (subject to any deduction pursuant to Condition 6) in respect of each Bond.

- (b) The Issuer shall, subject as provided in these Terms and Conditions, pay to each Bondholder on the First Interest Payment Date £3,256.93 (subject to any deduction pursuant to Condition 6) in respect of each Bond held by such Bondholder (the "PIBS Interest Payment"). The PIBS Interest Payment shall be in respect of interest for the period (from and including 10th December 1996 (the "Interest Commencement Date") to but excluding 2nd June 1997) on the £75,000,000 13 5/8 per cent. Permanent Interest Bearing Shares of Halifax Building Society issued on 11th June 1991.
- (c) Subject as provided in these Terms and Conditions, the aggregate amount payable by the Issuer to each Bondholder pursuant to Condition 3(a) and (b) on the First Interest Payment Date shall be £3,406.25 (subject to any deduction pursuant to Condition 6) in respect of each Bond held by such Bondholder.
- (d) Interest payments (including the PIBS Interest Payment) will be made in accordance with and subject to the provisions of Condition 5. Interest accruing on each Bond shall cease to accrue from the date for redemption thereof unless payment of principal is improperly withheld or refused or is not made by reason of Condition 2(c), in which event interest shall continue to accrue thereon from the date of redemption to the date of actual payment.
- (e) Interest payments (including the PIBS Interest Payment but excluding Arrears of Interest) on the Bonds shall (subject to Condition 2(c)) be payable on each Compulsory Interest Payment Date (as defined below) in respect of the Interest Period (as defined below) ending on the day immediately preceding such date. On any Optional Interest Payment Date (as defined below) there may, subject to Condition 2(c), be paid (if the Issuer so elects and gives notice of such election to the Bondholders in accordance with paragraph (f) of this Condition 3) the interest (including the PIBS Interest Payment) payable on such Optional Interest Payment Date in respect of the Interest Period ending on the day immediately preceding such date, but the Issuer shall not have any obligation to make such payment and any failure to pay shall not constitute a default by the Issuer for any purpose. Any interest (including the PIBS Interest Payment) not

paid on an Interest Payment Date together with any other interest (including the PIBS Interest Payment) not paid on any other Interest Payment Date shall, so long as the same remains unpaid, constitute "Arrears of Interest". Arrears of Interest may, at the option of the Issuer, be paid in whole or in part at any time upon the expiration of not less than seven days' written notice to such effect given to the Trustee and to the Bondholders in accordance with Condition 15, but all Arrears of Interest on all Bonds outstanding shall (subject to Condition 2(c)) become due in full on whichever is the earliest of (i) the date upon which a dividend is next paid on any class of share capital of the Issuer, (ii) the date set for any redemption pursuant to Condition 4(a) or (iii) the commencement of winding-up in England of the Issuer. Notwithstanding the foregoing, if notice is given by the Issuer of its intention to pay the whole or part of Arrears of Interest, the Issuer shall be obliged (subject to Condition 2(c)) to do so upon the expiration of such notice. Where Arrears of Interest are paid in part, each part payment shall be applied in payment of the Arrears of Interest due in respect of the earliest relative Interest Payment Date (or consecutive Interest Payment Dates). Arrears of Interest shall not themselves bear interest.

- (f) The Issuer shall give not less than 30 days' notice prior to any Interest Payment Date to the Bondholders in accordance with Condition 15:
 - (i) if such Interest Payment Date will be an Optional Interest Payment Date; and
 - (ii) whether the Issuer elects to pay the interest due on such Optional Interest Payment Date.
- (g) For the purposes of this Condition the following expressions have the following meanings:

"Compulsory Interest Payment Date" means any Interest Payment Date if, in the six calendar months immediately preceding such Interest Payment Date, any dividend has been declared or paid on any class of share capital of the Issuer.

"Interest Period" means the period from and including one Interest Payment Date (or, as the case may be, the Interest Commencement Date) up to but excluding the next (or First) Interest Payment Date.

"Optional Interest Payment Date" means any Interest Payment Date other than a Compulsory Interest Payment Date.

If interest (other than in respect of the PIBS Interest Payment) is required to be calculated for a period of less than one year (other than a semi-annual period), it will be calculated on the basis of the actual number of days elapsed and a 365-day year.

All references in these Terms and Conditions to interest shall, unless the context otherwise requires, include Arrears of Interest.

4. **Redemption and Purchase**

The Issuer shall not be at liberty to redeem or purchase the Bonds except in accordance with the following provisions of this Condition and any such redemption or purchase is subject to the prior consent of the Bank of England (so long as the Issuer is required by the Bank of England to obtain such consent):

(a) **Redemption for Taxation Reasons**

If the Issuer satisfies the Trustee, immediately prior to the giving of the notice referred to below, that on the next Interest Payment Date the payment of interest (including, if applicable, the PIBS Interest Payment) in respect of the Bonds would be treated as a "distribution" within the meaning of the Income and Corporation Taxes Act 1988 (as amended, re-enacted or replaced), the Issuer may at its option (subject to Condition 2(c)), having given not less than 30 nor more than 60 days' notice to the Bondholders, redeem all, but not some only, of the Bonds at their principal amount and shall also pay Arrears of Interest (if any) and any interest (other than Arrears of Interest) up to (but excluding) the date of redemption.

(b) Purchase

Subject to Condition 2(c), the Issuer or any other member of the Group (as defined in the Trust Deed) may at any time purchase Bonds in any manner and at any price. If purchases are made by tender, tenders must be made available to all Bondholders alike.

(c) Mechanics for redemption of Bonds in uncertificated form

- (i) The provisions of this paragraph (i) shall apply in relation to any Bonds that are to be redeemed and that, on the due date for redemption of such Bonds (the "Redemption Date"), are in uncertificated form. Subject as provided in paragraph (ii) of this Condition 4(c), the Issuer shall send or procure that a sponsoring system-participant sends on its behalf an Issuer-Instruction to the Operator of the relevant system concerned requesting or requiring the cancellation or deletion of the appropriate computer-based entries in the relevant system concerned that relate to the Bonds to be redeemed (being or including entries that cause or could cause the Operator to generate an Operator-Instruction to the Issuer or to a sponsoring system-participant acting on its behalf to register a transfer of the Bonds). If necessary to obtain the same, the Issuer or a sponsoring system-participant on its behalf shall seek, by means of the relevant system concerned (or by such other means as the Issuer shall see fit subject always to such other means being possible, having regard to the facilities and requirements of the relevant system concerned), confirmation of such cancellation or deletion and, on receipt of such confirmation in a form satisfactory to it, the Issuer shall pay, or procure to be paid, to the Holder of the Bonds the amount due in respect of the redemption of such Bonds.
- (ii) In relation to any Bonds that are to be redeemed and that, on the Redemption Date, are (or, in the absence of this paragraph (ii), would or may be) in uncertificated form, the Issuer shall be entitled (subject to approval by the Trustee) to determine and/or alter the procedure for effecting the redemption in such manner as it shall, in its absolute discretion, see fit, subject always to the

facilities and requirements of the relevant system concerned. In particular (but without limiting the generality of the foregoing):

- (A) the Issuer-Instruction referred to in paragraph (i) of this Condition 4(c) may be given in such form as the Issuer may from time to time determine and may have such effect, and/or cause the Operator to take such action, in relation to the relevant system and the Bonds, as the Issuer may from time to time determine (consistent always with the facilities and requirements of the relevant system concerned and the redemption, on the Redemption Date, of the Bonds);
- (B) if, at any relevant time prior to the Redemption Date concerned, the Issuer or any sponsoring system-participant acting on behalf of the Issuer is unable, for any reason, to send or receive properly authenticated dematerialised instructions, or alternatively if the Issuer so determines for any other reason, the Issuer may, so far as it is able having regard to the facilities and requirements of the relevant system concerned, require or request the Operator of the relevant system concerned to take the action referred to in paragraph (i) of this Condition 4(c) (subject always as provided in sub-paragraph (A) above) by some means other than by means of an Issuer-Instruction, or alternatively the Issuer may (by notice in writing to the Holder concerned, which notice may be included in the notice of redemption concerned) require the Holder of the Bonds that are then in uncertificated form to change the form of such Bonds from uncertificated to certificated form prior to the Redemption Date and the costs of such change shall be borne by the Issuer.

(d) Cancellation

All Bonds redeemed or purchased by the Issuer (except Bonds purchased in the ordinary course of business of a dealer in securities) will be cancelled forthwith and such Bonds may not be reissued or resold.

5. Payments

- (a) Payments of principal on the Bonds or accrued interest pursuant to Condition 3(a) payable other than on an Interest Payment Date will be made to the persons shown in the Register at the close of business on the fifteenth day before the relevant payment date (the "Record Date").

Payments of interest (including the PIBS Interest Payment) due on an Interest Payment Date will be made to the persons shown in the Register at the close of business on the Record Date.

Each such payment will (subject to Condition 2(c) and, in relation to Bonds in uncertificated form, the provisions of clause (m) of the Fourth Schedule to the Trust Deed) be made by sterling cheque drawn on a town clearing branch of a bank in London and mailed not later than the day (other than a Saturday or a Sunday) on which banks are open for business in London (a "London business day") preceding the due date for payment (at the risk and, if mailed at the request of the Holder otherwise than by ordinary mail, expense of the Holder) to the Holder or to the representative joint holder of the relevant Bonds at his registered address or by means involving electronic instructions or electronic transfer or in accordance with mandate instructions acceptable to the Registrar. In no event will interest payments be mailed to an address in the United States. Payments will be subject in all cases to any applicable fiscal and other laws and regulations.

- (b) The initial Registrar is Independent Registrars Group Limited and its initial specified office is Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU. The Issuer reserves the right, subject to the approval of the Trustee (such approval not to be unreasonably withheld), at any time to vary or terminate the appointment of the Registrar and to appoint another registrar, provided that it will at all times maintain a registrar with a specified office in the United Kingdom. Notice of any such termination or appointment and of any changes in the specified office of the Registrar will be given to the Bondholders in accordance with Condition 15.

6. Taxation

All payments of principal and interest (including the PIBS Interest Payment) in respect of Bonds shall be made subject to deduction of any United Kingdom tax required to be withheld at source.

7. Default

- (a) If the Issuer shall not make any payment of principal in respect of the Bonds for a period of 14 days or more after the due date for the same or shall not make payment of interest (including the PIBS Interest Payment) for a period of 14 days or more after a Compulsory Interest Payment Date or any other date upon which the payment of interest (including the PIBS Interest Payment) is compulsory, the Trustee may institute proceedings in England (but not elsewhere) for the winding-up of the Issuer and prove in such winding-up.
- (b) 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 Bonds (other than any other obligation for payment of any principal or interest in respect of Bonds) provided that the Issuer shall not by virtue of any such proceedings be obliged to pay (i) any sum or sums representing principal or interest in respect of the Bonds sooner than the same would otherwise have been payable by it or (ii) any damages (save in respect of the Trustee's fees and expenses incurred by it in its personal capacity).

The restriction on the payment of damages would have the effect of limiting the remedies available to the Trustee in the event of a breach of certain covenants (other than payment covenants) by the Issuer.

8. Enforcement of Rights

The Trustee shall not be bound to take any of the actions referred to in Condition 7 above to enforce the obligations of the Issuer under the Trust Deed, unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in principal amount of the Bonds then

outstanding and (ii) it shall have been indemnified to its satisfaction. No Bondholder shall be entitled to institute proceedings 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, in which event any Bondholder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute such proceedings and/or prove in the winding-up of the Issuer to the same extent and in the same jurisdiction (but not further or otherwise) that the Trustee would have been entitled so to do in respect of his Bonds.

No remedy against the Issuer, other than as referred to in Condition 7, shall be available to the Trustee or the Bondholders, whether for the recovery of amounts owing in respect of the Bonds 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 Bonds or under the Trust Deed.

9. Prescription

Claims against the Issuer for the payment of principal and interest (including the PIBS Interest Payment) shall be prescribed unless made within 12 years (in the case of principal) and six years (in the case of interest (including the PIBS Interest Payment)) from the Relevant Date.

The "Relevant Date" in respect of any payment means the date on which such payment first becomes due or (if the full amount of the moneys payable has not been duly received by the Registrar or the Trustee on or prior to such date) the date on which notice is given to the Bondholders that such moneys have been so received.

10. Meetings of Bondholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of the terms and conditions of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority of the principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more

persons being or representing Bondholders whatever the principal amount of the Bonds for the time being outstanding so held or represented, except that at any meeting the business of which includes the modification of certain of the terms and conditions of the Bonds or certain of the provisions of the Trust Deed the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders shall be binding on all Bondholders, whether or not they are present at the meeting.

The Trust Deed provides for a resolution in writing signed by or on behalf of the Holder or Holders of not less than 90 per cent. of the Bonds for the time being outstanding to be as effective and binding as if it were an Extraordinary Resolution duly passed at a meeting of the Bondholders.

The Trust Deed also provides that the Trustee may agree, without the consent of the Bondholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of the terms and conditions of the Bonds or any of the provisions of the Trust Deed which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any modification which is of a formal, minor or technical nature or which is made to correct a manifest error. Any such modification, waiver or authorisation shall be binding on the Bondholders and, unless the Trustee agrees otherwise, shall be notified to the Bondholders in accordance with Condition 15 as soon as practicable thereafter.

11. Substitution

- (a) Subject as provided in the Trust Deed, the Trustee shall, if so requested by the Issuer, agree, without the consent of the Bondholders, to the substitution of any Successor in Business (as defined in the Trust Deed) of the Issuer or a holding company of the Issuer or of a subsidiary (as defined in the Trust Deed) of the Issuer or of any such Successor in Business or of any such holding company in place of the Issuer as principal debtor under the Trust Deed and the Bonds provided:

- (i) in the case of the substitution of any company which is a subsidiary of the Issuer or of such Successor in Business or of such holding company, that the obligations of such subsidiary in respect of the Trust Deed and the Bonds shall be guaranteed by the Issuer or such Successor in Business or such holding company in such form as the Trustee may require 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 Bonds; and
 - (ii) in the case of the substitution of a banking subsidiary (as defined in the Trust Deed) in the place of the Issuer, that the obligations of such banking subsidiary in respect of the Bonds shall be subordinated to the rights of Senior Creditors (as defined in Condition 2, but with the substitution of references to that subsidiary in place of references to the "Issuer").
- (b) In the case of a substitution pursuant to this Condition, the Trustee may in its absolute discretion agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed and/or the Registrar's Agreement and to such other amendments to the Trust Deed and such other conditions as the Trustee may require provided that such change, amendment or condition would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders.

12. Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further securities shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Terms and Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted

by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

13. Replacement of Bonds

Should any Bond Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar (or such other place of which notice shall be given in accordance with Condition 15) upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security and indemnity as the Issuer may reasonably require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

14. Indemnification and Exercise of Functions

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or any other member of the Group without accounting for any profit resulting therefrom.

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, without limitation, any proposed modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers, authorities or discretions for individual Bondholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

15. Notices

Notices to Bondholders will be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday after the date of mailing.

16. Governing Law

The Trust Deed and the Bonds are governed by and shall be construed in accordance with English law.

TERMS AND CONDITIONS OF THE £100,000,000 12 PER CENT. PERPETUAL SUBORDINATED BONDS

The following are the terms and conditions in, or substantially in, the form which will be endorsed on each Perpetual Subordinated Bond:

The £100,000,000 12 per cent. Perpetual Subordinated Bonds (the "Bonds") of Halifax plc (the "Issuer") are constituted by a trust deed dated 2nd June 1997 (the "Trust Deed") between the Issuer and The Law Debenture Trust Corporation p.l.c., as trustee, (the "Trustee" which expression shall include its successors). The Trustee acts as trustee for the Holders (as defined below) of the Bonds in accordance with the provisions of the Trust Deed. The Bondholders (as defined below) are bound by, and are deemed to have notice of, all the provisions contained in a registrar's agreement dated 2nd June 1997 (the "Registrar's Agreement") between the Issuer, Independent Registrars Group Limited as registrar (the "Registrar" which expression shall include its successors) and the Trustee. Copies of the Trust Deed and the Registrar's Agreement are available for inspection at the registered office for the time being of the Trustee (presently at Princes House, 95 Gresham Street, London EC2V 7LY) and at the specified office of the Registrar. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions contained in the Trust Deed.

1. Form, Denomination and Transfers

- (a) The Bonds are in registered form in principal amounts of £50,000 (each such principal amount of £50,000 being referred to herein as a "Bond") or integral multiples thereof ("authorised denominations") without interest coupons.

The Bonds may be issued in certificated or uncertificated form in accordance with the Uncertificated Securities Regulations 1995 (as from time to time amended or replaced) (the "Regulations") and may be changed from certificated form to uncertificated form and from uncertificated form to certificated form (in either case in accordance with and subject as provided in the Regulations). Where Bonds are issued in or changed into uncertificated form, the Issuer shall provide to any holder of such Bonds in

uncertificated form a copy of these Conditions on request by him or on such other basis as the Trustee may reasonably require, but so that joint holders of such Bonds shall be entitled to receive one copy only of these Conditions in respect of the Bonds held jointly by them, which copy shall be delivered to that one of the joint holders whose name stands first in the register of Bonds in respect of that holding (the "representative joint holder"). Holders of Bonds in certificated form will be entitled to receive one bond certificate (a "Bond Certificate") in respect of a holding, such Bond Certificate evidencing registration on the register (the "Register") which the Issuer shall procure to be kept by the Registrar. Words and expressions defined in the Regulations shall have the same meanings in these Conditions.

For the avoidance of doubt, these Terms and Conditions shall be and remain applicable to Bonds in uncertificated form (and accordingly the Issuer shall continue to comply with these Terms and Conditions in accordance with the provisions thereof).

After an exchange of Bonds in uncertificated form for Bonds in certificated form, the Issuer may request or require, or may procure that the Registrar or any other person acting on behalf of the Registrar requests or requires, the cancellation or deletion of any computer-based entries in the relevant system concerned that relate to the relevant Bonds *mutatis mutandis* in accordance with the procedure referred to in Condition 4(d) below.

- (b) Legal title to the Bonds passes by registration in the Register, provided that, in the case of Bonds in uncertificated form, the registration has been effected in accordance with the Regulations.

In these Terms and Conditions "Bondholder" and, in relation to a Bond, "Holder" mean the person or persons in whose name a Bond is registered. The Holder of any Bond shall be deemed to be, and shall be treated as, the absolute owner thereof for the purpose of receiving payment thereof or payment or delivery on account thereof (in the case of a Bond in certificated form notwithstanding any writing thereon or notice of ownership) and for all other purposes whether or not such Bond shall be overdue.

- (c) Bonds in certificated form may, subject to the terms of the Registrar's Agreement and to paragraph (g) of this Condition, be transferred by lodging the relevant Bond Certificate (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar. No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).
- (d) The Issuer will procure that the Registrar will within seven London business days (as defined in Condition 5(a) below) (not including any day during which neither the Issuer nor the Registrar is required to register the transfer of any Bond pursuant to paragraph (g) of this Condition) of any duly made application for the transfer of a Bond in certificated form deliver a Bond Certificate to the transferee (and, in the case of a transfer of part only of a holding of Bonds represented by a Bond Certificate, deliver a Bond Certificate for the untransferred balance to the transferor) at the specified office of the Registrar or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Bond Certificate by ordinary mail to such address, other than an address in the United States, as the transferee or, as the case may be, the transferor may request.
- (e) Transfers of Bonds in uncertificated form shall be effected by means of a relevant system in the manner provided for in, and subject to, the Regulations and the facilities and requirements of the relevant system concerned. The holdings in certificated form and uncertificated form of the same Holder or joint Holders will be treated as separate holdings unless the Directors of the Issuer otherwise determine.
- (f) Any such transfer referred to in paragraph (c) of this Condition will be effected without charge by the Issuer and subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges payable in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Trustee and the Registrar.

Any such transfer referred to in paragraph (e) of this Condition will be effected without charge by the Issuer. Holders of Bonds in uncertificated form may, however, be required to pay any transfer or other charges levied by any relevant system and any stamp duty reserve tax or other governmental charge that may be imposed in relation to the registration or transfer.

- (g) Neither the Issuer nor the Registrar will be required to register the transfer of any Bond during the period of seven London business days immediately prior to any date fixed for payment in respect of the Bonds provided, in the case of Bonds in uncertificated form, that the consent of the Operator of the relevant system to such suspension of registration has been obtained.

2. Status and Subordination

(a) Status

The Bonds are unsecured, subordinated obligations of the Issuer, conditional as described in paragraph (c) below and rank *pari passu* and without any preference among themselves and *pari passu* in point of subordination with its £75,000,000 13 5/8 per cent. Perpetual Subordinated Bonds and its £100,000,000 8 3/4 per cent. Perpetual Subordinated Bonds (together with any further issues which shall be consolidated and form a single series therewith) but junior in point of subordination to its £50,000,000 10½ per cent. Subordinated Bonds due 1998, its £50,000,000 Subordinated Variable Rate Notes due 2001, its £400,000,000 8 3/4 per cent. Subordinated Bonds 2006, its £75,000,000 Floating Rate Subordinated Notes 2009, its £200,000,000 Step-up Callable Floating Rate Subordinated Notes 2012, its £250,000,000 11 per cent. Subordinated Bonds 2014, its £150,000,000 10 1/2 per cent. Subordinated Bonds Due 2018 and its £500,000,000 9 3/8 per cent. Subordinated Bonds 2021, (together with any further issues which shall be consolidated and form a single series therewith).

(b) Set-Off

Subject to applicable law, no Bondholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Bonds and each Bondholder shall, by virtue of being the Holder of any Bond, be deemed to have waived all such rights of set-off, compensation or retention.

(c) Subordination

The rights of the Bondholders are subordinated to the claims of Senior Creditors (as defined below) and accordingly payments of principal and interest (including the PIBS Interest Payment, as defined in Condition 3(b)) are conditional upon the Issuer being solvent at the time for payment by the Issuer and no principal or interest (including the PIBS Interest Payment) shall be payable in respect of the Bonds except to the extent that the Issuer could make such payment and still be solvent immediately thereafter. For the purpose of this Condition the Issuer shall be solvent if (i) it is able to pay its debts as they fall due and (ii) its Assets exceed its Liabilities (other than its Liabilities to persons who are not Senior Creditors). A report as to the solvency of the Issuer by two Directors of the Issuer or, in certain circumstances as provided in the Trust Deed, the auditors of the Issuer or, if the Issuer is in winding-up, its liquidator shall in the absence of manifest error be treated and accepted by the Issuer, the Trustee, the Bondholders and all other interested parties as correct and sufficient evidence thereof.

If at any time an order is made or an effective resolution is passed for the winding-up in England of the Issuer (except in any such case a solvent winding-up solely for the purpose of a 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 reconstruction, amalgamation or substitution (i) have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders and (ii) do not provide that the Bonds shall thereby become repayable), there shall be payable on each Bond (in lieu of any other payment), but subject as provided in this Condition, such amount, if any, as would have been payable to the Holder thereof if, on the day prior to the commencement of the winding-up and thereafter, such Bondholder were the

holder of a preference share in the capital of the Issuer having a preferential right to a return of assets in the winding-up over the holders of all issued shares for the time being in the capital of the Issuer on the assumption that such preference share was entitled to receive on a return of assets in such winding-up an amount equal to the principal amount of such Bond together with Arrears of Interest (as defined in Condition 3(e)), if any, and any interest (other than Arrears of Interest) which has accrued up to (but excluding) the date of repayment (as provided in the Trust Deed) in respect thereof.

For the purposes of these Terms and Conditions: "Senior Creditors" means depositors and other creditors of the Issuer (other than creditors (if any) in respect of claims which are expressed to rank *pari passu* with the claims of the Bondholders or creditors in respect of claims with which the Bonds are expressed to rank *pari passu* (whether only in the event of a winding-up of the Issuer or otherwise)); "Assets" means the unconsolidated gross assets of the Issuer; and "Liabilities" means the unconsolidated gross liabilities of the Issuer, all as shown by the latest published audited balance sheet of the Issuer, but adjusted for contingent assets and contingent liabilities and for subsequent events, all in such manner as the certifying Directors of the Issuer, the auditors or the liquidator (as the case may be) may determine.

The obligations of the Issuer in respect of the Bonds are conditional upon the Issuer being solvent for the purpose of this Condition immediately before and after payment by the Issuer. If this condition is not satisfied, any amounts which might otherwise have been allocated in or towards payment of principal and interest in respect of the Bonds may be used to absorb losses. In the event of a winding-up of the Issuer, each Bondholder will be treated as the holder of a preference share as described above.

3. Interest

- (a) The Bonds bear interest from and including 2nd June 1997 at the rate of 12 per cent. per annum, payable, subject as provided in these Terms and Conditions, in arrear by equal half-yearly instalments on 1st September and 1st March in each year (each an "Interest Payment Date"), save that the first such payment, to be made on 1st September 1997 (the "First Interest Payment Date"), shall be in respect of the period

from and including 2nd June 1997 to but excluding the First Interest Payment Date and shall amount to £1,495.89 (subject to any deduction pursuant to Condition 6) in respect of each Bond.

- (b) The Issuer shall, subject as provided in these Terms and Conditions, pay to each Bondholder on the First Interest Payment Date £1,504.11 (subject to any deduction pursuant to Condition 6) in respect of each Bond held by such Bondholder (the "PIBS Interest Payment"). The PIBS Interest Payment shall be in respect of interest for the period (from and including 1st March 1997 (the "Interest Commencement Date") to but excluding 2nd June 1997 on the £100,000,000 12 per cent. Permanent Interest Bearing Shares of Halifax Building Society issued on 31st January 1992.
- (c) Subject as provided in these Terms and Conditions, the aggregate amount payable by the Issuer to each Bondholder pursuant to Condition 3(a) and (b) on the First Interest Payment Date shall be £3,000.00 (subject to any deduction pursuant to Condition 6) in respect of each Bond held by such Bondholder.
- (d) Interest payments (including the PIBS Interest Payment) will be made in accordance with and subject to the provisions of Condition 5. Interest accruing on each Bond shall cease to accrue from the date for redemption thereof unless payment of principal is improperly withheld or refused or is not made by reason of Condition 2(c), in which event interest shall continue to accrue thereon from the date of redemption to the date of actual payment.
- (e) Interest payments (including the PIBS Interest Payment but excluding Arrears of Interest) on the Bonds shall (subject to Condition 2(c)) be payable on each Compulsory Interest Payment Date (as defined below) in respect of the Interest Period (as defined below) ending on the day immediately preceding such date. On any Optional Interest Payment Date (as defined below) there may, subject to Condition 2(c), be paid (if the Issuer so elects and gives notice of such election to the Bondholders in accordance with paragraph (f) of this Condition 3) the interest (including the PIBS Interest Payment) payable on such Optional Interest Payment Date in respect of the Interest Period ending on the day immediately preceding such date, but the Issuer shall not have any obligation to make such payment and any failure to pay shall not constitute a default

by the Issuer for any purpose. Any interest (including the PIBS Interest Payment) not paid on an Interest Payment Date together with any other interest (including the PIBS Interest Payment) not paid on any other Interest Payment Date shall, so long as the same remains unpaid, constitute "Arrears of Interest". Arrears of Interest may, at the option of the Issuer, be paid in whole or in part at any time upon the expiration of not less than seven days' written notice to such effect given to the Trustee and to the Bondholders in accordance with Condition 15, but all Arrears of Interest on all Bonds outstanding shall (subject to Condition 2(c)) become due in full on whichever is the earliest of (i) the date upon which a dividend is next paid on any class of share capital of the Issuer, (ii) the date set for any redemption pursuant to Condition 4(a) or 4(c) or (iii) the commencement of winding-up in England of the Issuer. Notwithstanding the foregoing, if notice is given by the Issuer of its intention to pay the whole or part of Arrears of Interest, the Issuer shall be obliged (subject to Condition 2(c)) to do so upon the expiration of such notice. Where Arrears of Interest are paid in part, each part payment shall be applied in payment of the Arrears of Interest due in respect of the earliest relative Interest Payment Date (or consecutive Interest Payment Dates). Arrears of Interest shall not themselves bear interest.

- (f) The Issuer shall give not less than 30 days' notice prior to any Interest Payment Date to the Bondholders in accordance with Condition 15:
 - (i) if such Interest Payment Date will be an Optional Interest Payment Date; and
 - (ii) whether the Issuer elects to pay the interest due on such Optional Interest Payment Date.
- (g) For the purposes of this Condition the following expressions have the following meanings:

"Compulsory Interest Payment Date" means any Interest Payment Date if, in the six calendar months immediately preceding such Interest Payment Date, any dividend has been declared or paid on any class of share capital of the Issuer.

"Interest Period" means the period from and including one Interest Payment Date (or, as the case may be, the Interest Commencement Date) up to but excluding the next (or First) Interest Payment Date.

"Optional Interest Payment Date" means any Interest Payment Date other than a Compulsory Interest Payment Date.

If interest (other than in respect of the PIBS Interest Payment is required to be calculated for a period of less than one year (other than a semi-annual period and other than the semi-annual period ending on the First Interest Payment Date), it will be calculated on the basis of the actual number of days elapsed and a 365-day year.

All references in these Terms and Conditions to interest shall, unless the context otherwise requires, include Arrears of Interest.

4. Redemption and Purchase

The Issuer shall not be at liberty to redeem or purchase the Bonds except in accordance with the following provisions of this Condition and any such redemption or purchase is subject to the prior consent of the Bank of England (so long as the Issuer is required by the Bank of England to obtain such consent):

(a) Redemption for Taxation Reasons

If the Issuer satisfies the Trustee, immediately prior to the giving of the notice referred to below, that on the next Interest Payment Date the payment of interest (including, if applicable, the PIBS Interest Payment) in respect of the Bonds would be treated as a "distribution" within the meaning of the Income and Corporation Taxes Act 1988 (as amended, re-enacted or replaced), the Issuer may at its option (subject to Condition 2(c)), having given not less than 30 nor more than 60 days' notice to the Bondholders, redeem all, but not some only, of the Bonds at their principal amount and shall also pay Arrears of Interest (if any) and any interest (other than Arrears of Interest) up to (but excluding) the date of redemption.

(b) Purchase

Subject to Condition 2(c), the Issuer or any other member of the Group (as defined in the Trust Deed) may at any time purchase Bonds in any manner and at any price. If purchases are made by tender, tenders must be made available to all Bondholders alike.

(c) Issuer's Optional Redemption

Subject to Condition 2(c), the Issuer may at any time redeem all or, from time to time, some only (being £10,000,000 in principal amount or a higher integral multiple of £1,000,000) of the Bonds then outstanding by the payment of:—

- (i) accrued and unpaid interest up to but excluding the date of redemption; and
- (ii) (A) in respect of redemption made before 30th January 2022, the higher of the principal amount of, and the "Adjusted Redemption Price" (as defined below) in relation to, the Bonds to be redeemed. For the purposes of these Conditions the "Adjusted Redemption Price" shall mean such price as shall be determined by a leading bank and/or broker in London to be selected by the Issuer and approved by the Trustee as being the price expressed as a percentage (rounded if necessary to the third decimal place, with 0.0005 being rounded upwards) at which the gross redemption yield on the Bonds (calculated on the basis that the Bonds were to be redeemed at their principal amount and to have a final maturity date of 30th January 2022) would be equal to the gross redemption yield in respect of the 12 per cent. Exchequer Stock 2013/17 (or such other stock issued by or on behalf of HM Government as may at such time have a final redemption date closer to 30th January 2022 and/or be more appropriate in the

opinion of the Issuer, having taken advice from three brokers and/or gilt-edged market makers or such other three persons operating in the gilt-edged market as the Issuer may with the Trustee's approval select) on the basis of the arithmetic mean of the offered prices quoted for such stock on a dealing basis by three gilt-edged market makers at or about 3.00 p.m. on the Relevant Date (as defined below) and on the basis that the gross redemption yield in respect of the Bonds and in respect of such stock shall be calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries Vol. 105, Part 1, 1978, page 18. For this purpose "Relevant Date" means the date which is two London business days (as defined in Condition 5) prior to the despatch of the notice of redemption referred to in this Condition 4(c);

- (B) in respect of a redemption made on or after 30th January 2022, the principal amount of the Bonds to be redeemed.

To redeem any of the Bonds in accordance with this Condition 4(c), the Issuer shall give not less than 30 nor more than 60 days' notice in writing to each of the Holders of the Bonds to be redeemed stating the date fixed for redemption and the principal amount due for redemption and, with respect to Bonds in certificated form, naming the place at which the certificates relating to Bonds to be redeemed are to be surrendered. In the case of a partial redemption, the Bonds to be redeemed will be selected by or on behalf of the Issuer (on a basis approved by the Trustee) not more than 60 days prior to the date fixed for redemption. On or before the date fixed for redemption, each Holder of the Bonds in certificated form to be redeemed shall be bound to deliver to the Issuer at such place the relative Bond Certificate in order that the same may be cancelled (and, in the case of a redemption and cancellation of some only of the Bonds represented by such certificate, in order that a new Bond Certificate may be issued representing the reduced holding of Bonds). The Issuer shall, on the date fixed for redemption (and in the case of Bonds in certificated form,

against delivery as described above), pay to the Bondholder or to the representative joint holder (as defined in Condition 1(a)) appearing on the Register at the close of business on the fifteenth day before the date fixed for redemption at his address shown on the Register on such date, or in such other manner as the Issuer may reasonably determine, the amount due in respect of such redemption by sterling cheque drawn on a town clearing branch of a bank in London or by means involving electronic instructions or electronic transfer (subject in the case of Bonds in uncertificated form to the provisions of clause (m) of the Fourth Schedule to the Trust Deed). If any Holder of Bonds in certificated form, the subject of a notice for redemption, shall fail or refuse to deliver the relative Bond Certificate, the Issuer may (but shall not be obliged to) retain the relevant redemption monies until delivery of the Bond Certificate or provision of an indemnity in respect of the loss or destruction thereof on terms satisfactory to the Issuer (which may include a requirement for security to be provided). The receipt by the Holder for the time being of such Bonds, or in the case of joint Holders the receipt by any of them, of the redemption monies shall constitute an absolute discharge to the Issuer.

- (d) Mechanics for redemption of Bonds in uncertificated form
 - (i) The provisions of this paragraph (i) shall apply in relation to any Bonds that are to be redeemed and that, on the due date for redemption of such Bonds (the "Redemption Date"), are in uncertificated form. Subject as provided in paragraph (ii) of this Condition 4(d), the Issuer shall send or procure that a sponsoring system-participant sends on its behalf an Issuer-Instruction to the Operator of the relevant system concerned requesting or requiring the cancellation or deletion of the appropriate computer-based entries in the relevant system concerned that relate to the Bonds to be redeemed (being or including entries that cause or could cause the Operator to generate an Operator-Instruction to the Issuer or to a sponsoring system-participant acting on its behalf to register a transfer of the Bonds). If necessary to obtain the same, the Issuer or a sponsoring system-participant on its behalf shall seek, by means of the relevant system concerned (or by such other means as the Issuer shall see fit subject always to such other means being possible, having regard

to the facilities and requirements of the relevant system concerned), confirmation of such cancellation or deletion and, on receipt of such confirmation in a form satisfactory to it, the Issuer shall pay, or procure to be paid, to the Holder of the Bonds the amount due in respect of the redemption of such Bonds.

- (ii) In relation to any Bonds that are to be redeemed and that, on the Redemption Date, are (or, in the absence of this paragraph (ii), would or may be) in uncertificated form, the Issuer shall be entitled (subject to approval by the Trustee) to determine and/or alter the procedure for effecting the redemption in such manner as it shall, in its absolute discretion, see fit, subject always to the facilities and requirements of the relevant system concerned. In particular (but without limiting the generality of the foregoing):
 - (A) the Issuer-Instruction referred to in paragraph (i) of this Condition 4(d) may be given in such form as the Issuer may from time to time determine and may have such effect, and/or cause the Operator to take such action, in relation to the relevant system and the Bonds, as the Issuer may from time to time determine (consistent always with the facilities and requirements of the relevant system concerned and the redemption, on the Redemption Date, of the Bonds);
 - (B) if, at any relevant time prior to the Redemption Date concerned, the Issuer or any sponsoring system-participant acting on behalf of the Issuer is unable, for any reason, to send or receive properly authenticated dematerialised instructions, or alternatively if the Issuer so determines for any other reason, the Issuer may, so far as it is able having regard to the facilities and requirements of the relevant system concerned, require or request the Operator of the relevant system concerned to take the action referred to in paragraph (i) of this Condition 4(d) (subject always as provided in sub-paragraph (A) above) by some means other than by means of an Issuer-Instruction, or alternatively the Issuer may (by notice in writing to the Holder concerned, which notice may be included in the notice of redemption

concerned) require the Holder of the Bonds that are then in uncertificated form to change the form of such Bonds from uncertificated to certificated form prior to the Redemption Date and the costs of such change shall be borne by the Issuer.

(e) Cancellation

All Bonds redeemed by the Issuer will be cancelled forthwith and such Bonds may not be reissued or resold. Bonds purchased by the Issuer or any other member of the Group may be held or resold or surrendered for cancellation.

5. Payments

- (a) Payments of principal on the Bonds or accrued interest pursuant to Condition 3(a) payable other than on an Interest Payment Date will be made to the persons shown in the Register at the close of business on the fifteenth day before the relevant payment date (the "Record Date").

Payments of interest (including the PIBS Interest Payment) due on an Interest Payment Date will be made to the persons shown in the Register at the close of business on the Record Date.

Each such payment will (subject to Condition 2(c) and, in relation to Bonds in uncertificated form, the provisions of clause (m) of the Fourth Schedule to the Trust Deed) be made by sterling cheque drawn on a town clearing branch of a bank in London and mailed not later than the day (other than a Saturday or a Sunday) on which banks are open for business in London (a "London business day") preceding the due date for payment (at the risk and, if mailed at the request of the Holder otherwise than by ordinary mail, expense of the Holder) to the Holder or to the representative joint holder of the relevant Bonds at his registered address or by means involving electronic instructions or electronic transfer or in accordance with mandate instructions acceptable to the Registrar. In no event will interest payments be mailed to an address in the United States. Payments will be subject in all cases to any applicable fiscal and other laws and regulations.

- (b) The initial Registrar is Independent Registrars Group Limited and its initial specified office is Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU. The Issuer reserves the right, subject to the approval of the Trustee (such approval not to be unreasonably withheld), at any time to vary or terminate the appointment of the Registrar and to appoint another registrar, provided that it will at all times maintain a registrar with a specified office in the United Kingdom. Notice of any such termination or appointment and of any changes in the specified office of the Registrar will be given to the Bondholders in accordance with Condition 15.

6. Taxation

All payments of principal and interest (including the PIBS Interest Payment) in respect of Bonds shall be made subject to deduction of any United Kingdom tax required to be withheld at source.

7. Default

- (a) If the Issuer shall not make any payment of principal in respect of the Bonds for a period of 14 days or more after the due date for the same or shall not make payment of interest (including the PIBS Interest Payment) for a period of 14 days or more after a Compulsory Interest Payment Date or any other date upon which the payment of interest (including the PIBS Interest Payment) is compulsory, the Trustee may institute proceedings in England (but not elsewhere) for the winding-up of the Issuer and prove in such winding-up.
- (b) 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 Bonds (other than any other obligation for payment of any principal or interest in respect of Bonds) provided that the Issuer shall not by virtue of any such proceedings be obliged to pay (i) any sum or sums representing principal or interest in respect of the Bonds sooner than the same would otherwise have been payable by it or (ii) any damages (save in respect of the Trustee's fees and expenses incurred by it in its personal capacity).

The restriction on the payment of damages would have the effect of limiting the remedies available to the Trustee in the event of a breach of certain covenants (other than payment covenants) by the Issuer.

8. Enforcement of Rights

The Trustee shall not be bound to take any of the actions referred to in Condition 7 above to enforce the obligations of the Issuer under the Trust Deed, unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in principal amount of the Bonds then outstanding and (ii) it shall have been indemnified to its satisfaction. No Bondholder shall be entitled to institute proceedings 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, in which event any Bondholder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute such proceedings and/or prove in the winding-up of the Issuer to the same extent and in the same jurisdiction (but not further or otherwise) that the Trustee would have been entitled so to do in respect of his Bonds.

No remedy against the Issuer, other than as referred to in Condition 7, shall be available to the Trustee or the Bondholders, whether for the recovery of amounts owing in respect of the Bonds 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 Bonds or under the Trust Deed.

9. Prescription

Claims against the Issuer for the payment of principal and interest (including the PIBS Interest Payment) shall be prescribed unless made within 12 years (in the case of principal) and six years (in the case of interest (including the PIBS Interest Payment)) from the Relevant Date.

The "Relevant Date" in respect of any payment means the date on which such payment first becomes due or (if the full amount of the moneys payable has not been duly

received by the Registrar or the Trustee on or prior to such date) the date on which notice is given to the Bondholders that such moneys have been so received.

10. Meetings of Bondholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of the terms and conditions of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority of the principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds for the time being outstanding so held or represented, except that at any meeting the business of which includes the modification of certain of the terms and conditions of the Bonds or certain of the provisions of the Trust Deed the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders shall be binding on all Bondholders, whether or not they are present at the meeting.

The Trust Deed provides for a resolution in writing signed by or on behalf of the Holder or Holders of not less than 90 per cent. of the Bonds for the time being outstanding to be as effective and binding as if it were an Extraordinary Resolution duly passed at a meeting of the Bondholders.

The Trust Deed also provides that the Trustee may agree, without the consent of the Bondholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of the terms and conditions of the Bonds or any of the provisions of the Trust Deed which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any modification which is of a formal, minor or technical nature or which is made to correct a manifest error. Any such modification, waiver or authorisation shall be

binding on the Bondholders and, unless the Trustee agrees otherwise, shall be notified to the Bondholders in accordance with Condition 15 as soon as practicable thereafter.

11. Substitution

- (a) Subject as provided in the Trust Deed, the Trustee shall, if so requested by the Issuer, agree, without the consent of the Bondholders, to the substitution of any Successor in Business (as defined in the Trust Deed) of the Issuer or a holding company of the Issuer or of a subsidiary (as defined in the Trust Deed) of the Issuer or of any such Successor in Business or of any such holding company in place of the Issuer as principal debtor under the Trust Deed and the Bonds provided:
 - (i) in the case of the substitution of any company which is a subsidiary of the Issuer or of such Successor in Business or of such holding company, that the obligations of such subsidiary in respect of the Trust Deed and the Bonds shall be guaranteed by the Issuer or such Successor in Business or such holding company in such form as the Trustee may require 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 Bonds; and
 - (ii) in the case of the substitution of a banking subsidiary (as defined in the Trust Deed) in the place of the Issuer, that the obligations of such banking subsidiary in respect of the Bonds shall be subordinated to the rights of Senior Creditors (as defined in Condition 2, but with the substitution of references to that subsidiary in place of references to the "Issuer").
- (b) In the case of a substitution pursuant to this Condition, the Trustee may in its absolute discretion agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed and/or the Registrar's Agreement and to such other amendments to the Trust Deed and such other conditions as the Trustee may require provided that such change, amendment or condition would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders.

12. Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further securities shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Terms and Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

13. Replacement of Bonds

Should any Bond Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar (or such other place of which notice shall be given in accordance with Condition 15) upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security and indemnity as the Issuer may reasonably require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

14. Indemnification and Exercise of Functions

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or any other member of the Group without accounting for any profit resulting therefrom.

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, without limitation, any proposed modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers, authorities or discretions for individual Bondholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

15. Notices

Notices to Bondholders will be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday after the date of mailing.

16. Governing Law

The Trust Deed and the Bonds are governed by and shall be construed in accordance with English law.

TERMS AND CONDITIONS OF THE £100,000,000 8 3/4 PER CENT PERPETUAL SUBORDINATED BONDS

The following are the terms and conditions in, or substantially in, the form which will be endorsed on each Perpetual Subordinated Bond:

The £100,000,000 8 3/4 per cent. Perpetual Subordinated Bonds (the "Bonds") of Halifax plc (the "Issuer") are constituted by a trust deed dated 2nd June 1997 (the "Trust Deed") between the Issuer and The Law Debenture Trust Corporation p.l.c., as trustee, (the "Trustee" which expression shall include its successors). The Trustee acts as trustee for the Holders (as defined below) of the Bonds in accordance with the provisions of the Trust Deed. The Bondholders (as defined below) are bound by, and are deemed to have notice of, all the provisions contained in a registrar's agreement dated 2nd June 1997 (the "Registrar's Agreement") between the Issuer, Independent Registrars Group Limited as registrar (the "Registrar" which expression shall include its successors) and the Trustee. Copies of the Trust Deed and the Registrar's Agreement are available for inspection at the registered office for the time being of the Trustee (presently at Princes House, 95 Gresham Street, London EC2V 7LY) and at the specified office of the Registrar. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions contained in the Trust Deed.

1. Form, Denomination and Transfers

- (a) The Bonds are in registered form in principal amounts of £50,000 (each such principal amount of £50,000 being referred to herein as a "Bond") or integral multiples thereof ("authorised denominations") without interest coupons.

The Bonds may be issued in certificated or uncertificated form in accordance with the Uncertificated Securities Regulations 1995 (as from time to time amended or replaced) (the "Regulations") and may be changed from certificated form to uncertificated form and from uncertificated form to certificated form (in either case in accordance with and subject as provided in the Regulations). Where Bonds are issued in or changed into uncertificated form, the Issuer shall provide to any holder of such Bonds in uncertificated form a copy of these Conditions on request by him or on such other

basis as the Trustee may reasonably require, but so that joint holders of such Bonds shall be entitled to receive one copy only of these Conditions in respect of the Bonds held jointly by them, which copy shall be delivered to that one of the joint holders whose name stands first in the register of Bonds in respect of that holding (the "representative joint holder"). Holders of Bonds in certificated form will be entitled to receive one bond certificate (a "Bond Certificate") in respect of a holding, such Bond Certificate evidencing registration on the register (the "Register") which the Issuer shall procure to be kept by the Registrar. Words and expressions defined in the Regulations shall have the same meanings in these Conditions.

For the avoidance of doubt, these Terms and Conditions shall be and remain applicable to Bonds in uncertificated form (and accordingly the Issuer shall continue to comply with these Terms and Conditions in accordance with the provisions thereof).

After an exchange of Bonds in uncertificated form for Bonds in certificated form, the Issuer may request or require, or may procure that the Registrar or any other person acting on behalf of the Registrar requests or requires, the cancellation or deletion of any computer-based entries in the relevant system concerned that relate to the relevant Bonds *mutatis mutandis* in accordance with the procedure referred to in Condition 4(d) below.

- (b) Legal title to the Bonds passes by registration in the Register, provided that, in the case of Bonds in uncertificated form, the registration has been effected in accordance with the Regulations.

In these Terms and Conditions "Bondholder" and, in relation to a Bond, "Holder" mean the person or persons in whose name a Bond is registered. The Holder of any Bond shall be deemed to be, and shall be treated as, the absolute owner thereof for the purpose of receiving payment thereof or payment or delivery on account thereof (in the case of a Bond in certificated form notwithstanding any writing thereon or notice of ownership) and for all other purposes whether or not such Bond shall be overdue.

- (c) Bonds in certificated form may, subject to the terms of the Registrar's Agreement and to paragraph (g) of this Condition, be transferred by lodging the relevant Bond

Certificate (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar. No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

- (d) The Issuer will procure that the Registrar will within seven London business days (as defined in Condition 5(a) below) (not including any day during which neither the Issuer nor the Registrar is required to register the transfer of any Bond pursuant to paragraph (g) of this Condition) of any duly made application for the transfer of a Bond in certificated form deliver a Bond Certificate to the transferee (and, in the case of a transfer of part only of a holding of Bonds represented by a Bond Certificate, deliver a Bond Certificate for the untransferred balance to the transferor) at the specified office of the Registrar or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Bond Certificate by ordinary mail to such address, other than an address in the United States, as the transferee or, as the case may be, the transferor may request.
- (e) Transfers of Bonds in uncertificated form shall be effected by means of a relevant system in the manner provided for in, and subject to, the Regulations and the facilities and requirements of the relevant system concerned. The holdings in certificated form and uncertificated form of the same Holder or joint Holders will be treated as separate holdings unless the Directors of the Issuer otherwise determine.
- (f) Any such transfer referred to in paragraph (c) of this Condition will be effected without charge by the Issuer and subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges payable in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Trustee and the Registrar.

Any such transfer referred to in paragraph (e) of this Condition will be effected without charge by the Issuer. Holders of Bonds in uncertificated form may, however, be required to pay any transfer or other charges levied by any relevant system and any stamp duty reserve tax or other governmental charge that may be imposed in relation to the registration or transfer.

- (g) Neither the Issuer nor the Registrar will be required to register the transfer of any Bond during the period of seven London business days immediately prior to any date fixed for payment in respect of the Bonds provided, in the case of Bonds in uncertificated form, that the consent of the Operator of the relevant system to such suspension of registration has been obtained.

2. Status and Subordination

- (a) Status

The Bonds are unsecured, subordinated obligations of the Issuer, conditional as described in paragraph (c) below and rank *pari passu* and without any preference among themselves and *pari passu* in point of subordination with its £75,000,000 13 5/8 per cent. Perpetual Subordinated Bonds and its £100,000,000 12 per cent. Perpetual Subordinated Bonds (together with any further issues which shall be consolidated and form a single series therewith) but junior in point of subordination to its £50,000,000 10 1/2 per cent. Subordinated Bonds due 1998, its £50,000,000 Subordinated Variable Rate Notes due 2001, its £400,000,000 8¾ per cent. Subordinated Bonds 2006, its £75,000,000 Floating Rate Subordinated Notes 2009, its £200,000,000 Step-up Callable Floating Rate Subordinated Notes 2012, its £250,000,000 11 per cent. Subordinated Bonds 2014, its £150,000,000 10 1/2 per cent. Subordinated Bonds Due 2018 and its £500,000,000 9 3/8 per cent. Subordinated Bonds 2021, (together with any further issues which shall be consolidated and form a single series therewith).

(b) Set-Off

Subject to applicable law, no Bondholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Bonds and each Bondholder shall, by virtue of being the Holder of any Bond, be deemed to have waived all such rights of set-off, compensation or retention.

(c) Subordination

The rights of the Bondholders are subordinated to the claims of Senior Creditors (as defined below) and accordingly payments of principal and interest (including the PIBS Interest Payment, as defined in Condition 3(b)) are conditional upon the Issuer being solvent at the time for payment by the Issuer and no principal or interest (including the PIBS Interest Payment) shall be payable in respect of the Bonds except to the extent that the Issuer could make such payment and still be solvent immediately thereafter. For the purpose of this Condition the Issuer shall be solvent if (i) it is able to pay its debts as they fall due and (ii) its Assets exceed its Liabilities (other than its Liabilities to persons who are not Senior Creditors). A report as to the solvency of the Issuer by two Directors of the Issuer or, in certain circumstances as provided in the Trust Deed, the auditors of the Issuer or, if the Issuer is in winding-up, its liquidator shall in the absence of manifest error be treated and accepted by the Issuer, the Trustee, the Bondholders and all other interested parties as correct and sufficient evidence thereof.

If at any time an order is made or an effective resolution is passed for the winding-up in England of the Issuer (except in any such case a solvent winding-up solely for the purpose of a 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 reconstruction, amalgamation or substitution (i) have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders and (ii) do not provide that the Bonds shall thereby become repayable), there shall be payable on each Bond (in lieu of any other payment), but subject as provided in this Condition, such amount, if any, as would have been payable to the Holder thereof if, on the day prior to the commencement of the winding-up and thereafter, such Bondholder were the

holder of a preference share in the capital of the Issuer having a preferential right to a return of assets in the winding-up over the holders of all issued shares for the time being in the capital of the Issuer on the assumption that such preference share was entitled to receive on a return of assets in such winding-up an amount equal to the principal amount of such Bond together with Arrears of Interest (as defined in Condition 3(e)), if any, and any interest (other than Arrears of Interest) which has accrued up to (but excluding) the date of repayment (as provided in the Trust Deed) in respect thereof.

For the purposes of these Terms and Conditions: "Senior Creditors" means depositors and other creditors of the Issuer (other than creditors (if any) in respect of claims which are expressed to rank *pari passu* with the claims of the Bondholders or creditors in respect of claims with which the Bonds are expressed to rank *pari passu* (whether only in the event of a winding-up of the Issuer or otherwise)); "Assets" means the unconsolidated gross assets of the Issuer; and "Liabilities" means the unconsolidated gross liabilities of the Issuer, all as shown by the latest published audited balance sheet of the Issuer (or, until the publication of the audited accounts of the Issuer for the period ending 31st December 1997, of Halifax Building Society, but adjusted for contingent assets and contingent liabilities and for subsequent events, all in such manner as the certifying Directors of the Issuer, the auditors or the liquidator (as the case may be) may determine.

The obligations of the Issuer in respect of the Bonds are conditional upon the Issuer being solvent for the purpose of this Condition immediately before and after payment by the Issuer. If this condition is not satisfied, any amounts which might otherwise have been allocated in or towards payment of principal and interest in respect of the Bonds may be used to absorb losses. In the event of a winding-up of the Issuer, each Bondholder will be treated as the holder of a preference share as described above.

3. Interest

- (a) The Bonds bear interest from and including 2nd June 1997 at the rate of 8 3/4 per cent. per annum, payable, subject as provided in these Terms and Conditions, in arrear by equal half-yearly instalments on 1st September and 1st March in each year (each an

"Interest Payment Date"), save that the first such payment, to be made on 1st September 1997 (the "First Interest Payment Date"), shall be in respect of the period from and including 2nd June 1997 to but excluding the First Interest Payment Date and shall amount to £1,090.75 (subject to any deduction pursuant to Condition 6) in respect of each Bond.

- (b) The Issuer shall, subject as provided in these Terms and Conditions, pay to each Bondholder on the First Interest Payment Date £1,096.75 (subject to any deduction pursuant to Condition 6) in respect of each Bond held by such Bondholder (the "PIBS Interest Payment"). The PIBS Interest Payment shall be in respect of interest for the period (from and including 1st March 1997 (the "Interest Commencement Date") to but excluding 2nd June 1997) on the £100,000,000 8 3/4 per cent. Permanent Interest Bearing Shares of Halifax Building Society issued on 15th September 1993.
- (c) Subject as provided in these Terms and Conditions, the aggregate amount payable by the Issuer to each Bondholder pursuant to Condition 3(a) and (b) on the First Interest Payment Date shall be £2,187.50 (subject to any deduction pursuant to Condition 6) in respect of each Bond held by such Bondholder.
- (d) Interest payments (including the PIBS Interest Payment) will be made in accordance with and subject to the provisions of Condition 5. Interest accruing on each Bond shall cease to accrue from the date for redemption thereof unless payment of principal is improperly withheld or refused or is not made by reason of Condition 2(c), in which event interest shall continue to accrue thereon from the date of redemption to the date of actual payment.
- (e) Interest payments (including the PIBS Interest Payment but excluding Arrears of Interest) on the Bonds shall (subject to Condition 2(c)) be payable on each Compulsory Interest Payment Date (as defined below) in respect of the Interest Period (as defined below) ending on the day immediately preceding such date. On any Optional Interest Payment Date (as defined below) there may, subject to Condition 2(c), be paid (if the Issuer so elects and gives notice of such election to the Bondholders in accordance with paragraph (f) of this Condition 3) the interest (including the PIBS Interest Payment) payable on such Optional Interest Payment Date in respect of the Interest Period

ending on the day immediately preceding such date, but the Issuer shall not have any obligation to make such payment and any failure to pay shall not constitute a default by the Issuer for any purpose. Any interest (including the PIBS Interest Payment) not paid on an Interest Payment Date together with any other interest (including the PIBS Interest Payment) not paid on any other Interest Payment Date shall, so long as the same remains unpaid, constitute "Arrears of Interest". Arrears of Interest may, at the option of the Issuer, be paid in whole or in part at any time upon the expiration of not less than seven days' written notice to such effect given to the Trustee and to the Bondholders in accordance with Condition 15, but all Arrears of Interest on all Bonds outstanding shall (subject to Condition 2(c)) become due in full on whichever is the earliest of (i) the date upon which a dividend is next paid on any class of share capital of the Issuer, (ii) the date set for any redemption pursuant to Condition 4(a) or 4(c) or (iii) the commencement of winding-up in England of the Issuer. Notwithstanding the foregoing, if notice is given by the Issuer of its intention to pay the whole or part of Arrears of Interest, the Issuer shall be obliged (subject to Condition 2(c)) to do so upon the expiration of such notice. Where Arrears of Interest are paid in part, each part payment shall be applied in payment of the Arrears of Interest due in respect of the earliest relative Interest Payment Date (or consecutive Interest Payment Dates). Arrears of Interest shall not themselves bear interest.

(f) The Issuer shall give not less than 30 days' notice prior to any Interest Payment Date to the Bondholders in accordance with Condition 15:

- (i) if such Interest Payment Date will be an Optional Interest Payment Date; and
- (ii) whether the Issuer elects to pay the interest due on such Optional Interest Payment Date.

(g) For the purposes of this Condition the following expressions have the following meanings:

"Compulsory Interest Payment Date" means any Interest Payment Date if, in the six calendar months immediately preceding such Interest Payment Date, any dividend has been declared or paid on any class of share capital of the Issuer.

"Interest Period" means the period from and including one Interest Payment Date (or, as the case may be, the Interest Commencement Date) up to but excluding the next (or First) Interest Payment Date.

"Optional Interest Payment Date" means any Interest Payment Date other than a Compulsory Interest Payment Date.

If interest (other than in respect of the PIBS Interest Payment) is required to be calculated for a period of less than one year (other than a semi-annual period), it will be calculated on the basis of the actual number of days elapsed and a 365-day year.

All references in these Terms and Conditions to interest shall, unless the context otherwise requires, include Arrears of Interest.

4. Redemption and Purchase

The Issuer shall not be at liberty to redeem or purchase the Bonds except in accordance with the following provisions of this Condition and any such redemption or purchase is subject to the prior consent of the Bank of England (so long as the Issuer is required by the Bank of England to obtain such consent):

(a) Redemption for Taxation Reasons

If the Issuer satisfies the Trustee, immediately prior to the giving of the notice referred to below, that on the next Interest Payment Date the payment of interest (including, if applicable, the PIBS Interest Payment) in respect of the Bonds would be treated as a "distribution" within the meaning of the Income and Corporation Taxes Act 1988 (as amended, re-enacted or replaced), the Issuer may at its option (subject to Condition 2(c)), having given not less than 30 nor more than 60 days' notice to the Bondholders, redeem all, but not some only, of the Bonds at their principal amount and shall also pay Arrears of Interest (if any) and any interest (other than Arrears of Interest) up to (but excluding) the date of redemption.

(b) Purchase

Subject to Condition 2(c), the Issuer or any other member of the Group (as defined in the Trust Deed) may at any time purchase Bonds in any manner and at any price. If purchases are made by tender, tenders must be made available to all Bondholders alike.

(c) Issuer's Optional Redemption

Subject to Condition 2(c), the Issuer may at any time redeem all or, from time to time, some only (being £10,000,000 in principal amount or a higher integral multiple of £1,000,000) of the Bonds then outstanding by the payment of:—

- (i) accrued and unpaid interest up to but excluding the date of redemption; and
- (ii) (A) in respect of redemption made before 14th September 2023, the higher of the principal amount of, and the "Adjusted Redemption Price" (as defined below) in relation to, the Bonds to be redeemed. For the purposes of these Conditions the "Adjusted Redemption Price" shall mean such price as shall be determined by a leading bank and/or broker in London to be selected by the Issuer and approved by the Trustee as being the price expressed as a percentage (rounded if necessary to the third decimal place, with 0.0005 being rounded upwards) at which the gross redemption yield on the Bonds (calculated on the basis that the Bonds were to be redeemed at their principal amount and to have a final maturity date of 14th September 2023) would be equal to the gross redemption yield in respect of the 8 3/4 per cent. Treasury Stock 2017 (or such other stock issued by or on behalf of HM Government as may at such time have a final redemption date closer to

14th September 2023 and/or be more appropriate in the opinion of the Issuer, having taken advice from three brokers and/or gilt-edged market makers or such other three persons operating in the gilt-edged market as the Issuer may with the Trustee's approval select) on the basis of the arithmetic mean of the offered prices quoted for such stock on a dealing basis by three gilt-edged market makers at or about 3.00 p.m. on the Relevant Date (as defined below) and on the basis that the gross redemption yield in respect of the Bonds and in respect of such stock shall be calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries Vol. 105, Part 1, 1978, page 18. For this purpose "Relevant Date" means the date which is two London business days (as defined in Condition 5) prior to the despatch of the notice of redemption referred to in this Condition 4(c);

- (B) in respect of a redemption made on or after 14th September 2023, the principal amount of the Bonds to be redeemed.

To redeem any of the Bonds in accordance with this Condition 4(c), the Issuer shall give not less than 30 nor more than 60 days' notice in writing to each of the Holders of the Bonds to be redeemed stating the date fixed for redemption and the principal amount due for redemption and, with respect to Bonds in certificated form, naming the place at which the certificates relating to Bonds to be redeemed are to be surrendered. In the case of a partial redemption, the Bonds to be redeemed will be selected by or on behalf of the Issuer (on a basis approved by the Trustee) not more than 60 days prior to the date fixed for redemption. On or before the date fixed for redemption, each Holder of the Bonds in certificated form to be redeemed shall be bound to deliver to the Issuer at such place the relative Bond Certificate in order that the same may be cancelled (and, in the case of a redemption and cancellation of some only of the Bonds represented by such certificate, in order that a new Bond Certificate may be issued representing the reduced holding of Bonds). The Issuer shall,

on the date fixed for redemption (and in the case of Bonds in certificated form, against delivery as described above), pay to the Bondholder or to the representative joint holder (as defined in Condition 1(a)) appearing on the Register at the close of business on the fifteenth day before the date fixed for redemption at his address shown on the Register on such date, or in such other manner as the Issuer may reasonably determine, the amount due in respect of such redemption by sterling cheque drawn on a town clearing branch of a bank in London or by means involving electronic instructions or electronic transfer (subject in the case of Bonds in uncertificated form to the provisions of clause (m) of the Fourth Schedule to the Trust Deed). If any Holder of Bonds in certificated form, the subject of a notice for redemption, shall fail or refuse to deliver the relative Bond Certificate, the Issuer may (but shall not be obliged to) retain the relevant redemption monies until delivery of the Bond Certificate or provision of an indemnity in respect of the loss or destruction thereof on terms satisfactory to the Issuer (which may include a requirement for security to be provided). The receipt by the Holder for the time being of such Bonds, or in the case of joint Holders the receipt by any of them, of the redemption monies shall constitute an absolute discharge to the Issuer.

- (d) Mechanics for redemption of Bonds in uncertificated form
- (i) The provisions of this paragraph (i) shall apply in relation to any Bonds that are to be redeemed and that, on the due date for redemption of such Bonds (the "Redemption Date"), are in uncertificated form. Subject as provided in paragraph (ii) of this Condition 4(d), the Issuer shall send or procure that a sponsoring system-participant sends on its behalf an Issuer-Instruction to the Operator of the relevant system concerned requesting or requiring the cancellation or deletion of the appropriate computer-based entries in the relevant system concerned that relate to the Bonds to be redeemed (being or including entries that cause or could cause the Operator to generate an Operator-Instruction to the Issuer or to a sponsoring system-participant acting on its behalf to register a transfer of the Bonds). If necessary to obtain the same, the Issuer or a sponsoring system-participant on its behalf shall seek, by means of the relevant system concerned (or by such other means as the Issuer

shall see fit subject always to such other means being possible, having regard to the facilities and requirements of the relevant system concerned), confirmation of such cancellation or deletion and, on receipt of such confirmation in a form satisfactory to it, the Issuer shall pay, or procure to be paid, to the Holder of the Bonds the amount due in respect of the redemption of such Bonds.

(ii) In relation to any Bonds that are to be redeemed and that, on the Redemption Date, are (or, in the absence of this paragraph (ii), would or may be) in uncertificated form, the Issuer shall be entitled (subject to approval by the Trustee) to determine and/or alter the procedure for effecting the redemption in such manner as it shall, in its absolute discretion, see fit, subject always to the facilities and requirements of the relevant system concerned. In particular (but without limiting the generality of the foregoing):

(A) the Issuer-Instruction referred to in paragraph (i) of this Condition 4(d) may be given in such form as the Issuer may from time to time determine and may have such effect, and/or cause the Operator to take such action, in relation to the relevant system and the Bonds, as the Issuer may from time to time determine (consistent always with the facilities and requirements of the relevant system concerned and the redemption, on the Redemption Date, of the Bonds);

(B) if, at any relevant time prior to the Redemption Date concerned, the Issuer or any sponsoring system-participant acting on behalf of the Issuer is unable, for any reason, to send or receive properly authenticated dematerialised instructions, or alternatively if the Issuer so determines for any other reason, the Issuer may, so far as it is able having regard to the facilities and requirements of the relevant system concerned, require or request the Operator of the relevant system concerned to take the action referred to in paragraph (i) of this Condition 4(d) (subject always as provided in sub-paragraph (A) above) by some means other than by means of an Issuer-Instruction, or alternatively the Issuer may (by notice in writing to the Holder

concerned, which notice may be included in the notice of redemption concerned) require the Holder of the Bonds that are then in uncertificated form to change the form of such Bonds from uncertificated to certificated form prior to the Redemption Date and the costs of such change shall be borne by the Issuer.

(e) Cancellation

All Bonds redeemed by the Issuer will be cancelled forthwith and such Bonds may not be reissued or resold. Bonds purchased by the Issuer or any other member of the Group may be held or resold or surrendered for cancellation.

5. Payments

- (a) Payments of principal on the Bonds or accrued interest pursuant to Condition 3(a) payable other than on an Interest Payment Date will be made to the persons shown in the Register at the close of business on the fifteenth day before the relevant payment date (the "Record Date").

Payments of interest (including the PIBS Interest Payment) due on an Interest Payment Date will be made to the persons shown in the Register at the close of business on the Record Date.

Each such payment will (subject to Condition 2(c) and, in relation to Bonds in uncertificated form, the provisions of clause (m) of the Fourth Schedule to the Trust Deed) be made by sterling cheque drawn on a town clearing branch of a bank in London and mailed not later than the day (other than a Saturday or a Sunday) on which banks are open for business in London (a "London business day") preceding the due date for payment (at the risk and, if mailed at the request of the Holder otherwise than by ordinary mail, expense of the Holder) to the Holder or to the representative joint holder of the relevant Bonds at his registered address or by means involving electronic instructions or electronic transfer or in accordance with mandate instructions acceptable to the Registrar. In no event will interest payments be mailed to an address

in the United States. Payments will be subject in all cases to any applicable fiscal and other laws and regulations.

- (b) The initial Registrar is Independent Registrars Group Limited and its initial specified office is Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU. The Issuer reserves the right, subject to the approval of the Trustee (such approval not to be unreasonably withheld), at any time to vary or terminate the appointment of the Registrar and to appoint another registrar, provided that it will at all times maintain a registrar with a specified office in the United Kingdom. Notice of any such termination or appointment and of any changes in the specified office of the Registrar will be given to the Bondholders in accordance with Condition 15.

6. Taxation

All payments of principal and interest (including the PIBS Interest Payment) in respect of Bonds shall be made subject to deduction of any United Kingdom tax required to be withheld at source.

7. Default

- (a) If the Issuer shall not make any payment of principal in respect of the Bonds for a period of 14 days or more after the due date for the same or shall not make payment of interest (including the PIBS Interest Payment) for a period of 14 days or more after a Compulsory Interest Payment Date or any other date upon which the payment of interest (including the PIBS Interest Payment) is compulsory, the Trustee may institute proceedings in England (but not elsewhere) for the winding-up of the Issuer and prove in such winding-up.
- (b) 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 Bonds (other than any other obligation for payment of any principal or interest in respect of Bonds) provided that the Issuer shall not by virtue of any such proceedings be obliged to pay (i) any sum or sums representing principal or interest in respect of the Bonds sooner than the same would otherwise have been payable by it or

(ii) any damages (save in respect of the Trustee's fees and expenses incurred by it in its personal capacity).

The restriction on the payment of damages would have the effect of limiting the remedies available to the Trustee in the event of a breach of certain covenants (other than payment covenants) by the Issuer.

8. Enforcement of Rights

The Trustee shall not be bound to take any of the actions referred to in Condition 7 above to enforce the obligations of the Issuer under the Trust Deed, unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in principal amount of the Bonds then outstanding and (ii) it shall have been indemnified to its satisfaction. No Bondholder shall be entitled to institute proceedings 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, in which event any Bondholder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute such proceedings and/or prove in the winding-up of the Issuer to the same extent and in the same jurisdiction (but not further or otherwise) that the Trustee would have been entitled so to do in respect of his Bonds.

No remedy against the Issuer, other than as referred to in Condition 7, shall be available to the Trustee or the Bondholders, whether for the recovery of amounts owing in respect of the Bonds 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 Bonds or under the Trust Deed.

9. Prescription

Claims against the Issuer for the payment of principal and interest (including the PIBS Interest Payment) shall be prescribed unless made within 12 years (in the case of principal) and six years (in the case of interest (including the PIBS Interest Payment)) from the Relevant Date.

The "Relevant Date" in respect of any payment means the date on which such payment first becomes due or (if the full amount of the moneys payable has not been duly received by the Registrar or the Trustee on or prior to such date) the date on which notice is given to the Bondholders that such moneys have been so received.

10. Meetings of Bondholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of the terms and conditions of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority of the principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds for the time being outstanding so held or represented, except that at any meeting the business of which includes the modification of certain of the terms and conditions of the Bonds or certain of the provisions of the Trust Deed the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders shall be binding on all Bondholders, whether or not they are present at the meeting.

The Trust Deed provides for a resolution in writing signed by or on behalf of the Holder or Holders of not less than 90 per cent. of the Bonds for the time being outstanding to be as effective and binding as if it were an Extraordinary Resolution duly passed at a meeting of the Bondholders.

The Trust Deed also provides that the Trustee may agree, without the consent of the Bondholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of the terms and conditions of the Bonds or any of the provisions of the Trust Deed which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any

modification which is of a formal, minor or technical nature or which is made to correct a manifest error. Any such modification, waiver or authorisation shall be binding on the Bondholders and, unless the Trustee agrees otherwise, shall be notified to the Bondholders in accordance with Condition 15 as soon as practicable thereafter.

11. Substitution

- (a) Subject as provided in the Trust Deed, the Trustee shall, if so requested by the Issuer, agree, without the consent of the Bondholders, to the substitution of any Successor in Business (as defined in the Trust Deed) of the Issuer or a holding company of the Issuer or of a subsidiary (as defined in the Trust Deed) of the Issuer or of any such Successor in Business or of any such holding company in place of the Issuer as principal debtor under the Trust Deed and the Bonds provided:
 - (i) in the case of the substitution of any company which is a subsidiary of the Issuer or of such Successor in Business or of such holding company, that the obligations of such subsidiary in respect of the Trust Deed and the Bonds shall be guaranteed by the Issuer or such Successor in Business or such holding company in such form as the Trustee may require 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 Bonds; and
 - (ii) in the case of the substitution of a banking subsidiary (as defined in the Trust Deed) in the place of the Issuer, that the obligations of such banking subsidiary in respect of the Bonds shall be subordinated to the rights of Senior Creditors (as defined in Condition 2, but with the substitution of references to that subsidiary in place of references to the "Issuer").
- (b) In the case of a substitution pursuant to this Condition, the Trustee may in its absolute discretion agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed and/or the Registrar's Agreement and to such other amendments to the Trust Deed and such other conditions as the Trustee may require provided that such change, amendment or condition would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders.

12. Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further securities shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Terms and Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

13. Replacement of Bonds

Should any Bond Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar (or such other place of which notice shall be given in accordance with Condition 15) upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security and indemnity as the Issuer may reasonably require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

14. Indemnification and Exercise of Functions

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or any other member of the Group without accounting for any profit resulting therefrom.

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, without limitation, any proposed modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers, authorities or discretions for individual Bondholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

15. Notices

Notices to Bondholders will be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday after the date of mailing.

16. Governing Law

The Trust Deed and the Bonds are governed by and shall be construed in accordance with English law.

CAPITALISATION AND INDEBTEDNESS

The following table represents, on a consolidated basis, the Society's general reserves, its subscribed capital, its dated loan capital and its non-retail indebtedness.

As at
31st December 1996
(Audited, actual)
(in millions of £)

General reserves and subscribed capital

General reserves	<u>6,605</u>
Subscribed capital	
12 per cent. Permanent Interest Bearing Shares (<i>Note 1</i>)	100
8 3/4 per cent. Permanent Interest Bearing Shares (<i>Note 1</i>)	100
13 5/8 per cent. Permanent Interest Bearing Shares (<i>Note 1</i>)	75
Total subscribed capital	<u>275</u>

As at
30th April 1997
(Unaudited, actual)
(in millions of £)

Dated loan capital

10 1/2 per cent. Subordinated Bonds due 1998	50
Subordinated Variable Rate Notes due 2001	50
8 3/4 per cent. Subordinated Bonds 2006	400
Floating Rate Subordinated Notes 2009	75
Step-up Callable Floating Rate Subordinated Notes 2012	200
11 per cent. Subordinated Bonds 2014	250
10 1/2 per cent. Subordinated Bonds Due 2018	150
9 3/8 per cent. Subordinated Bonds 2021	500
Total	<u>1,675</u>

As at
30th April 1997
(Unaudited, actual)
(in millions of £)

Non-retail Indebtedness

Amounts owed to credit institutions	3,495
Debt securities in issue	
Certificates of deposit	3,201
Negotiable bonds	24
Fixed and floating rate notes (Note 3)	6,194
Other deposits and loans	3,790
Accrued interest	206
	<hr/>
Total Non-retail Funds and Deposits (Note 2)	16,911
	<hr/>

(1) Following conversion, the three classes of Permanent Interest Bearing Shares ("PIBS") will be replaced by three series of perpetual subordinated bonds of Halifax plc. These bonds will have a principal amount equal to the principal amount of the class of PIBS they replace and will carry the same rate of interest as those PIBS.

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

(3) Since 30th April 1997 the Issuer has issued fixed and floating rate notes in an amount of £52,750,000 and has redeemed fixed and floating rate notes in an amount of £129,598,260.

(4) There have been no changes in the Issuer's subscribed capital (including no changes in the outstanding amount of the Permanent Interest Bearing Shares) since 31st December 1996 nor, save as mentioned above, has there been any change in its dated loan capital, nor any material change in its non-retail indebtedness since 30th April 1997.

HALIFAX PLC

CONSTITUTION

Halifax plc ("Halifax" or the "company") is the successor company to which Halifax Building Society (the "Society") will transfer its business pursuant to section 97 of the Building Societies Act 1986 (the "Act").

The company was incorporated and registered in England and Wales on 31st March 1989 under the name Listmid Limited under the Companies Act 1985 (as amended) with registered number 2367076. On 16th October 1989, the name of the company was changed to Halifax Loans (No.2) Limited and, on 19th March 1993, the name was changed again to Halifax Syndicated Loans Limited. On 4th December 1996, the company was reregistered as a public limited company and its name was changed to Halifax plc.

The transfer of the Society's business is expected to become effective on 2nd June 1997 upon the Bank of England's authorisation of Halifax under the Banking Act 1987 and its share capital being admitted to the Official List of the London Stock Exchange.

HISTORY

The Society was founded in 1853 as the Halifax Permanent Building Society. It was incorporated in England in 1875 under the Building Societies Act 1874 and in 1928 it amalgamated with the Halifax Equitable Benefit Building Society to form the Halifax Building Society.

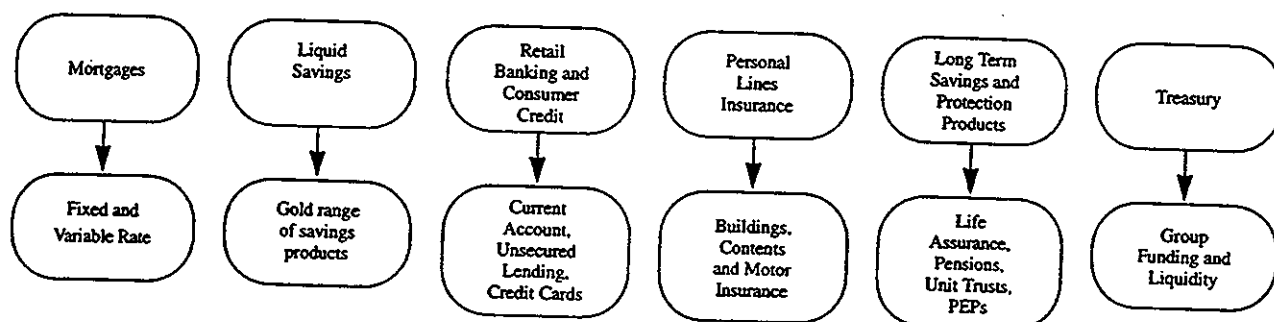
On 1st August 1995, Leeds Permanent Building Society (the "Leeds") transferred its engagements to the Society under section 94 of the Act. On 31st December 1996, the Group acquired the business of Clerical, Medical and General Life Assurance Society. This acquisition was a key step in the implementation of Halifax's strategy to develop its long term savings and protection product business.

BUSINESS DESCRIPTION

Introduction

Halifax and its subsidiaries comprise a group (the "Group") which is a leading provider of personal financial services in the United Kingdom. In the 11 month period ended 31 December 1996, the Group achieved profit on ordinary activities before tax of £892.7 million after charging exceptional merger and integration costs of £208.9 million and making an exceptional provision of £51.5 million for loss on disposal of certain fixed assets. Exceptional conversion costs of £152.9 million were also charged in that period. The underlying profit on ordinary activities before tax for that period was therefore £1,306.0 million. Total assets were £115.5 billion at that date.

Halifax products and services can be categorised into six key business sectors. In late 1996, Halifax re-aligned management responsibilities to allow it to focus more clearly on each key business sector.



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

Halifax uses a number of different distribution channels to deliver its products and services. These are set out below and are described in more detail later in this business description.

Branches	Estate Agency	Agents and Intermediaries	Automated Teller Machines	Financial Advisers	Telephone Distribution
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Key Business Sectors

Mortgages

The Group's activity in the United Kingdom mortgage market is dominated by residential mortgage lending. As at 31 December 1996, it was the United Kingdom's largest residential mortgage lender with outstanding residential mortgage balances of £79.2 billion, representing approximately 19.4 per cent. of all United Kingdom residential mortgage balances. The Group offers a wide range of mortgage products including fixed rate and variable rate mortgages together with a number of repayment options including pension, personal equity plan ("PEP"), endowment and repayment mortgages.

The Group has separate businesses which operate as centralised lenders. These businesses are grouped under Halifax Loans Limited, which is used for acquiring and managing mortgage books. During 1995, Halifax Loans Limited acquired the centralised mortgage lending operations of Banque Nationale de Paris in the United Kingdom, adding approximately £1.4 billion to Halifax's residential mortgage balances. In 1996, it acquired the United Kingdom centralised mortgage lending operations of Banque Paribas, adding approximately £335 million to Halifax's residential mortgage balances.

Halifax has an arrears policy which ensures careful management of mortgage customers facing repayment difficulties and follows the Statement of Practice on Arrears and Possessions published by the Council of Mortgage Lenders. As at 31 December 1996, the total number of loans where payments were 12 months or more in arrears represented 0.66 per cent. of total loans, broadly in line with the Council of Mortgage Lender's average of 0.63 per cent.

Liquid Savings

The Group has more retail saving balances than any other United Kingdom financial institution. As at 31 December 1996, Halifax had retail savings balances amounting to some £77.1 billion in over 19 million savings accounts.

As at 31 December 1996, Halifax's corporate business operation administered savings schemes for approximately 1.1 million employees of some 400 United Kingdom companies

Halifax also offers its customers a range of offshore investment accounts through Halifax International (Jersey) Limited and Halifax International (Isle of Man) Limited.

Retail Banking and Consumer Credit

Retail banking and consumer credit includes the Halifax Current Account, debit cards, credit cards and personal loans. The Halifax Current Account was introduced in 1989. As at 31 December 1996, Halifax was operating some 1.6 million current accounts, giving it a United Kingdom market share of approximately 4 per cent.

Halifax currently offers two credit cards, Halifax Visa Card and Halifax Visa Charity Card. There were approximately 830,000 such cards in issue as at 31 December 1996 and Halifax had a 2.6 per cent. market share of outstanding balances on United Kingdom credit cards at that date. It also achieved an approximate 3 per cent. share of all new credit cards issued in the year to 31 December 1996.

Halifax had some 310,000 unsecured personal loan accounts with outstanding balances of approximately £780 million as at 31 December 1996. In addition, Halifax provides secured personal loans and had approximately 60,000 of these outstanding with balances totalling some £300 million as at 31 December 1996.

Personal Lines Insurance

The directors of the Society believe that Halifax is the United Kingdom's leading intermediary in the arrangement of buildings and contents insurance. Whilst it does not underwrite this insurance, it receives commission income on the policies which it arranges. During the 11 month period ended 31 December 1996, around two million policies were arranged by Halifax, predominantly for buildings and contents insurance.

The vast majority of Halifax's building and contents policies issued since 1 June 1996 have been underwritten by Royal & Sun Alliance plc, one of the United Kingdom's largest general insurers. Halifax's agreement with Royal & Sun Alliance plc enables it to benefit from economies of scale in purchasing underwriting capacity and allows it to play an active role in product design and the standard of customer service delivered. Halifax retains the option to underwrite this business in the future, if it believes this is appropriate. Halifax's accident, sickness and unemployment insurance policies for mortgages and personal lending are underwritten by Consolidated Financial Insurance Limited, a subsidiary of General Electric Capital Corporation.

Halifax announced on 2 December 1996 the launch of a motor insurance product underwritten by Churchill Insurance. Halifax intends to extend its product range into other personal lines insurance products where appropriate.

Long Term Savings and Protection Products

Although certain liquid savings products may be suitable for longer term savers, the Group also provides products for longer term savers such as life assurance, pensions, unit trusts and PEPs through Clerical Medical Investment Group Limited (the Group subsidiary which acquired the business of Clerical, Medical and General Life Assurance Society) and Halifax Financial Services.

Halifax Financial Services distributes the products of Halifax Life Limited and Halifax Unit Trust Management Limited, both of which were established in 1995, through the branch network, estate agencies and some 720 Personal Financial Advisers. Halifax also provides customers with independent financial advice through its subsidiary, Halifax Independent Financial Advisers Limited ("HIFAL"), which employs around 130 financial advisers to market non-Halifax branded products.

Clerical Medical Investment Group Limited had funds under management of approximately £16.2 billion as at 31 December 1996 and 1.0 million plans in issue as at that date. Halifax Life had some 140,000 plans in issue as at 31 December 1996 and some 100,000 customers had invested in unit trusts or PEPs through Halifax Unit Trust Management Limited at that date. Halifax Fund Management Limited had total funds under management of some £1.9 billion as at that date.

Treasury

Treasury supports the Group's activities by managing liquidity, raising wholesale funds and managing interest rate and currency risk for the Group. As at 31 December 1996, Halifax's liquid assets totalled £18.2 billion whilst obligations in respect of wholesale funds amounted to £15.0 billion at that date. As well as providing liquidity, the investment portfolios in sterling and other currencies improve the Group's profitability by providing higher returns than those available in the interbank markets.

A further contribution to the Group's profitability is made by Treasury's commercial lending portfolio, which mainly comprises loans to housing associations. The Group is also developing a leasing business.

Other activities

Halifax has a wholly-owned Spanish subsidiary, Banco Halifax Hispania S.A. ("BHH"), which commenced trading in 1993 and currently has four branches. BHH has focused on retail deposit taking and mortgage lending. As at 31 December 1996, BHH had total assets denominated in pesetas equating to £49.8 million (based on an exchange rate of 222.2 pesetas/£).

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

Distribution

Halifax has a number of distribution channels which provide low cost, national distribution in the United Kingdom. These are designed to deliver a full range of Halifax's products whilst providing a high level of customer service.

Branches

As at 31 December 1996, Halifax had over 970 branches. The branches remain the primary outlets for the Group's lending, savings and banking services as well as providing the base for those personal financial advisers who are authorised to sell Halifax's life assurance, pensions and unit trusts. Halifax has a national network with a substantial branch presence in each region of the United Kingdom.

Estate Agency

In addition to acting as agent on property transactions, Halifax Estate Agencies Limited ("HEAL") is a significant distributor of mortgage products and introduced to the Group some 8.4 per cent. by value of all new mortgages written by Halifax in the 11 month period ended 31 December 1996. HEAL also distributes personal lines insurance and generates customer introductions to Halifax Financial Services for the sale of long term savings and protection products. Halifax had the United Kingdom's second largest residential estate agency network, with 634 such offices as at 31 December 1996.

Agents and Intermediaries

As at 31 December 1996, the branch network was supplemented by around 1,100 agency offices (including over 250 HEAL outlets which provide agency services). The agency network offers a range of Halifax services and is a service provider and generator of business for Halifax. The agencies undertake transactions on behalf of Halifax, for which Halifax pays commission.

In addition, Halifax sources mortgage business through the independent intermediary sector and in the 11 month period ended 31 December 1996, intermediaries introduced some 45 per cent. of Halifax's mortgage business.

Automated Teller Machines (ATMs)

As at 31 December 1996, Halifax had over 1,850 ATMs and also had access to around a further 9,900 ATMs through reciprocal arrangements with other financial institutions.

Financial Advisers

Halifax offers financial advice to its customers through some 850 financial advisers all of whom undergo training, leading to a professional qualification.

Telephone Distribution

Telephone distribution is primarily undertaken by Halifax Direct which, in capacity terms, is one of the largest computer integrated call centres in Europe with capacity for up to 1,300 telephone operators. In February 1997, Halifax Direct was handling, on average, almost 30,000 calls per weekday of which around 23,700 related to current account enquiries and instructions. Although its current focus is on current account operations and customer helplines, it provides Halifax with the potential to distribute a wide range of products and services such as personal loans and personal lines insurance products.

BOARD OF DIRECTORS

The Directors of the company (as at the date hereof), their responsibilities and their principal outside activities are as follows:

Name	Responsibilities	Principal outside activity
H J Foulds FCIB CIMgt	Chairman	Non-Executive Director of Mercury Asset Management Group plc.
J L Wood MA	Vice-Chairman	Non-Executive Director of Bibby Line Group Limited.
J M Blackburn FCIB CIMgt FRSA	Chief Executive	
R F Boyes FCMA MInstD FRSA	Group Finance Director	
J R Crosby BA FFA	Financial Services and Insurance Director	
M H Ellis BA CPFA FCT	Banking and Savings Director	
G J Folwell CPFA FCT IRRV	Deputy Chief Executive	
J A Lee B Soc Sci FIPD	Group Personnel and Services Director	
J R Miller MSc MBA	Housing and Technology Director	
The Right Hon the Lord Chadlington	Director	Chairman of Shandwick International plc.
R J Chapman MA FCA CIMgt	Director	Non-Executive Chairman of the Post Office Pension Fund and a Non-Executive Director of Eurotunnel plc
A L Coleby MA	Director	Director of Anglo Irish Bank Corporation plc, Corpus Christi Development plc and Italian International Bank plc.
N L Colne CBE	Director	Non-Executive Director of Woolworths South Africa.

D E Cook TD MA FSS FTI CIMgt	Director	Non-Executive Director of several large plcs including Powell Duffryn plc, MFI Furniture Group plc, Littlewoods Organisation plc and Kwik Save plc
D G R Ferguson MA FIA Dip Ag Sci	Director	Senior Partner of Bacon and Woodrow, actuaries and consultants and is President of the Institute of Actuaries
R N Hodge BEng FIPD	Director	Chairman of Addis Ltd, Enron Europe Ltd, WRc plc and Tech Board plc and a Non-Executive Director of BTP plc and Organization Resources Counsellors Incorporated
J A Kay MA	Director	Chairman of London Economics Ltd and a Director of the National Institute of Economic & Social Research.
P M Leith OBE FRSA	Director	Non-Executive Chairman of the Royal Society for the Encouragement of Arts, Manufacturing and Commerce and is a Non-Executive Director of Whitbread plc
P G Rogerson FCA FCT	Director	Deputy Chairman of BG plc.
P L M Sherwood MA MBA	Director	Non-Executive Chairman of HTV Group plc and a Non-Executive Director of several other companies

All of Trinity Road, Halifax, West Yorkshire HX1 2RG.

UNITED KINGDOM TAXATION

The following is a summary of Halifax plc's understanding of current law and practice in the United Kingdom relating to taxation of the Bonds.

Some aspects do not apply to certain classes of taxpayer (such as dealers). Prospective Bond holders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Interest on the Dated Bonds

1. The Dated Bonds will constitute "quoted Eurobonds" within the meaning of section 124 of the Income and Corporation Taxes Act 1988 (the "Act") while the Dated Bonds remain in bearer form and are listed on a "recognised stock exchange" within the meaning of section 841 of the Act (the London Stock Exchange is recognised for these purposes). Accordingly, payments of interest on the Dated Bonds may be made without withholding or deduction for or on account of United Kingdom income tax:
 - (a) where payment is made through an overseas paying agent; or
 - (b) if payment is made by or through a paying agent in the United Kingdom and either
 - (i) the Dated Bonds are held in a "recognised clearing system" within the meaning of section 841A of the Act (Euroclear and Cedel Bank are recognised for these purposes); or
 - (ii) the person who is the beneficial owner of the Dated Bonds and beneficially entitled to the interest is not resident in the United Kingdom;

and, in the case of (b), any other administrative conditions imposed by regulations made under the Act have been satisfied.

In all other cases an amount must be withheld on account of income tax at the lower rate (currently 20%), subject to any direction to the contrary by the Inland Revenue under an applicable double taxation treaty.

2. If any person in the United Kingdom who, in the course of a trade or profession:
 - (a) acts as a custodian of the Dated Bonds and receives interest or has it paid at its discretion or with its consent to another person; or
 - (b) collects or secures payment of or receives interest on the Dated Bonds for another person (other than merely by clearing, or arranging to clear, a cheque),

that person will be treated as a "collecting agent" and required to withhold on account of United Kingdom income tax at the lower rate from such interest unless:

- (i) the Dated Bonds are held in a recognised clearing system (as described above) and the collecting agent pays or accounts for the interest directly or indirectly to the recognised clearing system; or

- (ii) the Dated Bonds are held in a recognised clearing system and the collecting agent is acting as depositary for the recognised clearing system; or
- (iii) the person beneficially entitled to the interest is not resident in the United Kingdom and beneficially owns the Dated Bonds,

and in cases (i) and (iii) any other administrative conditions imposed by regulations made under the Act have been satisfied.

There are also other exemptions for certain types of Dated Bond holder (e.g. pension funds, charities and non-resident trusts).

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

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Dated Bond holder who is not resident for tax purposes in the United Kingdom unless that Dated Bond holder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Dated Bonds are attributable. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

Interest on the Perpetual Bonds

4. Payments of interest on the Perpetual Bonds will be made under deduction of United Kingdom income tax at the lower rate by Halifax plc unless Halifax plc has previously been directed by the Inland Revenue, in relation to a particular holding of Perpetual Bonds, to make payment free of deduction or subject to a reduced deduction by virtue of relief available to the holder of such Perpetual Bonds under an applicable double taxation treaty. Such directions will be issued only on prior application to the relevant tax authorities by the Perpetual Bond holder in question.

Notwithstanding that interest is received subject to a deduction of income tax, holders of Perpetual Bonds who are resident in the United Kingdom for tax purposes or holders who are non-resident and carrying on a trade in the United Kingdom through a branch or agency, may either be liable to pay further United Kingdom tax on the interest received or be entitled to a refund of all or part of the tax deducted depending on their individual circumstances.

Halifax plc will not pay any additional amounts to holders of Perpetual Bonds by way of compensation for any withholding or deduction for or on account of tax that it is, or may in the future be, required to make in respect of interest paid on the Perpetual Bonds.

United Kingdom Corporation Tax Payers

5. In general Bond holders which are within the charge to UK corporation tax will be charged to tax on all profits and gains arising from the Bonds broadly in accordance with their statutory accounting treatment. Such Bond holders will generally be charged to tax in each accounting period by reference to interest accrued in that period and to any profits and gains arising in that period.

Other United Kingdom Tax Payers

Taxation of Chargeable Gains

6. The Bonds will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Bond holder will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

Accrued Income Scheme

7. The 2012 Notes and the 2001 Notes will be regarded by the Inland Revenue as variable rate securities. Accordingly a transfer of the 2012 Notes or the 2001 Notes by a holder who is resident or ordinarily resident in the United Kingdom or who carries on a trade in the United Kingdom through a branch or agency to which the 2012 Notes or the 2001 Notes are attributable may give rise to a charge to tax on income in respect of interest on the 2012 Notes or the 2001 Notes which has accrued since the preceding interest payment date in such an amount as the Inland Revenue deem just and reasonable. A transferee of the 2012 Notes or the 2001 Notes with accrued interest will not be entitled to any corresponding allowance under the Accrued Income Scheme. Subject to paragraph 1. above, on a disposal of Bonds by a Bond holder, any interest which has accrued since the last interest payment date may be chargeable to tax as income if that Bond holder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Bonds are attributable.

Stamp Duty and SDRT

8. No stamp duty or stamp duty reserve tax is payable on a transfer of the Bonds by delivery or on registration.

GENERAL INFORMATION

1. The listing of the Bonds on the London Stock Exchange will be expressed as a percentage of their principal amount (excluding accrued interest). Transactions will normally be effected for settlement in sterling and for delivery on the third working day after the date of the transaction. It is anticipated that such listing will be granted on 30th May 1997.
2. Under current regulatory requirements no repayment of the Bonds for taxation reasons or, in respect of the Perpetual Bonds, at the option of Halifax plc and no purchase of the Bonds may be made without the consent (while Halifax plc is an authorised institution under the Banking Act 1987) of the Bank of England.
3. The Dated Bonds have been accepted for clearance in Euroclear and Cedel Bank. The Perpetual Bonds, which will be issued in definitive registered form, will be eligible for settlement through CREST.
4. Halifax plc is incorporated in England.
5. There has been no significant change in the financial or trading position of the Group and no material adverse change in the prospects of the Group since 31st December 1996.
6. Neither Halifax plc nor any member of the Group is involved in any legal or arbitration proceedings which may have, or have had during the past 12 months, a significant effect on the Group's financial position, nor is Halifax plc aware that such proceedings are pending or threatened.
7. The accounts of the Society and the Group for the three years ended 31st January 1996 have been audited by KPMG, and for the 11 months ended 31st December 1996, have been audited by KPMG Audit Plc, each Chartered Accountants and Registered Auditors, in accordance with Auditing Standards and have been reported upon without qualification. The financial information in this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Statutory accounts relating to each financial period of the Society to which the financial information relates have not been delivered to the Registrar of Companies in England and Wales. However, annual accounts relating to each such period have been delivered to the Building Societies Commission in accordance with the requirements of the Act.
8. Each of KPMG and KPMG Audit Plc have given and have not withdrawn their written consent to the inclusion in this document of their name, and such statements, letters and reports as are attributed to them, in the forms and contexts in which they are included, and have authorised the contents of those parts of the Listing Particulars for the purposes of the Act and section 152(1)(e) of the FSA.
9. Copies of the following documents may be inspected at the offices of Allen & Overy, One New Change, London EC4M 9QQ during usual business hours on any weekday (Saturdays and public holidays excepted) during the period of 14 days from the date of this document:
 - (i) the Memorandum and Articles of Halifax plc;
 - (ii) the audited accounts of the Society and the Group for each of the years ended 31st January 1995 and 1996 and for the 11 months ended 31st December 1996, the accountants' report on Halifax Building Society and its subsidiaries and the accountants' report on Leeds Permanent Building Society and its subsidiaries; and

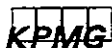
- (iii) the Trust Deed (which contains the forms of the Temporary Global Bond, the Permanent Global Bond, the Bonds and the Coupons appertaining thereto), the Paying Agency Agreement and a draft of the Supplemental Trust Deed in respect of each issue of Dated Bonds, a draft of the Trust Deed (which contains the form of registered Bond Certificate) and the Registrar's Agreement in respect of each issue of Perpetual Bonds and the Transfer Document produced in connection with the transfer of the business of the Society to Halifax plc.

**APPENDIX
(FINANCIAL INFORMATION)**

PART IV: ACCOUNTANTS' REPORTS

A. Accountants' report on Halifax Building Society and its subsidiaries

The following is the text of a report to the directors of the Society, the directors of Halifax plc and the directors of Morgan Grenfell & Co. Limited by KPMG Audit Plc.



KPMG Audit Plc

1 The Embankment
Neville Street
Leeds
LS1 4DW

The Directors
Halifax plc
Trinity Road
HALIFAX
HX1 2RG

The Directors
Halifax Building Society
Trinity Road
HALIFAX
HX1 2RG

The Directors
Morgan Grenfell & Co. Limited
6 Bishopsgate
LONDON
EC2N 4DA

25th April 1997

Dear Sirs

Halifax Building Society

In connection with the introduction of the ordinary shares of Halifax plc to the Official List of the London Stock Exchange, we have prepared two separate accountants' reports covering the three year and 11 month period ended 31st December 1996 for Halifax Building Society and the one year and 10 month period ended 31st July 1995 for Leeds Permanent Building Society. Leeds Permanent Building Society transferred its engagements to Halifax Building Society on 31st July 1995. If this transfer of the engagements had occurred as at the date of this document, then, under the rules of the London Stock Exchange, this would have been deemed a transaction requiring shareholder approval. It is not possible to identify separately the contribution attributable to the former Leeds Permanent Building Society which has occurred since the transfer of engagements due to the extensive integration of operations. We have therefore reported separately on the results of Leeds Permanent Building Society for the one year and 10 month period ended 31st July 1995.

We have examined the audited accounts of Halifax Building Society (the "Society") and of its subsidiary undertakings (collectively referred to as the "Group") for the three years ended 31st January 1996 and the 11 month period ended 31st December 1996; our examination has been carried out in accordance with the Auditing Guideline: Prospectuses and the reporting accountant.

PART IV: ACCOUNTANTS' REPORTS

KPMG were auditors of the Group for the years ended 31st January 1994, 31st January 1995 and 31st January 1996. KPMG Audit Plc were auditors of the Group for the 11 month period ended 31st December 1996.

No audited accounts of the Group have been made up in respect of any period subsequent to 31st December 1996.

The financial information set out in this report is prepared on the basis described in note 1 and is based on the audited accounts of the Group after making such adjustments which we consider necessary. We have not included the accounts of the Society as these do not provide any significant additional information to that contained in the consolidated accounts.

In our opinion the financial information gives, for the purposes of the listing particulars dated 25th April 1997, a true and fair view of the income and expenditure and source and application of funds of the Group for each of the three years ended 31st January 1996 and the 11 month period ended 31st December 1996 and of the state of affairs of the Group at the dates stated.

Group income and expenditure accounts

		Year ended 31st January			11 month period ended 31st December 1996
	Notes	1994 £m	1995 £m	1996 £m	£m
Interest receivable	4	4,926.5	4,958.8	6,461.6	5,940.1
Interest payable	5	3,415.5	3,474.7	4,599.3	3,989.4
Net interest receivable		1,511.0	1,484.1	1,862.3	1,950.7
Income from associated undertakings		6.2	8.3	1.5	—
Other income and charges	6	365.9	399.9	427.4	527.1
		1,883.1	1,892.3	2,291.2	2,477.8
Administrative expenses					
Exceptional — merger and integration costs	7	—	—	112.5	208.9
Exceptional — conversion costs	7	—	—	—	152.9
Ongoing	8	746.1	780.6	968.9	1,040.8
		746.1	780.6	1,081.4	1,402.6
		1,137.0	1,111.7	1,209.8	1,075.2
Provisions for bad and doubtful debts	12	271.2	88.1	86.1	106.3
Provisions for contingent liabilities and commitments	27	—	48.5	22.3	24.7
Operating profit		865.8	975.1	1,101.4	944.2
Provision for loss on disposal of fixed assets	19	—	—	—	51.5
Profit on ordinary activities before tax		865.8	975.1	1,101.4	892.7
Tax on profit on ordinary activities	13	291.6	324.3	378.8	353.2
Profit for the financial year/period ⁽¹⁾	30	574.2	650.8	722.6	539.5
Underlying profit on ordinary activities before tax ⁽²⁾		865.8	975.1	1,213.9	1,306.0
Net interest margin ⁽³⁾ (%)		2.32	2.13	2.18	1.94
Cost/income ratio ⁽⁴⁾ (%)		39.6	41.3	42.3	42.0

Notes:

- (1) Profit for the financial period, before exceptional items (tax adjusted) would have been £855.1m for the 11 month period ended 31st December 1996.
- (2) Underlying profit on ordinary activities before tax is calculated by adding back exceptional merger and integration costs and exceptional provision for loss on disposal of certain fixed assets and exceptional conversion costs to profit on ordinary activities.
- (3) The net interest margin is net interest receivable expressed as a percentage of mean total assets, excluding long term assurance assets attributable to policyholders.
- (4) The cost/income ratio is ongoing administrative expenses expressed as a percentage of total income (i.e. the sum of net interest receivable, income from associated undertakings and other income and charges).

PART IV: ACCOUNTANTS' REPORTS

The figures for the year ended 31st January 1996 and for the 11 month period ended 31st December 1996 incorporate the results of the business formerly undertaken by Leeds Permanent Building Society and its subsidiaries from 1st August 1995, the date of the transfer of engagements to Halifax Building Society (note 2).

Group statement of total recognised gains and losses

	Year ended 31st January			11 month period ended 31st December
	1994	1995	1996	1996
	£m	£m	£m	£m
Profit for the financial year/period	574.2	650.8	722.6	539.5
Foreign currency translation differences on subsidiary undertaking	(2.8)	0.9	3.7	(6.5)
Total recognised gains and losses relating to the year/period	<u>571.4</u>	<u>651.7</u>	<u>726.3</u>	<u>533.0</u>

Note of historical cost profits and losses

		Year ended 31st January			11 month period ended 31st December
		1994	1995	1996	1996
	Notes	£m	£m	£m	£m
Reported profit on ordinary activities before tax		865.8	975.1	1,101.4	892.7
Movement in value of long term assurance business	22	—	—	(9.3)	(30.9)
Historical cost profit on ordinary activities before tax		<u>865.8</u>	<u>975.1</u>	<u>1,092.1</u>	<u>861.8</u>
Historical cost profit for the financial year/period		<u>574.2</u>	<u>650.8</u>	<u>715.3</u>	<u>518.8</u>

PART IV: ACCOUNTANTS' REPORTS

Group balance sheets

		<i>As at 31st January</i>			<i>As at</i>
	<i>Notes</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>31st December</i>
		<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>1996</i>
					<i>£m</i>
Assets					
Liquid assets	14	11,144.3	12,313.4	17,563.1	18,241.6
Commercial assets	15				
Advances secured on residential property		54,189.6	57,736.4	77,238.7	79,182.1
Other advances secured on land		741.5	840.4	1,194.5	1,402.0
Other commercial assets	16,17,18,35	359.9	465.7	1,055.1	2,024.0
		<u>55,291.0</u>	<u>59,042.5</u>	<u>79,488.3</u>	<u>82,608.1</u>
Tangible fixed assets	19	460.5	512.8	834.4	889.4
Other assets	20	30.7	48.8	140.3	219.5
Prepayments and accrued income	21	230.6	233.3	477.9	325.8
		<u>67,157.1</u>	<u>72,150.8</u>	<u>98,504.0</u>	<u>102,284.4</u>
Long term assurance assets attributable to policyholders	22	—	—	150.5	13,254.7
Total assets		<u><u>67,157.1</u></u>	<u><u>72,150.8</u></u>	<u><u>98,654.5</u></u>	<u><u>115,539.1</u></u>
Liabilities					
Shares, deposits and loans					
Retail funds and deposits	23	51,557.6	53,713.4	74,913.5	77,093.1
Non-retail funds and deposits	24	10,640.9	12,740.6	15,259.2	15,049.0
		<u>62,198.5</u>	<u>66,454.0</u>	<u>90,172.7</u>	<u>92,142.1</u>
Other liabilities	25	452.3	509.9	773.8	767.1
Accruals and deferred income	26	203.9	217.0	364.3	741.1
Provisions for liabilities and charges	27	3.5	59.3	183.9	485.4
Subordinated liabilities	28	450.0	410.0	500.0	1,268.2
Subscribed capital	29	200.0	200.0	275.0	275.0
		<u>63,508.2</u>	<u>67,850.2</u>	<u>92,269.7</u>	<u>95,678.9</u>
Reserves					
General reserves	30	3,648.9	4,300.6	6,234.3	6,605.5
		<u>67,157.1</u>	<u>72,150.8</u>	<u>98,504.0</u>	<u>102,284.4</u>
Long term assurance liabilities attributable to policyholders	22	—	—	150.5	13,254.7
Total liabilities		<u><u>67,157.1</u></u>	<u><u>72,150.8</u></u>	<u><u>98,654.5</u></u>	<u><u>115,539.1</u></u>
Memorandum items					
Commitments	34	198.7	240.1	286.0	322.8

PART IV: ACCOUNTANTS' REPORTS

Group statement of source and application of funds

	Year ended 31st January			11 month period ended 31st December
	1994	1995	1996	1996
	£m	£m	£m	£m
Source of funds				
Increase in free capital (see below)	719.9	557.1	1,793.7	1,107.0
Advances and loans repaid by borrowers	5,395.8	5,978.0	7,123.8	8,800.4
Net receipts from retail funds and deposits	1,121.9	2,155.8	5,797.4	2,179.6
Retail funds and deposits acquired on transfer of engagements	—	—	15,402.7	—
Non-retail funds and deposits acquired on transfer of engagements	—	—	3,653.0	—
Other items	152.0	86.3	271.7	866.1
Total source of funds	7,389.6	8,777.2	34,042.3	12,953.1
Application of funds				
Increase in liquid assets	1,101.3	1,169.1	1,944.2	678.5
Liquid assets acquired on transfer of engagements	—	—	3,305.5	—
Advances and loans made to borrowers	8,597.8	9,584.6	10,018.8	10,879.9
Advances and loans acquired on transfer of engagements	—	—	16,965.2	—
Net (receipts)/repayments (from)/of non-retail funds and deposits	(2,098.0)	(2,099.7)	1,134.4	210.2
(Decrease)/increase in other commercial assets	(42.8)	102.4	321.4	1,004.6
Other items	(168.7)	20.8	352.8	179.9
Total application of funds	7,389.6	8,777.2	34,042.3	12,953.1
Increase in free capital				
Source of funds				
Profit for the financial year/period	574.2	650.8	722.6	539.5
Adjustment for items not involving the movement of funds				
Depreciation and other amounts written off tangible fixed assets	72.9	64.5	91.5	154.8
(Profit)/loss on disposal of tangible fixed assets	—	(3.1)	0.5	(9.0)
Excess contribution written off on transfer of long term assurance business	—	—	—	(146.0)
Goodwill written off on acquisitions	—	—	(79.8)	(15.8)
Increase/(decrease) in general provisions for bad and doubtful debts	49.0	(2.3)	1.7	22.6
Funds generated from operations	696.1	709.9	736.5	546.1
Funds from other sources				
Disposal of tangible fixed assets	13.2	6.7	9.3	24.6
Issue of subscribed capital	100.0	—	—	—
Free capital acquired on transfer of engagements	—	—	1,382.8	—
Issue of subordinated liabilities	—	—	—	768.2
Application of funds				
Purchase of tangible fixed assets	(86.6)	(120.4)	(171.3)	(225.4)
Foreign currency translation	(2.8)	0.9	3.7	(6.5)
Repayment of subordinated liabilities	—	(40.0)	(160.0)	—
Incremental costs relating to transfer of engagements	—	—	(7.3)	—
Increase in free capital	719.9	557.1	1,793.7	1,107.0

PART IV: ACCOUNTANTS' REPORTS

Free capital comprises the general reserves plus subscribed capital plus subordinated liabilities and general provisions for bad and doubtful debts less tangible fixed assets.

The movement in specific provisions for bad and doubtful debts is shown as a source of funds within "Other items" above.

Note 2 to the Accounts summarises the net assets acquired on the transfer of engagements of Leeds Permanent Building Society and its subsidiaries.

Note 3 to the Accounts summarises the net assets transferred from Clerical, Medical and General Life Assurance Society and its subsidiaries.

Note 18 to the Accounts summarises the net assets acquired during the year ended 31st January 1996 relating to Halifax Credit Card Ltd and BNP Mortgages (Holdings) Ltd and its subsidiaries. Note 18 also summarises the net assets acquired during the 11 month period ended 31st December 1996 relating to Bracehold Ltd and its subsidiaries.

PART IV: ACCOUNTANTS' REPORTS

Notes to the Accounts

1. Accounting policies

Basis of preparation of Accounts. The Accounts are drawn up under the historical cost convention (as modified by the valuation of long term assurance business) and in accordance with applicable accounting standards and the Building Societies (Accounts and Related Provisions) Regulations 1992.

Basis of consolidation. The Group Accounts include the results of the Society, its subsidiaries and the appropriate share of profits and losses of its associated undertakings. The Accounts of all subsidiaries were made up to 31st January 1994, 1995 and 1996, with the exception of Banco Halifax Hispania S.A. for which Accounts were made up to 31st December 1993, 1994 and 1995. For the year ended 31st January 1994, the Accounts of the associated undertakings were made up to dates prior to 31st January 1994. For the year ended 31st January 1995, certain subsidiaries of Halifax Financial Services (Holdings) Ltd had a 31st October 1994 year end and management accounts made up to 31st January 1995 were used for consolidation with the Group (see note 30) and the Accounts of Halifax Credit Card Ltd were made up to 31st December 1994. For the year ended 31st January 1996 Halifax Life Ltd had a 31st July 1995 year end and management accounts prepared to 31st January 1996 were used for consolidation with the Group (see note 30). For the 11 month period to 31st December 1996 all subsidiary accounts were made up to 31st December 1996. Investments in subsidiaries and associated undertakings are stated at either cost or directors' valuation.

The method of consolidation of the accounts of Halifax Life Ltd has been amended in the Accounts for the year ended 31st January 1996 and the subsequent 11 month period ended 31st December 1996 to reflect emerging best practice. The comparative figures have been restated onto a consistent basis which has resulted in some reclassification within the Group balance sheet. This change has had no impact on the overall results of the Group.

Transfers of engagements. The assets and liabilities acquired on transfers of engagements from other building societies are incorporated at their fair value to the Group with effect from the date of transfer.

Mortgage incentive schemes. All costs associated with mortgage incentive schemes are charged in full against interest receivable on secured advances in the year in which the expense is incurred.

Provisions for losses on loans and advances. Provisions are made to reduce the carrying value of loans and advances to the amount which the Directors consider is likely to be ultimately received. The charge to the income and expenditure account reflects the movement in the level of provisions made together with amounts written off in the year. General provisions are made to cover losses on loans and advances impaired at the balance sheet date which, although not yet specifically identified, are known from experience to exist in the portfolio of loans and advances.

a. Advances secured on residential property.

Specific provision is made where the property is in possession and/or where the account is in arrear. In calculating the provision in the latter instance, an assessment is made of the likelihood of the property being taken into possession based on relevant past experience and current market conditions. Where the property is in possession, credit is suspended in respect of interest deemed to be irrecoverable.

b. Other advances secured on land.

Following an appraisal of loans and advances at the balance sheet date, provisions for losses are made in respect of those loans and advances identified as impaired. Credit is suspended in respect of interest on certain accounts in arrear where there is a likelihood of the interest being irrecoverable. Where there is no realistic prospect of recovery, appropriate amounts are written off and interest ceases to be credited.

c. Other commercial assets — unsecured loans.

Provisions for losses are made in respect of unsecured loans identified as impaired at the balance sheet date.

Taxation. Corporation tax is provided on the profit on ordinary activities as adjusted for taxation purposes.

PART IV: ACCOUNTANTS' REPORTS

Provision is made for deferred taxation using the liability method at the current rate of tax for all material timing differences where it is considered that a liability will crystallise in the foreseeable future.

Liquid assets. Securities held with the intention of use on a continuing basis are classified as financial fixed assets and shown at cost adjusted to exclude accrued interest at the date of purchase. A similar adjustment is also made on realisation. Where the adjusted purchase price differs from par value, the premium or discount is amortised over the period to maturity. Other liquid assets are stated at the lower of cost and net realisable value. Mortgage finance rights are held for liquidity management purposes and are included under liquid assets.

Securities sold subject to repurchase are included within liquid assets where the Society retains the risks and rewards of ownership. Funds received under the arrangement are included within non-retail funds and deposits. The difference between the sale and repurchase price is charged to interest payable over the life of the transaction.

Long term assurance business. The value of the long term assurance business within "Other commercial assets" comprises the surplus retained in long term assurance assets and liabilities attributable to policyholders together with a prudent estimate of the net present value of in force business. The change in this value, grossed up at the effective rate of taxation, is included within "Other income and charges".

Transferred long term assurance business. The excess of the contribution made over the fair value of the assets transferred from life assurers at the date of transfer is deducted from the Group general reserves in the year of transfer.

Tangible fixed assets and depreciation. The cost of all additions and major alterations to office premises, plant, equipment, fixtures, fittings and vehicles is capitalised.

The cost of tangible fixed assets is written off over their estimated expected useful lives in equal annual instalments, which are taken as:

Buildings

Freehold properties	100 years
Leasehold properties (100 or more years unexpired)	100 years
Leasehold properties (less than 100 years unexpired)	Unexpired period of lease
Premises, plant and equipment and major alterations to existing properties	5-10 years
Equipment, fixtures, fittings and vehicles	4-6 years

Provision is made for the diminution in value of any fixed asset where that reduction is expected to be permanent. The resulting net book value of the asset is written off over its remaining expected economic life.

Assets in the course of construction are transferred to the relevant fixed asset classification when the assets are brought into use and are depreciated in accordance with the usual Group accounting policies.

Non-retail funds and subordinated liabilities. Premiums and discounts together with commissions and other costs incurred in the issuing of fixed and floating rate notes and subordinated liabilities are accounted for as an adjustment to the amount of the liability and amortised over the relevant period to maturity.

Captive insurance fund. The Group insures a proportion of the risk on its residential loans and advances through its captive insurance subsidiary, Halifax Mortgage Re Ltd (the "captive"). The captive maintains a fund for settlement of claims in respect of certain losses arising from the Group's residential loan book. This captive insurance fund is included in the Group balance sheet reflecting the arm's length basis on which the fund has been established.

The recognition of income in respect of premiums received by the Group is deferred.

After due allowance for all claims payable in respect of each underwriting year, the surplus or deficit arising from that year's fund is included in the income and expenditure account.

Goodwill. The excess of the fair value of purchase consideration over the fair value of net tangible assets at the date of acquisition of subsidiary undertakings is deducted from general reserves in the year of acquisition.

PART IV: ACCOUNTANTS' REPORTS

Foreign currencies. Monetary assets and liabilities denominated in foreign currencies in the Group's balance sheet are translated into sterling at the appropriate rates of exchange prevailing at the year end date and exchange differences are dealt with in the income and expenditure account.

The results of overseas subsidiaries are translated using the closing rate. Exchange differences arising on the retranslation of the opening net investment in the subsidiaries at the closing rate are taken directly to general reserves.

Derivative financial instruments. All interest, exchange rate and market price related contracts are classified at the balance sheet date as hedging contracts. All hedging contracts are valued and income or exposure recognised on an equivalent basis to the assets, liabilities or positions that are being hedged.

Retirement benefits. The cost of providing retirement pensions and related benefits is charged to the income and expenditure account over the periods which benefit from the employees' services.

The full provision basis has been used in accounting for the deferred tax implications of pensions and other post-retirement benefits.

2. Transfer of engagements

The following net assets were acquired on the transfer of engagements of Leeds Permanent Building Society and its subsidiaries on 1st August 1995:

	£m
Liquid assets	3,305.5
Advances and loans	16,965.2
Other commercial assets	302.6
Tangible fixed assets	251.6
Other assets	18.1
Prepayments and accrued income	107.2
Net assets relating to long term assurance business	10.9
Retail funds and deposits	(15,402.7)
Non-retail funds and deposits	(3,653.0)
Other liabilities	(203.1)
Accruals and deferred income	(53.4)
Provisions for liabilities and charges	(18.5)
Long term assurance reserve	(10.9)
	<hr/> 1,619.5 <hr/>
General reserves	1,294.5
Subscribed capital	75.0
Subordinated liabilities	250.0
	<hr/> 1,619.5 <hr/>

The balances above are derived from the final audited accounts of Leeds Permanent Building Society and its subsidiaries as at 31st July 1995. In accordance with the acquisition method of accounting set out in FRS 7, "Fair Values in Acquisition Accounting", a review of the fair values of these assets and liabilities to Halifax Building Society was undertaken. No fair value adjustments were made to the balances acquired, as there were no material differences between the value as disclosed by the accounts of Leeds Permanent Building Society and the fair value to Halifax Building Society, and there were no material differences in the accounting policies adopted by the two societies.

PART IV: ACCOUNTANTS' REPORTS

The consolidated income and expenditure account for Leeds Permanent Building Society for the period from 1st October 1994 to 31st July 1995 is summarised below:

	<i>£m</i>
Interest receivable	1,338.5
Operating profit	244.9
Merger expenses	12.8
Profit on ordinary activities before tax	232.1
Tax on profit on ordinary activities	83.2
Profit for the financial period	148.9

Leeds Permanent Building Society and its subsidiaries had no recognised gains or losses in the period ended 31st July 1995, other than the profits disclosed above.

3. Transfer of long term assurance business

On 31st December 1996, the long term assurance business of Clerical, Medical and General Life Assurance Society was transferred to Clerical Medical Investment Group Ltd under Schedule 2C of the Insurance Companies Act 1982. The estimated contribution to be made by the Society to its wholly owned subsidiary, Clerical Medical Investment Group Ltd, in connection with this transfer is £780m. This represents £637m for the aggregate of one ninth of future traditional with profits business bonuses and the embedded value of the remaining assurance business and £143m for certain business and miscellaneous assets. An adjustment to the estimated contribution will be made on completion of the valuation of the business transferred.

The following table sets out the fair value of the total assets transferred:

	<i>Book value at acquisition £m</i>	<i>Revaluations £m</i>	<i>Accounting policies £m</i>	<i>Fair value to the Group £m</i>
Policyholders' net assets	12,931	—	—	12,931
Value of in-force policies	637	(17)	—	620
Other assets	38	(26)	8	20
Policyholders' liabilities	(12,931)	—	—	(12,931)
Net assets transferred	675	(43)	8	640
Contribution, including attributable costs				(786)
Excess contribution transferred to general reserves (note 30)				(146)

The revaluation of the book value of in-force policies reflects the use of bases and assumptions adopted by the Group in the calculation of the fair value rather than those used in the calculation of the contribution. The fair value of other assets is at underlying net asset value rather than at the value ascribed to them for the purposes of calculating the contribution. The accounting policies adjustment relates to the deferral of acquisition costs incurred on the sale of unit trusts which is a Group accounting policy.

PART IV: ACCOUNTANTS' REPORTS

4. Interest receivable

	Year ended 31st January			11 month period ended 31st December
	1994	1995	1996	1996
	£m	£m	£m	£m
On secured advances	4,243.6	4,306.1	5,386.7	4,806.8
On other lending				
to associated bodies	5.7	5.8	1.1	—
other	57.6	55.1	106.8	144.8
On debt securities				
interest and other income	362.1	395.3	566.7	647.6
net profits	45.0	12.0	8.5	26.4
On other liquid assets				
interest	265.8	258.6	416.8	357.7
net profits/(losses)	0.4	(0.2)	—	0.2
Net expense on financial instruments	(53.7)	(75.9)	(25.0)	(43.6)
Other interest receivable	—	2.0	—	0.2
	<u>4,926.5</u>	<u>4,958.8</u>	<u>6,461.6</u>	<u>5,940.1</u>

5. Interest payable

	Year ended 31st January			11 month period ended 31st December
	1994	1995	1996	1996
	£m	£m	£m	£m
On retail funds and deposits	2,843.6	2,737.9	3,615.2	3,069.4
On non-retail funds and deposits	598.7	768.4	1,024.6	928.6
Net income on financial instruments	(26.9)	(31.7)	(40.6)	(8.7)
Other interest payable	0.1	0.1	0.1	0.1
	<u>3,415.5</u>	<u>3,474.7</u>	<u>4,599.3</u>	<u>3,989.4</u>
Interest payable on non-retail funds and deposits includes the following:				
interest payable on subordinated liabilities	35.3	37.9	47.9	84.0
interest payable on subscribed capital	15.4	20.7	25.9	28.3

6. Other income and charges

	Year ended 31st January			11 month period ended 31st December
	1994	1995	1996	1996
	£m	£m	£m	£m
Fees and commissions receivable	422.4	479.6	464.2	540.2
Fees and commissions payable	(44.5)	(80.0)	(74.3)	(73.6)
Increase in value of long term assurance business (note 22)	—	(17.5)	9.3	30.9
Other operating income	8.7	18.1	28.9	30.4
Other operating charges	(20.7)	(0.3)	(0.7)	(0.8)
	<u>365.9</u>	<u>399.9</u>	<u>427.4</u>	<u>527.1</u>

PART IV: ACCOUNTANTS' REPORTS

7. Exceptional administrative expenses

	Year ended 31st January			11 month period ended 31st December
	1994	1995	1996	1996
	£m	£m	£m	£m
Exceptional administrative expenses comprise:				
merger and integration costs				
reorganisation costs provision (note 27)	—	—	80.0	208.9
other	—	—	32.5	—
	—	—	112.5	208.9
conversion costs provision (note 27)	—	—	—	152.9
	—	—	112.5	361.8

The reorganisation costs provision included in merger and integration costs relates to the costs of reorganising, restructuring and integrating the businesses following the transfer of engagements of Leeds Permanent Building Society. The conversion costs provision comprises all costs arising from the Society's programme of conversion to become a public limited company.

In accordance with FRS 7, the incremental costs of £7.3m relating to the transfer of engagements arising in the year ended 31st January 1996 were treated as part of the cost of acquisition and therefore charged directly to general reserves (note 30).

8. Ongoing administrative expenses

	Year ended 31st January			11 month period ended 31st December
	1994	1995	1996	1996
	£m	£m	£m	£m
<i>Staff costs</i>				
Wages and salaries	325.0	348.0	449.2	479.2
Social security costs	26.8	27.6	31.7	37.5
Other pension costs	15.3	21.1	7.8	15.4
Other post-retirement benefits	0.3	9.7	3.4	2.6
	367.4	406.4	492.1	534.7
Depreciation and other amounts written off tangible fixed assets	72.9	61.4	92.0	94.3
Rental of premises	40.9	46.4	58.6	59.4
Hire of equipment	0.9	2.0	11.1	15.2
Other expenses	264.0	264.4	315.1	337.2
	746.1	780.6	968.9	1,040.8
Included in other expenses are the following charges:				
remuneration of auditors and their associates:				
for audit work	0.6	0.6	1.0	0.9
for non-audit work	0.4	1.0	1.3	1.2

In addition to the above auditors' remuneration for the year ended 31st January 1996, an amount of £0.7m is included within the incremental costs relating to the transfer of engagements (notes 7 and 30) and for the 11 month period ended 31st December 1996 additional remuneration of the auditors and their associates was charged through exceptional administrative expenses (note 27) and an amount of £1.4m is included within attributable costs arising on the transfer of long term assurance business (notes 3 and 30).

PART IV: ACCOUNTANTS' REPORTS

9. Staff numbers

Number of persons

The average number of persons employed, including Executive Directors, during each year/period was as follows:

	<i>Full time</i>				<i>Part time</i>			
	<i>Year ended</i>			<i>11 month</i>	<i>Year ended</i>			<i>11 month</i>
	<i>31st January</i>	<i>31st January</i>	<i>31st January</i>	<i>period</i>	<i>31st January</i>	<i>31st January</i>	<i>31st January</i>	<i>period</i>
	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>ended</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>ended</i>
				<i>31st December</i>				<i>31st December</i>
				<i>1996</i>				<i>1996</i>
Principal office and administration centres	3,772	4,127	5,393	6,549	388	470	633	820
Branch offices	14,484	14,948	16,664	19,280	5,954	6,192	6,979	8,220
	<u>18,256</u>	<u>19,075</u>	<u>22,057</u>	<u>25,829</u>	<u>6,342</u>	<u>6,662</u>	<u>7,612</u>	<u>9,040</u>

10. Directors' emoluments

	<i>Year ended 31st January</i>			<i>11 month</i>
	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>period ended</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>31st December</i>
				<i>1996</i>
				<i>£000</i>
Services as a Director	437	461	570	613
Services in connection with the management of the Group	876	871	1,309	1,358
	<u>1,313</u>	<u>1,332</u>	<u>1,879</u>	<u>1,971</u>

"Services as a Director" refers to payments to the Chairman and Non-Executive Directors. These include payments in respect of services as Directors of subsidiaries of £9,349 (year ended 31st January 1996 £13,159, 1995 £22,969, 1994 £24,338). No payments to former Directors were made in the 11 month period ended 31st December 1996 (year ended 31st January 1996 £nil, 1995 £nil, 1994 £5,583). The emoluments of the Chairman amounted to £229,264 (year ended 31st January 1996 £225,233, 1995 £180,138, 1994 £160,173). No contributions were paid by the Society under any pension scheme in respect of the Chairman and other Non-Executive Directors in the 11 month period ended 31st December 1996, or the years ended 31st January 1996 or 31st January 1995. In 1994 the Chairman waived emoluments of £20,000.

"Services in connection with the management of the Group" refers to the emoluments of Executive Directors and includes pension contributions of £39,932 (year ended 31st January 1996 £39,195, 1995 £36,662, 1994 £35,743). The emoluments of the highest paid Director (the Chief Executive) amounted to £402,267 (year ended 31st January 1996 £404,793, 1995 £378,603, 1994 £281,200 for the period 1st June 1993 to 31st January 1994 including a payment of £37,484 to buy out an accrued medium term bonus due under the contract with the previous employer). The emoluments include pension contributions of £6,450 (year ended 31st January 1996 £6,133, 1995 £5,700, 1994 £3,667) and a bonus payment of £61,200 (year ended 31st January 1996 £78,750, 1995 £69,600). In 1994 he received a bonus of £33,000 for the period 1st August 1993-31st January 1994. In determining the Chief Executive's bonus for the year ended 31st January 1995 the Remuneration, Senior Appointments and Nominations Committee took into account his personal contribution to the proposed merger with Leeds Permanent Building Society.

PART IV: ACCOUNTANTS' REPORTS

The emoluments of all Directors, including pension contributions, were:

	Year ended 31st January			11 month period ended December		Year ended 31st January			11 month period ended December
	1994	1995	1996	1996		1994	1995	1996	1996
£5,001 - £10,000	-	2	1	-	£160,001 - £165,000	1	-	-	-
£10,001 - £15,000	1	3	4	-	£180,001 - £185,000	-	1	-	-
£15,001 - £20,000	-	-	1	-	£185,001 - £190,000	1	-	1	-
£20,001 - £25,000	3	3	4	6	£190,001 - £195,000	1	1	-	-
£25,001 - £30,000	1	-	2	2	£195,001 - £200,000	-	-	-	1
£30,001 - £35,000	1	1	1	2	£210,001 - £215,000	1	-	1	1
£35,001 - £40,000	-	1	1	1	£225,001 - £230,000	-	-	1	1
£40,001 - £45,000	1	1	-	-	£235,001 - £240,000	-	1	-	1
£45,001 - £50,000	2	1	-	2	£250,001 - £255,000	-	-	-	1
£50,001 - £55,000	-	-	1	-	£255,001 - £260,000	-	-	1	-
£55,001 - £60,000	-	-	-	1	£280,001 - £285,000	1	-	-	-
£60,001 - £65,000	-	1	-	-	£375,001 - £380,000	-	1	-	-
£110,001 - £115,000	-	-	1	-	£400,001 - £405,000	-	-	1	1
£135,001 - £140,000	-	-	1	-					

The above figures for Directors' emoluments include pension contributions but do not include any amounts in respect of unfunded pension arrangements provided for but not paid.

None of the Directors had an interest in shares in, or debentures of, any associated body of the Society at any time during the financial year/period.

11. Directors' loans and transactions involving directors and others

The aggregate amounts outstanding at 31st December 1996 on advances in the ordinary course of business from the Society to Directors or persons who are connected with Directors of the Society was £873,539 representing loans to 22 persons (31st January 1996 £1,130,287 representing loans to 24 persons, 31st January 1995 £1,186,697 representing loans to 16 persons, 31st January 1994 £1,519,018 representing loans to 15 persons).

The Society maintains a register under Section 68 of the Building Societies Act 1986 of loans to, transactions with and arrangements for Directors or persons connected with them. Particulars from the register are available for inspection by members at the Society's principal office in Halifax for 15 days ending with the day of the Annual General Meeting and also at that meeting.

There were no significant contracts between the Society and Directors or persons connected with Directors of the Society during the three years and 11 month period ended 31st December 1996. The following relationships are noted for information. A subsidiary of Shandwick International plc, of which Lord Chadlington is chairman and a shareholder; Oxford Resources Ltd, of which Lord Chadlington is a founder shareholder; Bacon & Woodrow, of which Mr D G R Ferguson is senior partner; and Town Centre Securities plc and Leon Property Company Ltd, of which Mr I A Ziff is chairman, do provide services to the Group. In addition, Mercury Asset Management Group plc, of which Mr H J Foulds is a director, manages a part of the assets of the Group's principal pension fund. All those services are provided on normal commercial terms.

PART IV: ACCOUNTANTS' REPORTS

12. Provisions for losses on loans and advances and suspended interest

<i>Provisions have been made as follows:</i>	<i>Residential property</i>		<i>Other advances secured on land</i>		<i>Unsecured loans</i>		<i>Total</i>
	<i>Specific</i>	<i>General</i>	<i>Specific</i>	<i>General</i>	<i>Specific</i>	<i>General</i>	
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
At 1st February 1993	290.3	25.0	21.0	2.0	45.3	4.1	387.7
Amounts written off during the year	(188.3)	—	(15.6)	—	(10.4)	—	(214.3)
Charge for the year	211.6	45.0	16.5	4.0	5.0	—	282.1
Adjustments to provisions for bad and doubtful debts	(0.7)	—	(9.3)	—	(0.9)	—	(10.9)
At 1st February 1994	312.9	70.0	12.6	6.0	39.0	4.1	444.6
Amounts written off during the year	(118.9)	—	(6.4)	—	(5.3)	—	(130.6)
Charge for the year	96.0	—	5.4	—	4.7	(2.3)	103.8
Adjustments to provisions for bad and doubtful debts	(10.4)	—	(4.8)	—	(0.5)	—	(15.7)
At 1st February 1995	279.6	70.0	6.8	6.0	37.9	1.8	402.1
Provisions acquired on transfer of engagements	97.4	8.3	13.7	—	5.0	6.6	131.0
Provisions arising on acquisitions	80.1	0.5	—	—	7.9	—	88.5
Amounts written off during the year	(149.0)	—	—	—	(7.1)	—	(156.1)
Charge for the year	72.6	(0.3)	(0.1)	—	20.7	1.5	94.4
Adjustments to provisions for bad and doubtful debts	(8.3)	—	—	—	—	—	(8.3)
At 1st February 1996	372.4	78.5	20.4	6.0	64.4	9.9	551.6
Provisions arising on acquisitions	5.0	—	—	—	—	—	5.0
Amounts written off during the period	(130.9)	—	(3.2)	—	(12.9)	—	(147.0)
Charge for the period	44.2	22.1	(1.6)	0.5	52.4	—	117.6
Adjustment to provisions for bad and doubtful debts	(7.5)	—	—	—	(3.8)	—	(11.3)
At 31st December 1996	283.2	100.6	15.6	6.5	100.1	9.9	515.9

The net charge to the Group income and expenditure account in the year to 31st January 1994 of £271.2m comprises the charge for the year of £282.1m and adjustments to provisions for bad and doubtful debts of £10.9m.

The net charge to the Group income and expenditure account in the year to 31st January 1995 of £88.1m comprises the charge for the year of £103.8m and adjustments to provisions for bad and doubtful debts of £15.7m.

The net charge to the Group income and expenditure account in the year to 31st January 1996 of £86.1m comprises the charge for the year of £94.4m and adjustments to provisions for bad and doubtful debts of £8.3m.

The net charge to the Group income and expenditure account in the 11 month period to 31st December 1996 of £106.3m comprises the charge for the period of £117.6m and adjustments to provisions for bad and doubtful debts of £11.3m.

PART IV: ACCOUNTANTS' REPORTS

	<i>Residential property £m</i>	<i>Other advances secured on land £m</i>	<i>Total £m</i>
<i>Interest has been suspended as follows:</i>			
At 1st February 1993	31.3	24.9	56.2
Amounts written off during the year	(48.3)	(20.6)	(68.9)
Charge for the year	26.0	2.8	28.8
At 1st February 1994	9.0	7.1	16.1
Amounts written off during the year	(20.2)	(4.5)	(24.7)
Charge for the year	15.7	0.8	16.5
At 1st February 1995	4.5	3.4	7.9
Provisions acquired on transfer of engagements	12.5	—	12.5
Amounts written off during the year	(20.0)	(1.5)	(21.5)
Charge for the year	18.9	1.6	20.5
At 1st February 1996	15.9	3.5	19.4
Amounts written off during the period	(21.4)	(0.7)	(22.1)
Charge for the period	9.6	1.7	11.3
At 31st December 1996	4.1	4.5	8.6
Total Group provisions for losses on loans and advances and suspended interest			<u>524.5</u>
at 31st December 1996			<u>571.0</u>
at 31st January 1996			<u>410.0</u>
at 31st January 1995			<u>460.7</u>

13. Tax on profit on ordinary activities

	<i>Year ended 31st January</i>			<i>11 month period ended 31st December</i>
	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1996</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
The charge for the period, based on a corporation tax rate of 33% (year ended 31st January 1996, 1995, 1994, 33%) comprises:				
United Kingdom corporation tax on:				
operating profit before exceptional items	307.9	341.8	396.8	429.4
exceptional items	—	—	(3.6)	(19.8)
taxation relating to change in value of long term assurance business (note 22)	—	(5.8)	2.0	10.2
deferred taxation (note 20) relating to:				
operating profit before exceptional items	(18.3)	(14.4)	8.5	11.3
exceptional items	—	—	(25.4)	(67.8)
provisions for losses on disposals of fixed assets	—	—	—	(10.1)
share of associated undertakings' taxation	2.0	2.7	0.5	—
	<u>291.6</u>	<u>324.3</u>	<u>378.8</u>	<u>353.2</u>

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14. Liquid assets

	<i>31st January 1995 £m</i>	<i>31st January 1996 £m</i>	<i>31st December 1996 £m</i>
Liquid assets comprise:			
Cash in hand and balances with the Bank of England	110.7	143.4	184.0
Treasury bills and other eligible bills			
treasury bills and similar securities	152.1	2,520.8	374.5
other eligible bills	916.5	252.7	951.0
Loans and advances to credit institutions	4,177.0	4,483.9	4,255.9
Debt securities			
issued by public bodies	1,962.0	2,454.6	3,359.1
issued by other borrowers	4,995.1	7,705.6	9,115.0
Other	—	2.1	2.1
	<u>12,313.4</u>	<u>17,563.1</u>	<u>18,241.6</u>
Repayable from the date of the balance sheet in the ordinary course of business as follows:			
Loans and advances to credit institutions			
repayable on demand	616.5	714.6	2,035.2
in not more than three months	3,428.9	3,682.2	2,125.4
in more than three months but not more than one year	111.7	63.3	79.8
	<u>4,157.1</u>	<u>4,460.1</u>	<u>4,240.4</u>
Accrued interest	19.9	23.8	15.5
	<u>4,177.0</u>	<u>4,483.9</u>	<u>4,255.9</u>
Debt securities			
in not more than one year	3,976.6	6,983.3	7,971.4
in more than one year but not more than five years	1,974.2	2,086.0	3,590.7
in more than five years	896.5	890.4	758.9
	<u>6,847.3</u>	<u>9,959.7</u>	<u>12,321.0</u>
Accrued interest	109.8	200.5	153.1
	<u>6,957.1</u>	<u>10,160.2</u>	<u>12,474.1</u>
Analysis of debt securities:			
Transferable debt securities (excluding accrued interest)			
listed on a recognised investment exchange	2,582.6	3,063.5	4,512.5
listed on other exchanges	677.7	849.6	485.0
	<u>3,260.3</u>	<u>3,913.1</u>	<u>4,997.5</u>
unlisted	3,587.0	6,046.6	7,323.5
	<u>6,847.3</u>	<u>9,959.7</u>	<u>12,321.0</u>
Market value of listed securities (excluding accrued interest)	<u>3,194.7</u>	<u>3,954.1</u>	<u>4,989.9</u>

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	<i>31st January 1995 £m</i>	<i>31st January 1996 £m</i>	<i>31st December 1996 £m</i>
Analysis of securities:			
Securities held as financial fixed assets at maturity value	7,808.0	12,688.5	13,560.0
Unamortised premiums	121.5	87.0	105.7
Unamortised discounts	(13.6)	(42.3)	(19.2)
Adjusted cost of securities held as financial fixed assets (excluding accrued interest)	<u>7,915.9</u>	<u>12,733.2</u>	<u>13,646.5</u>
Adjusted cost of securities held as financial fixed assets comprises:			
treasury bills and similar securities and other eligible bills	1,068.6	2,773.5	1,325.5
debt securities	<u>6,957.1</u>	<u>10,160.2</u>	<u>12,474.1</u>
	8,025.7	12,933.7	13,799.6
Less: accrued interest	<u>109.8</u>	<u>200.5</u>	<u>153.1</u>
	<u>7,915.9</u>	<u>12,733.2</u>	<u>13,646.5</u>
Movements during the year/period of securities held as financial fixed assets are:			
Adjusted cost			
At beginning of year/period	6,885.4	7,915.9	12,733.2
Acquired on transfer of engagements	—	1,698.0	—
Additions	30,509.0	41,874.3	54,361.4
Disposals	<u>(29,537.5)</u>	<u>(38,755.0)</u>	<u>(53,448.1)</u>
At end of year/period	<u>7,915.9</u>	<u>12,733.2</u>	<u>13,646.5</u>

Included within liquid assets at 31st December 1996 are securities with a market value of £1,087.7m (31st January 1996 £nil, 1995 £307.6m) sold subject to agreement to repurchase.

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15. Commercial assets maturity analysis

	<i>31st January 1995 £m</i>	<i>31st January 1996 £m</i>	<i>31st December 1996 £m</i>
Repayable on demand	14.6	67.9	121.8
In not more than three months	469.4	905.2	1,146.3
In more than three months but not more than one year	787.9	1,429.5	1,558.0
In more than one year but not more than five years	4,053.3	5,621.5	6,442.8
In more than five years	54,004.7	71,917.1	73,119.2
	<u>59,329.9</u>	<u>79,941.2</u>	<u>82,388.1</u>
Accrued interest	6.8	58.5	46.8
	<u>59,336.7</u>	<u>79,999.7</u>	<u>82,434.9</u>
Less: provisions and suspended interest (note 12)	410.0	571.0	524.5
	<u>58,926.7</u>	<u>79,428.7</u>	<u>81,910.4</u>
The commercial assets maturity analysis comprises:			
advances secured on residential property	57,736.4	77,238.7	79,182.1
other advances secured on land	840.4	1,194.5	1,402.0
other commercial assets – unsecured loans	349.9	995.5	1,271.6
– secured loans	—	—	54.7
	<u>58,926.7</u>	<u>79,428.7</u>	<u>81,910.4</u>

Included in advances secured on residential property as at 31st December 1996 is an amount of £304m relating to secured personal loans. Included in unsecured loans are £780m of unsecured personal loans as at 31st December 1996.

The maturity of accounts which are in arrear is based on the period remaining to the original agreed maturity date.

The actual experience of repayments may differ from the above as many mortgage loans are repaid early.

16. Other commercial assets

	<i>31st January 1995 £m</i>	<i>31st January 1996 £m</i>	<i>31st December 1996 £m</i>
Unsecured loans	349.9	995.5	1,271.6
Secured loans	—	—	54.7
Residential properties held for development – work in progress	0.5	3.5	0.6
Investments in associated bodies (note 17)			
shares	1.1	1.1	1.4
general reserves	(0.6)	—	—
loans	95.0	—	—
Value of long term assurance business (note 22)	19.8	55.0	695.7
	<u>465.7</u>	<u>1,055.1</u>	<u>2,024.0</u>

The Group's carrying value of Halifax Credit Card Ltd at 31st December 1996 is £nil (31st January 1996 £nil, 1995 £94.5m, 1994 £81.1m) (note 18). Due to the change in the method of consolidation of the accounts of the life assurance subsidiary (note 1) in the year ended 31st January 1996, the Group's net assets in that subsidiary were reclassified from other commercial assets and the comparative figures for the year ended 31st January 1995 were restated.

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17. Investments in associated bodies

	<i>Investments in associated undertakings £m</i>	<i>Investments in other associated bodies £m</i>	<i>Total £m</i>
Shares			
Cost at 1st February 1994	2.6	1.0	3.6
Disposal	(2.5)	—	(2.5)
Cost at 1st February 1995	0.1	1.0	1.1
Acquired on transfer of engagements	—	0.1	0.1
Reclassification as a subsidiary undertaking (note 18)	(0.1)	—	(0.1)
Cost at 1st February 1996	—	1.1	1.1
Additions	—	0.3	0.3
Cost at 31st December 1996	—	1.4	1.4
Share of post-acquisition reserves			
At 1st February 1994	(3.9)	—	(3.9)
Share of profits for the financial year	5.6	—	5.6
Disposal	(2.3)	—	(2.3)
At 1st February 1995	(0.6)	—	(0.6)
Share of profits for the financial year	1.0	—	1.0
Reclassification as a subsidiary undertaking (note 18)	(0.4)	—	(0.4)
At 31st January 1996 and 31st December 1996	—	—	—
Net book value			
At 31st January 1994	(1.3)	1.0	(0.3)
At 31st January 1995	(0.5)	1.0	0.5
At 31st January 1996	—	1.1	1.1
At 31st December 1996	—	1.4	1.4
Loans			
Cost at 1st February 1994	85.5	—	85.5
Additions	9.5	—	9.5
Cost at 1st February 1995	95.0	—	95.0
Repayments received	(0.6)	—	(0.6)
Reclassification as a subsidiary undertaking (note 18)	(94.4)	—	(94.4)
Cost at 31st January 1996 and 31st December 1996	—	—	—

Details of the principal subsidiary undertakings are set out in note 35.

18. Summary of effect of acquisition of subsidiary undertakings

On 3rd February 1995 Halifax Loans Ltd, a subsidiary of Halifax Building Society, acquired 100 per cent. of the allotted share capital of BNP Mortgages (Holdings) Ltd. Following the purchase, the acquired company changed its name to Halifax Mortgage Services (Holdings) Ltd on 15th February 1995.

On 31st March 1995 the Society acquired the remaining 50 per cent. of the allotted voting share capital of Halifax Credit Card Ltd plus the one non-voting "C" share, making it a wholly owned subsidiary undertaking.

The purchase of Halifax Mortgage Services (Holdings) Ltd and its subsidiaries and Halifax Credit Card Ltd have been accounted for using the acquisition method of accounting under FRS 6.

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On 18th April 1996 Halifax Loans Ltd, a subsidiary of Halifax Building Society, acquired 100 per cent. of the allotted share capital of Bracehold Ltd from Banque Paribas S.A. The acquired company changed its name to HL Group (Holdings) Ltd on 13th May 1996.

The purchase of HL Group (Holdings) Ltd and its nine subsidiaries has been accounted for using the acquisition method of accounting under FRS 6.

There were no fair value adjustments necessary in respect of these acquired balances as the adjustments were not considered to be material. The goodwill arising has been deducted from the Group general reserves (note 30).

No separate analysis has been provided of the post acquisition results of these acquisitions, on the grounds of materiality, in accordance with FRS 3.

	<i>Year ended</i>	<i>11 month</i>
	<i>31st January</i>	<i>period ended</i>
	<i>1996</i>	<i>31st December</i>
	<i>£m</i>	<i>£m</i>

Summary of effect of acquisition of subsidiary undertakings

Net assets acquired

advances and loans*

1,550.3 334.5

net other liabilities

(1,556.9) (338.6)

goodwill

79.8 15.8

73.2 11.7

Satisfied by

consideration paid

73.2 11.7

73.2 11.7

* Included in the 31st January 1996 net assets acquired above is an amount of £1,353.9m representing net commercial assets, principally residential mortgage balances, acquired as part of the acquisition of BNP Mortgages (Holdings) Ltd. The 31st December 1996 net assets acquired comprises £334.5m which represents advances and loans, principally the UK residential mortgage balances, of Bracehold Ltd.

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19. Tangible fixed assets

	Land and buildings			Equipment, fixtures, fittings & vehicles	Plant and machinery	Payment on account and assets in course of construction	Total
	Freehold £m	Long lease £m	Short lease £m	£m	£m	£m	£m
Cost							
At 1st February 1994	396.7	23.4	147.0	335.8	8.2	7.1	918.2
Additions	4.6	—	4.8	66.2	0.6	44.2	120.4
Disposals	(3.1)	(0.1)	(1.3)	(36.4)	—	—	(40.9)
Transfers	41.9	3.0	(12.4)	—	5.6	(38.1)	—
At 1st February 1995	440.1	26.3	138.1	365.6	14.4	13.2	997.7
Acquired on acquisition	—	—	—	0.9	—	—	0.9
Acquired on transfer of engagements	161.5	4.1	5.7	52.0	23.9	4.4	251.6
Additions	2.2	0.3	4.1	97.2	0.3	66.3	170.4
Disposals	(6.6)	(1.2)	(2.3)	(55.9)	(7.9)	—	(73.9)
Transfers	44.4	2.3	8.3	0.2	10.7	(65.9)	—
At 1st February 1996	641.6	31.8	153.9	460.0	41.4	18.0	1,346.7
Additions	3.0	0.2	3.7	137.1	1.1	68.6	213.7
Acquired on transfer of business	—	—	—	11.7	—	—	11.7
Disposals	(8.0)	(0.8)	(2.9)	(212.9)	(2.3)	—	(226.9)
Transfers	14.2	8.1	10.6	5.9	13.3	(52.1)	—
At 31st December 1996	650.8	39.3	165.3	401.8	53.5	34.5	1,345.2
Depreciation and diminution in value							
At 1st February 1994	137.9	7.0	86.9	225.1	0.8	—	457.7
Depreciation charged in year	12.4	0.8	7.6	42.2	1.3	—	64.3
Provision for diminution in value	—	0.1	0.1	—	—	—	0.2
Disposals	(1.5)	—	(1.3)	(34.5)	—	—	(37.3)
Transfers	10.6	1.7	(12.3)	—	—	—	—
At 1st February 1995	159.4	9.6	81.0	232.8	2.1	—	484.9
Depreciation charged in year	13.9	0.8	9.1	59.3	3.6	—	86.7
Provision for diminution in value	2.5	0.1	2.2	—	—	—	4.8
Disposals	(3.5)	(1.5)	(2.8)	(51.7)	(4.6)	—	(64.1)
Transfers	0.4	—	(0.4)	—	—	—	—
At 1st February 1996	172.7	9.0	89.1	240.4	1.1	—	512.3
Depreciation charged in period	15.7	1.0	10.7	69.5	6.4	—	103.3
Provision for diminution in value	6.2	—	7.4	32.7	5.2	—	51.5
Disposals	(1.7)	(0.1)	(1.3)	(205.9)	(2.3)	—	(211.3)
Transfers	(0.7)	0.5	(0.2)	(4.0)	4.4	—	—
At 31st December 1996	192.2	10.4	105.7	132.7	14.8	—	455.8
Net book value							
At 31st January 1994	258.8	16.4	60.1	110.7	7.4	7.1	460.5
At 31st January 1995	280.7	16.7	57.1	132.8	12.3	13.2	512.8
At 31st January 1996	468.9	22.8	64.8	219.6	40.3	18.0	834.4
At 31st December 1996	458.6	28.9	59.6	269.1	38.7	34.5	889.4

The provision for diminution in value during the 11 month period ended 31st December 1996 of £51.5m is a provision for loss on disposal of fixed assets arising from the programme of reorganising, restructuring and integrating the businesses following the transfer of engagements of Leeds Permanent Building Society. The provision is disclosed in the income and expenditure account.

The net book value of land and buildings occupied by the Group for its own activities at 31st December 1996 amounted to £414.0m (at 31st January 1996 £462.9m, 1995 £299.5m, 1994 £289.8m).

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20. Other assets

	<i>31st January 1995 £m</i>	<i>31st January 1996 £m</i>	<i>31st December 1996 £m</i>
Other assets	37.9	126.0	138.6
Deferred taxation (due after more than one year)	10.9	14.3	80.9
	<u>48.8</u>	<u>140.3</u>	<u>219.5</u>
Deferred taxation			
At beginning of year/period	(3.5)	10.9	14.3
Acquired on acquisition	—	5.0	—
Acquired on transfer of engagements	—	(18.5)	—
Movement in year/period	14.4	16.9	66.6
At end of year/period	<u>10.9</u>	<u>14.3</u>	<u>80.9</u>

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

	<i>Amount provided</i>			<i>Amount unprovided</i>		
	<i>31st January 1995 £m</i>	<i>31st January 1996 £m</i>	<i>31st December 1996 £m</i>	<i>31st January 1995 £m</i>	<i>31st January 1996 £m</i>	<i>31st December 1996 £m</i>
Accrued interest	(9.9)	(17.8)	—	(3.3)	—	—
Capital allowances in advance of depreciation	(8.9)	(21.4)	(17.3)	—	—	—
Pension scheme surplus	(8.4)	(24.3)	(21.7)	—	—	—
Conversion costs	—	—	16.0	—	—	—
Reorganisation costs	—	25.0	76.8	—	—	—
Other timing differences	38.1	52.8	27.1	11.1	14.2	11.6
	<u>10.9</u>	<u>14.3</u>	<u>80.9</u>	<u>7.8</u>	<u>14.2</u>	<u>11.6</u>

21. Prepayments and accrued income

	<i>31st January 1995 £m</i>	<i>31st January 1996 £m</i>	<i>31st December 1996 £m</i>
Off balance sheet instruments	172.1	354.8	193.3
Pension fund prepayment	25.9	75.6	68.8
Other	35.3	47.5	63.7
	<u>233.3</u>	<u>477.9</u>	<u>325.8</u>

22. Long term assurance business

The value of long term assurance business is actuarially assessed and comprises the surplus attributable to the Group, together with the net present value of in-force business. This method of calculating the net worth of the business to the Group is known as the embedded value approach. The principal economic assumptions behind the embedded value calculation are reviewed regularly and are currently as follows:

	<i>%</i>
Risk discount rate (net of tax) for traditional with profits business	10.0
Risk discount rate (net of tax) for other business	12.0
Return on equities (gross of tax)	9.0
Return on gilts (gross of tax)	7.0
Expense inflation	5.5

In-force business is defined as all live policies where the first premium has been paid. Recurrent single premium policies are treated as single premium policies, with the exception of Department of Social Security

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rebate policies, which are treated as regular premium policies. The Group is entitled to one-ninth of the value of traditional with profits business bonuses declared in any particular year. The level of assumed future bonuses is calculated by projecting the portfolio of with profits business forward and applying reversionary and terminal bonus rates at such a level as to exhaust the level of projected surplus of assets attributable to with-profit policyholders over liabilities. For all other business the entire surplus is attributable to the Group.

The income from long term assurance business which is included within "other income and charges" in the Group income and expenditure account is calculated as follows:

	<i>Year ended 31st January 1995 £m</i>	<i>Year ended 31st January 1996 £m</i>	<i>11 month period ended 31st December 1996 £m</i>
Value of Group's interest in long term assurance business at end of year/period	19.8	55.0	695.7
Value of Group's interest in long term assurance business at beginning of year/period	—	(19.8)	(55.0)
Increase in value of long term assurance business	—	35.2	640.7
Transfer of long term assurance business of Clerical, Medical and General Life Assurance Society	—	—	(620.0)
Long term assurance business acquired as a result of the transfer of engagements	—	(18.6)	—
Net increase in value of long term assurance business	19.8	16.6	20.7
Deficit transferred to long term assurance business	(31.5)	(9.3)	—
Income after tax from long term assurance business	(11.7)	7.3	20.7
Taxation relating to long term assurance business (note 13)	(5.8)	2.0	10.2
Income before tax from long term assurance business (note 6)	(17.5)	9.3	30.9

The assets and liabilities attributable to policyholders are presented separately from those of other Group activities to reflect the different nature of the Group's interest in them.

The long term assurance assets attributable to policyholders comprise:

	<i>31st January 1995 £m</i>	<i>31st January 1996 £m</i>	<i>31st December 1996 £m</i>
Investments	—	186.7	13,189.7
Value of in-force policies	—	35.4	692.0
Net current (liabilities)/assets	—	(16.6)	68.7
		205.5	13,950.4
Long term assurance business attributable to the Group	—	(55.0)	(695.7)
Long term assurance assets attributable to policyholders	—	150.5	13,254.7
Long term assurance liabilities attributable to policyholders	—	150.5	13,254.7

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23. Retail funds and deposits

	<i>31st January 1995 £m</i>	<i>31st January 1996 £m</i>	<i>31st December 1996 £m</i>
Shares	49,458.1	67,103.0	68,561.7
Deposits	2,604.9	5,607.8	6,330.6
	<u>52,063.0</u>	<u>72,710.8</u>	<u>74,892.3</u>
Accrued interest	1,650.4	2,202.7	2,200.8
	<u>53,713.4</u>	<u>74,913.5</u>	<u>77,093.1</u>
Repayable from the date of the balance sheet in the ordinary course of business as follows:			
Shares			
on demand	48,788.6	66,589.0	67,180.3
in not more than three months	125.9	159.6	389.4
in more than three months but not more than one year	365.4	183.6	984.5
in more than one year but not more than five years	178.2	170.8	7.5
	<u>49,458.1</u>	<u>67,103.0</u>	<u>68,561.7</u>
accrued interest	1,622.3	2,091.5	2,085.8
	<u>51,080.4</u>	<u>69,194.5</u>	<u>70,647.5</u>
Deposits			
on demand	2,433.1	5,106.2	5,813.6
in not more than three months	43.7	284.5	337.6
in more than three months but not more than one year	117.6	210.0	153.9
in more than one year but not more than five years	10.5	7.1	25.5
	<u>2,604.9</u>	<u>5,607.8</u>	<u>6,330.6</u>
accrued interest	28.1	111.2	115.0
	<u>2,633.0</u>	<u>5,719.0</u>	<u>6,445.6</u>
Total			
on demand	51,221.7	71,695.2	72,993.9
in not more than three months	169.6	444.1	727.0
in more than three months but not more than one year	483.0	393.6	1,138.4
in more than one year but not more than five years	188.7	177.9	33.0
	<u>52,063.0</u>	<u>72,710.8</u>	<u>74,892.3</u>
accrued interest	1,650.4	2,202.7	2,200.8
	<u>53,713.4</u>	<u>74,913.5</u>	<u>77,093.1</u>

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24. Non-retail funds and deposits

	<i>31st January 1995 £m</i>	<i>31st January 1996 £m</i>	<i>31st December 1996 £m</i>
Non-retail funds and deposits comprise:			
Amounts owed to credit institutions	671.9	601.4	1,743.5
Debt securities in issue			
certificates of deposit	2,663.7	3,371.4	2,592.0
negotiable bonds	22.8	23.5	24.2
fixed and floating rate notes	5,640.6	7,165.8	6,339.9
Other deposits and loans	3,163.3	3,549.0	3,947.7
Shares	379.3	278.4	215.0
	<u>12,541.6</u>	<u>14,989.5</u>	<u>14,862.3</u>
Accrued interest	199.0	269.7	186.7
	<u>12,740.6</u>	<u>15,259.2</u>	<u>15,049.0</u>
Repayable from the date of the balance sheet in the ordinary course of business as follows:			
Amounts owed to credit institutions			
on demand	79.5	55.4	300.0
in not more than three months	559.6	166.1	1,159.1
in more than three months but not more than one year	32.7	83.4	58.0
in more than one year but not more than two years	—	61.0	59.9
in more than two years but not more than five years	0.1	119.5	166.5
in more than five years	—	116.0	—
	<u>671.9</u>	<u>601.4</u>	<u>1,743.5</u>
accrued interest	1.6	7.6	9.2
	<u>673.5</u>	<u>609.0</u>	<u>1,752.7</u>
Debt securities in issue			
on demand	138.7	8.5	249.3
in not more than three months	2,320.9	3,131.5	2,206.5
in more than three months but not more than one year	665.4	961.1	1,548.3
in more than one year but not more than two years	840.5	1,640.7	1,585.6
in more than two years but not more than five years	3,191.4	3,669.0	2,397.5
in more than five years	1,170.2	1,149.9	968.9
	<u>8,327.1</u>	<u>10,560.7</u>	<u>8,956.1</u>
accrued interest	159.5	217.8	148.0
	<u>8,486.6</u>	<u>10,778.5</u>	<u>9,104.1</u>
Other deposits and loans			
on demand	920.4	1,298.1	1,447.6
in not more than three months	2,111.5	1,919.6	2,383.7
in more than three months but not more than one year	125.7	307.0	104.1
in more than one year but not more than two years	0.3	17.1	5.3
in more than two years but not more than five years	5.4	7.2	7.0
	<u>3,163.3</u>	<u>3,549.0</u>	<u>3,947.7</u>
accrued interest	21.7	31.5	22.0
	<u>3,185.0</u>	<u>3,580.5</u>	<u>3,969.7</u>

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	<i>31st January 1995 £m</i>	<i>31st January 1996 £m</i>	<i>31st December 1996 £m</i>
Shares			
on demand	377.4	277.1	213.4
in not more than three months	0.5	0.4	1.0
in more than three months but not more than one year	1.3	0.9	0.6
in more than two years but not more than five years	0.1	—	—
	<u>379.3</u>	<u>278.4</u>	<u>215.0</u>
accrued interest	16.2	12.8	7.5
	<u>395.5</u>	<u>291.2</u>	<u>222.5</u>
Total non-retail funds and deposits			
on demand	1,516.0	1,639.1	2,210.3
in not more than three months	4,992.5	5,217.6	5,750.3
in more than three months but not more than one year	825.1	1,352.4	1,711.0
in more than one year but not more than two years	840.8	1,718.8	1,650.8
in more than two years but not more than five years	3,197.0	3,795.7	2,571.0
in more than five years	1,170.2	1,265.9	968.9
	<u>12,541.6</u>	<u>14,989.5</u>	<u>14,862.3</u>
accrued interest	199.0	269.7	186.7
	<u>12,740.6</u>	<u>15,259.2</u>	<u>15,049.0</u>

25. Other liabilities

	<i>31st January 1995 £m</i>	<i>31st January 1996 £m</i>	<i>31st December 1996 £m</i>
Income tax	20.0	79.2	25.5
Corporation tax	371.9	487.5	453.3
Other taxation and social security	9.6	12.6	18.6
Other creditors	108.4	194.5	269.7
	<u>509.9</u>	<u>773.8</u>	<u>767.1</u>

26. Accruals and deferred income

	<i>31st January 1995 £m</i>	<i>31st January 1996 £m</i>	<i>31st December 1996 £m</i>
Off-balance sheet instruments	119.1	151.1	390.3
Other	97.9	213.2	350.8
	<u>217.0</u>	<u>364.3</u>	<u>741.1</u>

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27. Provisions for liabilities and charges

	<i>Deferred taxation £m</i>	<i>Captive insurance fund £m</i>	<i>Other post- retirement benefits and unfunded pensions £m</i>	<i>Reorganisation costs provision £m</i>	<i>Conversion costs provision £m</i>	<i>Total £m</i>
At 1st February 1994	3.5	—	—	—	—	3.5
Charged in year	(14.4)	48.5	10.0	—	—	44.1
Utilised in year	—	(0.4)	—	—	—	(0.4)
Other movements	—	1.2	—	—	—	1.2
Transfer to other assets	10.9	—	—	—	—	10.9
At 1st February 1995	—	49.3	10.0	—	—	59.3
Acquired on transfer of engagements	—	—	1.1	—	—	1.1
Charged in year	—	36.1	4.0	80.0	—	120.1
Utilised in year	—	(1.0)	—	—	—	(1.0)
Other movements	—	4.4	—	—	—	4.4
At 1st February 1996	—	88.8	15.1	80.0	—	183.9
Charged in period	—	24.7	3.4	208.9	152.9	389.9
Utilised in period	—	(2.2)	—	(47.7)	(36.9)	(86.8)
Other movements	—	(1.6)	—	—	—	(1.6)
At 31st December 1996	—	109.7	18.5	241.2	116.0	485.4

The Group deferred tax asset is shown within other assets (note 20).

The amount charged in the year ended 31st January 1996 in the captive insurance fund which is net of reinsurance premiums of £4.1m, includes £15.3m arising on the transfer of engagements and £2.6m included within other income and charges in the income and expenditure account.

Reorganisation costs relate to the costs of reorganising, restructuring and integrating the businesses following the transfer of engagements of Leeds Permanent Building Society. The conversion costs provision comprises all costs arising within the Society's programme of conversion to become a public limited company. Included within the charge for the 11 month period ended 31st December 1996 is an amount for remuneration of the auditors and their associates of £1.6m relating to the reorganisation costs provision and £2.0m relating to the conversion costs provision. Both of these amounts relate to non-audit fees.

28. Subordinated liabilities

	<i>31st January 1995 £m</i>	<i>31st January 1996 £m</i>	<i>31st December 1996 £m</i>
Floating rate subordinated notes 1998	160.0	—	—
10½% Subordinated bonds due 1998*	—	50.0	50.0
Variable rate subordinated notes due 2001*	—	50.0	50.0
8¾% Subordinated bonds 2006	—	—	400.0
Floating rate subordinated notes 2009	—	—	75.0
11% Subordinated bonds 2014	250.0	250.0	250.0
10½% Subordinated bonds Due 2018*	—	150.0	150.0
9¾% Subordinated bonds 2021	—	—	300.0
Less unamortised discounts and issue costs	—	—	(6.8)
	<u>410.0</u>	<u>500.0</u>	<u>1,268.2</u>

*On the transfer of engagements on 1st August 1995, the Society assumed the existing subordinated liabilities of Leeds Permanent Building Society which amounted to £250.0m.

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Interest on the floating rate subordinated notes 1998 was payable three months in arrear at 0.625 per cent. above the London Inter Bank Offered Rate. These notes were redeemable in five equal annual instalments on the interest payment date falling in May in each of the years from 1994 to 1998 and were redeemed in full in accordance with their terms on 22nd November 1995.

Interest on the bonds due 1998, 2006, 2014, 2018 and 2021 is payable annually in arrear. These bonds are due for redemption on 21st April 1998, 10th July 2006, 17th January 2014, 16th February 2018 and 15th May 2021 respectively.

Interest on the variable rate notes due 2001 is payable three months in arrear at a variable margin above the London Inter Bank Offered Rate. The Society has the option to redeem these notes at their nominal value on any interest payment date falling in or after September 1994. The notes are otherwise redeemable in five equal instalments on the interest payment date falling in September in each of the years from 1997 to 2001.

Interest on the floating rate notes 2009 is payable three months in arrear at the London Inter Bank Offered Rate plus a margin of 0.25 per cent. per annum for years 1 to 8, 0.75 per cent. per annum for years 9 and 10 and 1.25 per cent. per annum thereafter. The Society has the option to redeem the notes at their nominal value on the interest payment date falling in July 2004. The notes are otherwise due for redemption on the interest payment date falling in July 2009.

On a winding up of the Society, the claims of the holders of subordinated debt are subordinated in right of payment to the claims of all depositors, all creditors and, for so long as the Society remains a building society, members holding shares in the Society, as regards the principal of their shares and interest due on them, other than members holding the Permanent Interest Bearing Shares referred to in note 29 below.

29. Subscribed capital

	<i>31st January 1995 £m</i>	<i>31st January 1996 £m</i>	<i>31st December 1996 £m</i>
12% Permanent Interest Bearing Shares	100.0	100.0	100.0
8¾% Permanent Interest Bearing Shares	100.0	100.0	100.0
13¾% Permanent Interest Bearing Shares	—	75.0	75.0
	<u>200.0</u>	<u>275.0</u>	<u>275.0</u>

On the transfer of engagements of Leeds Permanent Building Society to the Society, the 13¾% Permanent Interest Bearing Shares formerly of the Leeds were relisted as obligations of the Society without any alteration to their terms. Interest on issues of Permanent Interest Bearing Shares, which have no specified maturity date, is payable semi-annually in arrear.

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30. General reserves

	Year ended 31st January			11 month period ended 31st December
	1994 £m	1995 £m	1996 £m	1996 £m
At beginning of year/period	3,077.5	3,648.9	4,300.6	6,234.3
Reserves acquired on transfer of engagements	—	—	1,294.5	—
Incremental costs relating to transfer of engagements (note 7)	—	—	(7.3)	—
Profit for the financial year/period	574.2	650.8	722.6	539.5
Excess contribution on transfer of long term assurance business (note 3)	—	—	—	(146.0)
Goodwill on acquisition of subsidiaries (note 18)	—	—	(79.8)	(15.8)
Foreign currency translation differences on subsidiary undertaking	(2.8)	0.9	3.7	(6.5)
At end of year/period	<u>3,648.9</u>	<u>4,300.6</u>	<u>6,234.3</u>	<u>6,605.5</u>

The cumulative amount of goodwill resulting from acquisitions in the current and earlier financial years, which has been deducted from general reserves, is £303.4m (31st January 1996 £287.6m, 1995 £177.6m, 1994 £177.6m). This includes £30.2m, in respect of acquisitions by Leeds Permanent Building Society in earlier financial years. The cumulative amount of excess contribution on transfer of long term assurance business in the current and earlier financial years, which has been deducted from general reserves, is £146.0m (31st January 1996 £nil, 1995 £nil, 1994 £nil).

31. Non-sterling assets and liabilities

At the end of the year/period the aggregate amount of all assets and all liabilities included in the balance sheet denominated in a currency other than sterling was as follows:

	31st January 1995 £m	31st January 1996 £m	31st December 1996 £m
Assets	<u>1,312</u>	<u>2,953</u>	<u>2,446</u>
Liabilities	<u>3,820</u>	<u>5,733</u>	<u>4,606</u>

32. Guarantees and other financial commitments

Proposed conversion

On 24th February 1997, the eligible members of Halifax Building Society voted overwhelmingly in favour of the Society converting to a public limited company. Subject to confirmation by the Building Societies Commission, authorisation by the Bank of England, and all other conditions being satisfied, the business of the Society will transfer to Halifax plc, an existing subsidiary, in June 1997. It is proposed that Halifax plc will be listed on the London Stock Exchange in June 1997.

As part of the transfer, Halifax plc will issue additional share capital and Halifax Building Society will subscribe in cash for this additional share capital at nominal value. The entire issued share capital will be distributed or allocated to qualifying members, qualifying successors, qualifying employees and qualifying pensioners of the Society. The Society's Board has estimated that the number of shares to be issued on conversion will be 2,510 million with an aggregate nominal value of £502 million (at a nominal value per share

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of 20 pence). The procedure and proposed timetable for the transfer is explained fully in the Transfer Document issued by the Society in January 1997.

Building Societies Investor Protection Fund

The Society has a contingent liability in respect of contributions to the Building Societies Investor Protection Fund provided under the Building Societies Act 1986.

Isle of Man Depositors Compensation Scheme

Halifax International (Isle of Man) Ltd, formerly Leeds Overseas Ltd, a subsidiary licensed under the Isle of Man Banking Act 1975 to 1986, has a contingent liability to the Isle of Man Depositors Compensation Scheme. Halifax International (Isle of Man) Ltd has assumed all actual, contingent and future liabilities in respect of this Scheme on behalf of Leeds Permanent Overseas Ltd which ceased to trade during 1994. No notification has been received of any potential claims under the Scheme at the date of signing the Accounts.

Building Societies Act 1986

Section 22 of the Building Societies Act 1986, which obliged the Society to discharge the liabilities of its subsidiary undertakings and certain of its associated bodies, in so far as those bodies were unable to discharge the liabilities out of their own assets, was repealed with effect from 11th June 1996. As a consequence, the Society has no statutory obligation to its subsidiary undertakings in respect of liabilities arising after this date. In response to this change in legislation and in order to maintain the same level of protection for offshore depositors, the Society has given undertakings to discharge the liabilities of Halifax International (Isle of Man) Ltd and Halifax International (Jersey) Ltd in so far as they are unable to discharge the liabilities out of their own assets.

Pension transfer advice

A review of pension transfer advice given by the Group is currently being undertaken. An amount has been provided, representing the Group's best estimate of the probable liability.

Capital commitments

At the end of the year/period the capital commitments, for which no provision has been made in the Accounts, were as follows:

	31st January 1995 £m	31st January 1996 £m	31st December 1996 £m
Contracted for	37.1	21.3	105.3
Authorised but not contracted for	19.6	58.2	84.6

Annual commitments under non-cancellable operating leases.

	31st January 1995 Land and buildings £m	Other £m	31st January 1996 Land and buildings £m	Other £m	31st December 1996 Land and buildings £m	Other £m
Operating leases which expire:						
within one year	1.8	0.1	2.1	0.2	2.3	0.1
within two to five years inclusive	4.6	0.7	6.1	12.7	6.4	9.8
in more than five years	36.4	—	48.9	—	48.1	—
	<u>42.8</u>	<u>0.8</u>	<u>57.1</u>	<u>12.9</u>	<u>56.8</u>	<u>9.9</u>

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33. Derivative financial instruments

Derivative financial instruments ("derivatives") are contracts or agreements whose value is derived from one or more underlying indices inherent in the contract or agreement. Derivatives are only used by the Group in accordance with section 23 of the Building Societies Act 1986, i.e. to reduce the risk of loss arising from changes in interest rates, currency rates or other factors of a prescribed description which affect the business. Accordingly, such instruments are not used in trading activity or for speculative purposes.

The principal derivatives used in balance sheet risk management are interest rate swaps, cross currency interest rate swaps and foreign exchange contracts. These are used to hedge Group balance sheet exposures, fixed rate mortgage lending and savings products, funding and investment activities.

The following table describes the main activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which may be used in managing such risks. The Group has adopted an overall approach to balance sheet risk management as such risks may also be managed using on balance sheet instruments as well as derivative instruments.

<i>Activity</i>	<i>Risk</i>	<i>Type of derivative</i>
Management of the investment of reserves and other non-interest bearing liabilities.	Reduced profitability due to falls in interest rates.	Receive fixed interest rate swaps. Purchase of interest rate floors.
Fixed rate mortgage lending.	Sensitivity to increases in interest rates.	Pay fixed interest rate swaps. Purchase interest rate caps.
Fixed rate savings products.	Sensitivity to falls in interest rates.	Receive fixed interest rate swaps.
Fixed rate funding.	Sensitivity to falls in interest rates.	Receive fixed interest rate swaps.
Fixed rate asset investments.	Sensitivity to increases in interest rates.	Pay fixed interest rate swaps.
Investment and funding in non-sterling currencies.	Sensitivity to changes in foreign exchange rates and interest rates.	Cross-currency interest rate swaps. Foreign exchange contracts.
Investment in assets/issuance with embedded options.	Sensitivity to change in underlying rate and rate volatility.	Interest rate swaps and caps/floors. Matched swaps with embedded options.

In certain circumstances combinations of basic derivatives may be used to hedge underlying positions which contain the same risk factors. In such cases the derivative combination used will match exactly the risk of the underlying asset or liability. Exposure to market risk on such contracts is therefore fully hedged.

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At 31st December 1996 the contract or underlying principal amounts of derivative financial instruments, together with their risk weighted amounts and replacement costs, were:

	31st January 1995			31st January 1996			31st December 1996		
	Contract or underlying principal amount £m	Credit risk weighted amount £m	Net replacement cost £m	Contract or underlying principal amount £m	Credit risk weighted amount £m	Net replacement cost £m	Contract or underlying principal amount £m	Credit risk weighted amount £m	Net replacement cost £m
Exchange rate contracts:									
Cross currency swaps	2,589.4	76.4	130.0	3,036.8	188.7	284.7	3,187.7	95.0	78.0
Forward foreign exchange	819.1	2.7	5.3	2,429.2	10.3	27.3	1,225.4	8.1	28.2
	<u>3,408.5</u>	<u>79.1</u>	<u>135.3</u>	<u>5,466.0</u>	<u>199.0</u>	<u>312.0</u>	<u>4,413.1</u>	<u>103.1</u>	<u>106.2</u>
Interest rate contracts:									
Interest rate swaps	5,963.1	37.1	102.7	9,734.5	42.9	104.7	7,155.5	71.2	128.4
Forward rate agreements	630.0	0.1	0.8	325.0	0.2	0.8	250.0	—	—
Caps and floors	—	—	—	666.3	0.8	2.5	514.6	0.3	0.8
Financial futures	—	—	—	200.0	—	—	100.0	—	—
	<u>6,593.1</u>	<u>37.2</u>	<u>103.5</u>	<u>10,925.8</u>	<u>43.9</u>	<u>108.0</u>	<u>8,020.1</u>	<u>71.5</u>	<u>129.2</u>

Substantially all of the Group's derivatives activity is contracted with financial institutions.

The risk weighted values have been calculated in accordance with the provisions of the EU Solvency Ratio Directive. Replacement cost is calculated by marking the value of the contracts to market and aggregating those with a positive value.

34. Memorandum items

<i>Commitments</i>	<i>31st January 1995 £m</i>	<i>31st January 1996 £m</i>	<i>31st December 1996 £m</i>
Undrawn committed loan facilities			
other advances secured on land	240.1	286.0	322.8

35. Principal associated bodies

Details of those subsidiary undertakings of which the results or financial position, in the opinion of the Directors, principally affect the figures shown in the Accounts are set out below:

<i>Subsidiary undertakings</i>	<i>Country of incorporation or registration</i>	<i>Major activity</i>	<i>Class of shares held</i>	<i>Interest of Society</i>	<i>Direct or indirect</i>
Banco Halifax Hispania S.A.	Spain	Provision of banking services in Spain	Ordinary	100%	Direct
County Wide Property Investments Ltd	England and Wales	Owner of commercial property	Ordinary	100%	Direct
HCM Holdings Ltd and its subsidiary:	England and Wales	Financial services	Ordinary	100%	Direct
Clerical Medical Investment Group Ltd† and its subsidiaries	England and Wales	Life assurance and pensions	Ordinary	100%	Indirect
Halifax plc*	England and Wales	Commercial syndicated lending	Ordinary	100%	Direct
Halifax Credit Card Ltd†	England and Wales	Provision of credit card facilities	Ordinary	100%	Direct
Halifax Estate Agencies Ltd† and its subsidiaries:	England and Wales	Estate agency and financial services	Ordinary	100%	Direct
HTC Financial Services Ltd	England and Wales	Financial services	Ordinary	100%	Indirect
Robinson Insurance Services Ltd	England and Wales	Financial services	Ordinary	100%	Indirect
Halifax Financial Services (Holdings) Ltd and its subsidiaries:	England and Wales	Financial services	Ordinary	100%	Direct

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<i>Subsidiary undertakings</i>	<i>Country of incorporation or registration</i>	<i>Major activity</i>	<i>Class of shares held</i>	<i>Interest of Society</i>	<i>Direct or indirect</i>
Halifax Financial Services Ltd†	England and Wales	Financial services	Ordinary	100%	Indirect
Halifax Fund Management Ltd†	England and Wales	Investment fund management	Ordinary	100%	Indirect
Halifax Investment Services Ltd†	England and Wales	Financial services	Ordinary	100%	Indirect
Halifax Life Ltd†	England and Wales	Life assurance and pensions	Ordinary	100%	Indirect
Halifax Unit Trust Management Ltd†	England and Wales	Unit trust management	Ordinary	100%	Indirect
Leeds Life Assurance Ltd	England and Wales	Life assurance and pensions	Ordinary	100%	Indirect
Leeds Unit Trusts Ltd	England and Wales	Unit trust management	Ordinary	100%	Indirect
Halifax Guarantee Insurance Company Ltd	Guernsey	Provision of negative equity insurance	Ordinary	100%	Direct
Halifax Homes Ltd	England and Wales	Housing development	Ordinary	100%	Direct
Halifax Independent Financial Advisers Ltd†	England and Wales	Financial services	Ordinary	100%	Direct
Halifax International (Isle of Man) Ltd	Isle of Man	Offshore licensed deposit taker	Ordinary	100%	Direct
Halifax International (Jersey) Ltd	Jersey	Offshore licensed deposit taker	Ordinary	100%	Direct
Halifax Leasing (No 1) Ltd	England and Wales	Leasing	Ordinary	100%	Direct
Halifax Loans Ltd† and its subsidiaries:	England and Wales	Secured lending on residential property	Ordinary	100%	Direct
HL Group (Holdings) Ltd** and its subsidiaries†	England and Wales	Secured lending on residential property	Ordinary	100%	Indirect
Halifax Mortgage Service (Holdings) Ltd and its subsidiaries (including Halifax Mortgage Services Ltd)†	England and Wales	Secured lending on residential property	Ordinary	100%	Indirect
Halifax Mortgage Re Ltd	Guernsey	Provision of mortgage indemnity insurance	Ordinary	100%	Direct
Halifax Premises Ltd	England and Wales	Management of office property	Ordinary	100%	Direct
Leeds Direct Services Ltd	England and Wales	Administration of business expansion schemes	Ordinary	100%	Direct
Leeds Permanent Development Services Ltd	England and Wales	Property development	Ordinary	100%	Direct
Lovell Park Mortgages (LM1) Ltd	England and Wales	Secured lending on residential property	Preference/Ordinary	100%	Direct/Indirect
Lovell Park Mortgages (LM2) Ltd	England and Wales	Secured lending on residential property	Preference/Ordinary	100%	Direct/Indirect
Lovell Park Mortgages (LM3) Ltd	England and Wales	Secured lending on residential property	Preference/Ordinary	100%	Direct/Indirect
Lovell Park Mortgages (LM4) Ltd	England and Wales	Secured lending on residential property	Preference/Ordinary	100%	Direct/Indirect
Lovell Park Mortgages (LM5) Ltd	England and Wales	Secured lending on residential property	Preference/Ordinary	100%	Direct/Indirect
STB Debt Recovery Services Ltd	England and Wales	Debt recovery services	Ordinary	100%	Direct
Sussex County Homes Ltd	England and Wales	Residential property development	Ordinary	100%	Direct

* Formerly Halifax Syndicated Loans Ltd

** Formerly Bracehold Ltd

† Main operating subsidiaries as explained in Part VI, paragraph 11 of the listing particulars relating to Halifax plc dated 25th April 1997.

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All subsidiary undertakings operate in the United Kingdom, with the exception of Banco Halifax Hispania S.A. which operates in Spain, Halifax International (Isle of Man) Ltd which operates in the Isle of Man, Halifax International (Jersey) Ltd which operates in Jersey and Halifax Mortgage Re Ltd and Halifax Guarantee Insurance Company Ltd which operate in Guernsey.

Halifax Credit Card Ltd has an allotted, called up and fully paid share capital of 50,000 ordinary "A" shares of £1 each, 50,000 ordinary "B" shares of £1 each plus one non-voting "C" share. At 31st January 1996 and 31st December 1996 the Society held all of the allotted share capital (note 18).

Banco Halifax Hispania S.A. is required by Spanish authorities to prepare accounts with a calendar year end. The Directors considered that it would not be practicable to prepare additional accounts to 31st January for the purposes of consolidation with the Group.

Halifax Life Ltd changed its year end to 31st July as at 31st July 1995. To have a coterminous year end as at 31st January 1996 would impact adversely on profitability and would not therefore be in the best interests of the members. Management accounts were prepared to 31st January 1996 for consolidation purposes.

All subsidiary undertakings with the exception of Banco Halifax Hispania S.A. changed their year ends to 31st December as at 31st December 1996 to be coterminous with that of the Society.

36. Retirement benefits

Pension schemes. The Group operates a number of pension schemes for the majority of employees. The principal scheme at 31st December 1996 was the Halifax Building Society Retirement Fund which is a funded scheme and provides defined benefits based on final pensionable salary. The assets of the scheme are held separately from the assets of the Society in trustee administered funds. Contributions to the scheme are assessed in accordance with the advice of a qualified actuary using the projected unit method. Actuarial valuations are normally carried out triennially.

The most recent formal valuation for the Halifax Building Society Retirement Fund was as at 31st March 1994.

The main long-term financial assumptions used in the valuation were:

	% per annum
Price inflation	5.5
Investment return	9.5
Salary escalation	7.5
Pension increases*	5.5
Dividend increases	5.0

*On the excess over the Guaranteed Minimum Pension.

At 31st March 1994 the market value of the assets of the Halifax Building Society Retirement Fund was £781m. The actuarial value of the assets represented 147 per cent. of the value of the benefits that had accrued to members, after allowing for expected future increases in earnings.

On 1st April 1996 the assets and liabilities of the Leeds Permanent Building Society Staff Pension and Life Assurance Scheme were transferred to the Halifax Building Society Retirement Fund. A funding review was performed following the transfer as at 1st April 1996 using the same actuarial assumptions as set out above. The market value of the assets of the Halifax Building Society Retirement Fund was £1,268m at 1st April 1996. The actuarial value of the assets represented 138 per cent. of the benefits that had accrued to members, after allowing for expected future increases in earnings.

Excess funding has been spread over the average expected future working lives of scheme members using the "straight line" method. The Group charge for pension costs for the 11 month period ended 31st December 1996 was £15.4m (year ended 31st January 1996 £7.8m, 1995 £21.1m, 1994 £15.3m). Included in prepayments and accrued income (note 21) is a pension prepayment of £68.8m (31st January 1996 £75.6m, 1995 £25.9m) which relates to excess pension contributions.

Other post-retirement benefits. The Group also provides post-retirement health care benefits and concessionary rate mortgages for certain pensioners and dependent spouses.

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An independent actuarial valuation as at 31st December 1996 estimated the present value of the accumulated other post-retirement benefit obligations at £21.2m for the Group (31st January 1996 £23.7m, 1995 £66m, 1994 £55m). The main financial assumption used was that over the long term the rate of increase in health care costs would be 9.5 per cent. per annum, being 4 per cent. per annum higher than the rate of inflation. The charge for the period for other post-retirement benefits was £2.6m (year ended 31st January 1996 £3.4m, 1995 £9.7m, 1994 £0.3m). Included in provisions for liabilities and charges (note 27) is £15.5m (31st January 1996 £12.9m, 31st January 1995 £19.5m) which represents the accrued liability for other post-retirement benefits.

The value of the accumulated post-retirement benefit obligations at 31st January 1996 and the charge for the year are less than for the previous year due to a change in entitlement to health care benefits with effect from the balance sheet date. After 31st January 1996, only employees currently eligible to carry the benefit into retirement and who retire before 31st January 2001 will receive the benefit in retirement.

37. Income tax

Following the decision of the House of Lords in October 1990 that the Income Tax (Building Societies) Regulations 1986 were *ultra vires* in so far as they purported to levy tax on interest paid by building societies during the year of assessment 1985-86, Leeds Permanent Building Society launched proceedings in the High Court to recover the sums wrongfully collected from it. Shortly afterwards, the Government introduced retrospective legislation (now Section 53 of the Finance Act 1991) to validate the unlawful levies, so as to nullify the Leeds Permanent Building Society's legal proceedings. Leeds Permanent Building Society thereupon launched alternative proceedings challenging the composite rate for savings accounts fixed by the Treasury for the years in which the unlawful levies were collected. If successful, these proceedings would have resulted in Leeds Permanent Building Society recovering the amount claimed in its original High Court action. However, the Government introduced further retrospective legislation (now Section 64 of the Finance Act 1992) to validate the rates in question whether previously unlawful or not, so as to nullify the Leeds Permanent Building Society's alternative proceedings also. In December 1992 Leeds Permanent Building Society lodged an application to the European Commission of Human Rights for a ruling as to whether the original levies themselves, and the Government's subsequent interference with Leeds Permanent Building Society's right to seek redress in the courts, are in accordance with the United Kingdom's Treaty obligations. The amounts unlawfully levied amount to approximately £57m, without interest. The case proceeded to an oral hearing in January 1995 at which the European Commission unanimously declared the application admissible without pre-judging its merits. Under the Building Societies Act 1986 the benefit of the application by Leeds Permanent Building Society passed to Halifax Building Society on the merger of the two societies. The European Commission's view of the merits of the application was the subject of a report issued on 19th September 1996. The European Commission has found in favour of the Government on two counts but has upheld the Society's complaint that Article 6 of the European Convention for the Protection of Human Rights and Fundamental Freedoms has been breached by the Government because by passing retrospective legislation it denied the Society its right to a fair hearing in court. The European Commission's report will be referred during May 1997 to the European Court of Human Rights for final determination. No credit has been taken in these accounts for any possible recovery.

38. Segmental analysis of profit on ordinary activities before tax and exceptional items

	Retail operations £m	Consumer credit £m	Long term savings and protection £m	Treasury £m	Group items £m	Total £m
Net interest margin	1,625	97	7	89	133	1,951
Other income	417	15	106	3	(14)	527
	2,042	112	113	92	119	2,478
Expenditure	(814)	(50)	(70)	(12)	(95)	(1,041)
Provisions	(108)	(25)	—	2	—	(131)
Profit before tax and exceptional items	1,120	37	43	82	24	1,306

PART IV: ACCOUNTANTS' REPORTS

The 11 month period ended 31st December 1996 is the first period in which Halifax has analysed profit on ordinary activities before tax and exceptional items on a segmental basis. Retail operations consist of mortgages, liquid savings and personal lines insurance sectors, together with the Halifax Current Account business. Included within retail operations is gross general insurance income receivable of £169m. Consumer credit consists of secured and unsecured personal lending as well as credit cards. Included within treasury is a contribution of £15m from the commercial lending business. In this analysis, Group items comprise those Group costs which are not allocated to specific business sectors and income derived from capital which is not allocated to specific business sectors.

39. Banco Halifax Hispania S.A.

At 31st December 1996 Banco Halifax Hispania S.A. had total assets of £49.8m (based on an exchange rate of 222.2 pesetas/£).

40. Post balance sheet events

On 7th February 1997 a further £200m 9½% subordinated bonds 2021 were issued, which, from and including 15th May 1997, will be fungible with the £300m already in issue as itemised in note 28. On 25th April 1997, £200m step-up, callable floating rate subordinated notes 2012 were issued.

Yours faithfully

KPMG Audit Plc

Chartered Accountants

PART IV: ACCOUNTANTS' REPORTS

B. Accountants' report on Leeds Permanent Building Society and its subsidiaries

The following is the text of a report to the directors of Halifax Building Society, the directors of Halifax plc and the directors of Morgan Grenfell & Co. Limited by KPMG Audit Plc.



KPMG Audit Plc

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The Directors

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The Directors

Halifax Building Society

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HXI 2RG

The Directors

Morgan Grenfell & Co. Limited

6 Bishopsgate

LONDON

EC2N 4DA

25th April 1997

Dear Sirs

Leeds Permanent Building Society

In connection with the introduction of the ordinary shares of Halifax plc to the Official List of the London Stock Exchange, we have prepared two separate accountants' reports covering the three year and 11 month period ended 31st December 1996 for Halifax Building Society and the one year and ten month period ended 31st July 1995 for Leeds Permanent Building Society. Leeds Permanent Building Society transferred its engagements to Halifax Building Society on 31st July 1995. If this transfer of engagements had occurred as at the date of this document, then, under the rules of the London Stock Exchange, this would have been deemed a transaction requiring shareholder approval.

We have examined the audited accounts of Leeds Permanent Building Society (the "Leeds") and of its subsidiary undertakings (collectively referred to as the "Leeds Group") for the year ended 30th September 1994 and the ten month period ended 31st July 1995; our examination has been carried out in accordance with the Auditing Guideline: Prospectuses and the reporting accountant. For the avoidance of doubt, references in this report to the Board and Directors should be taken to mean the board and directors of Leeds Permanent Building Society and references to the Society, the Group and the Accounts should be taken to mean Leeds Permanent Building Society, the Leeds Group and the accounts of the Leeds Group.

KPMG were auditors of the Leeds Group for the year ended 30th September 1994 and for the ten month period ended 31st July 1995.

PART IV: ACCOUNTANTS' REPORTS

No audited accounts of the Leeds Group have been made up in respect of any period subsequent to 31st July 1995.

The financial information set out in this report is prepared on the basis described in note 1 and is based on the audited accounts of the Leeds Group after making such adjustments which we consider necessary. We have not included the accounts of the Society as these do not provide any significant additional information to that contained in the consolidated accounts.

In our opinion the financial information gives for the purposes of the listing particulars dated 25th April 1997 a true and fair view of the income and expenditure and source and application of funds of the Leeds Group for the year ended 30th September 1994 and the ten months ended 31st July 1995 and of the state of affairs of the Leeds Group at the dates stated.

Group income and expenditure accounts

	<i>Notes</i>	<i>Year ended 30th September 1994 £m</i>	<i>10 months ended 31st July 1995 £m</i>
Interest receivable	2	1,503.2	1,338.5
Interest payable	3	1,044.8	960.6
Net interest receivable		458.4	377.9
Income from associated body		0.1	—
Other income and charges	4	104.5	82.1
		563.0	460.0
Administrative expenses			
recurring		226.1	181.7
exceptional		22.6	—
	5	248.7	181.7
Provisions for bad and doubtful debts	11	82.2	33.4
Operating profit		232.1	244.9
Merger expenses		—	12.8
Profit on sale of properties	8	13.7	—
Profit on ordinary activities before tax		245.8	232.1
Tax on profit on ordinary activities	9	82.0	83.2
Profit for the financial year/period	26	163.8	148.9

Statement of total recognised gains and losses

The Society has no recognised gains or losses in 1994 or 1995 other than the profit for the year/period as disclosed above.

Note of historical cost profits and losses

The only difference between the Leeds Group's profit on ordinary activities before tax and profit for the financial period as stated above, and their historical cost equivalents, is in respect of the increase in the value of Leeds Life Assurance Limited to take account of the value of long term life assurance business in force, £0.9m (note 4) (1994 £3.4m) and the related taxation, £0.3m (note 9) (1994 £1.1m).

PART IV: ACCOUNTANTS' REPORTS

Group balance sheets

	<i>Notes</i>	<i>As at 30th September 1994 £m</i>	<i>As at 31st July 1995 £m</i>
Assets			
Liquid assets	10	3,552.2	3,305.5
Commercial assets	12		
advances: secured on residential property		16,078.2	16,811.4
subject to non-recourse finance:			
residential mortgage assets		101.3	97.4
less non-recourse finance		97.6	93.9
		<u>3.7</u>	<u>3.5</u>
Other advances secured on land		156.8	150.3
Other commercial assets		467.7	302.6
		<u>16,706.4</u>	<u>17,267.8</u>
Tangible fixed assets	15	239.4	247.2
Other assets	16	22.7	22.5
Prepayments and accrued income	17	89.1	104.7
		<u>20,609.8</u>	<u>20,947.7</u>
Long term assurance assets attributable to policyholders	18	9.9	10.9
Total assets		<u>20,619.7</u>	<u>20,958.6</u>
Liabilities			
Shares, deposits and loans			
Retail funds and deposits	19	14,547.1	15,402.7
Non-retail funds and deposits	20	4,272.0	3,653.0
		<u>18,819.1</u>	<u>19,055.7</u>
Other liabilities	21	193.4	203.1
Accruals and deferred income	22	70.4	53.4
Provision for liabilities and charges	23	8.8	18.5
Subordinated liabilities	24	298.1	248.1
Subscribed capital	25	74.4	74.4
		<u>19,464.2</u>	<u>19,653.2</u>
Reserves			
General reserve	26	1,145.6	1,294.5
Long term assurance liabilities attributable to policyholders	18	9.9	10.9
Total liabilities		<u>20,619.7</u>	<u>20,958.6</u>

PART IV: ACCOUNTANTS' REPORTS

Group statement of source and application of funds

	<i>Year ended 30th September 1994 £m</i>	<i>10 months ended 31st July 1995 £m</i>
Source of funds		
Increase in free capital (see below)	167.0	92.8
Decrease in liquid assets	—	246.7
Advances and loans repaid by borrowers	1,461.9	1,248.3
Net receipts from retail funds and deposits	704.4	855.6
Net receipts from non-retail funds and deposits	180.0	—
Net receipts from non-recourse finance	99.1	0.4
Decrease in other commercial assets	—	178.0
Other items	95.7	—
Total source of funds	<u>2,708.1</u>	<u>2,621.8</u>
Application of funds		
Increase in liquid assets	208.5	—
Advances and loans made to borrowers	2,386.9	1,654.0
Acquisition of residential mortgage assets (including premium paid)	—	332.2
Increase in other commercial assets	112.7	—
Net reduction in non-retail funds and deposits	—	619.0
Other items	—	16.6
Total application of funds	<u>2,708.1</u>	<u>2,621.8</u>
Increase in free capital		
Source of funds		
Profit for the financial period/year	163.8	148.9
Adjustment for items not involving the movement of funds		
Depreciation of tangible fixed assets	17.0	16.2
Profit on disposal of tangible fixed assets	(14.0)	(2.5)
Increase in general provisions for bad and doubtful debts	4.6	1.7
Amortisation of premium, discounts and issue costs	0.1	—
Funds generated from operations	<u>171.5</u>	<u>164.3</u>
Funds from other sources		
Disposal of tangible fixed assets	31.1	8.3
Application of funds		
Purchase of tangible fixed assets	(35.6)	(29.8)
Repayment of subordinated liabilities	—	(50.0)
Increase in free capital	<u>167.0</u>	<u>92.8</u>

Free capital comprises general reserve, subordinated liabilities, subscribed capital and general provision for bad and doubtful debts less tangible fixed assets.

The movement in specific provision for bad and doubtful debts is shown within "Advances and loans repaid by borrowers" above.

The effect of the acquisition of five mortgage asset companies in March 1995 (note 14) was as follows:

	<i>£m</i>
Consideration paid	332.2
Residential mortgage assets acquired	(317.1)
Other net assets acquired	(5.3)
Premium paid	<u>9.8</u>

PART IV: ACCOUNTANTS' REPORTS

Notes to the Accounts

1. Principal accounting policies

The principal policies employed during the period covered by the report are set out below.

Basis of preparation. On 1st August 1995 the engagements of Leeds Permanent Building Society were transferred to Halifax Building Society. Accordingly the final accounts of Leeds Permanent Building Society for the period ended 31st July 1995 were prepared to reflect this transfer and the dissolution of the Society at that date.

The Accounts were prepared under the historical cost convention as modified by the valuation of the long term life assurance business, and in accordance with applicable accounting standards and the Building Societies (Accounts and Related Provisions) Regulations 1992.

The Accounts were prepared on a going concern basis as the business of the Leeds was merged with Halifax Building Society with effect from 1st August 1995.

Basis of consolidation. The Leeds Group Accounts include the results of Leeds Permanent Building Society and its subsidiary undertakings together with the appropriate share of the profits of its associated undertaking. The results of subsidiary companies for the 10 month period ended 31st July 1995 were based on management accounts which were not audited.

Investments in other associated bodies are stated at the lower of cost or net realisable value.

Accounting for acquisitions. Goodwill arising on acquisitions made by the Leeds Group, which represents the excess of cost over the fair value of net assets acquired, is charged against reserves.

On the acquisition of mortgage asset companies the mortgage assets acquired are included in the consolidated balance sheet at their fair values at the date of acquisition. The difference between the consideration paid and the fair values of the mortgage assets acquired is accounted for as a premium. The premium is amortised in the Society and Group income and expenditure account evenly over a period not exceeding the expected life of the mortgage assets acquired. The unamortised balance of the premium is included in other assets.

Corporation tax. Corporation tax is charged in the Accounts on the profit on ordinary activities as adjusted for taxation purposes.

Fixed assets and depreciation. The cost of additions and major improvements to office premises, equipment, plant and motor vehicles is capitalised.

Depreciation is provided as follows:

- (i) Leasehold properties over the remainder of the lease up to 50 years.
- (ii) Equipment over four or five years on a straight line basis.
- (iii) Plant and equipment at ten per cent. per annum on a straight line basis and motor vehicles at 25 per cent. per annum on a reducing balance basis.
- (iv) Purchased software over the life of the relevant hardware or the anticipated commercial life of the software, not exceeding four years.

Depreciation is not provided on freehold and long leasehold properties. It was the Leeds Permanent Building Society's policy to maintain all properties to the highest standard. Each year the residual values of such properties were appraised on the basis of prices prevailing at the time of acquisition and subsequent valuation and, as a result, the Directors considered that any depreciation of freehold and long leasehold buildings would not be material. Any permanent diminution in the value of such properties would have been dealt with through the income and expenditure account.

Leasing. The Leeds Group entered into operating and finance leases. Leases are regarded as finance leases where their terms give rights approximating to ownership.

Assets held under finance leases are capitalised at the fair value of the asset at the inception of the lease, with an equivalent liability categorised under other liabilities due within one year and after one year. Assets are

PART IV: ACCOUNTANTS' REPORTS

depreciated over their useful economic life. Finance charges are allocated to accounting years over the life of each lease.

Rentals under operating leases are charged on a straight line basis over the lease term.

Branch reconfiguration. Branch reconfiguration costs are held in other assets. Once a branch has been fully reconfigured, the related costs are transferred to the relevant fixed asset captions whereupon depreciation is charged in accordance with the Group's normal practice.

Liquid assets. Securities intended for use on a continuing basis in the Society's activities are classified as financial fixed assets and are stated at cost, adjusted to exclude accrued interest at the date of purchase. A similar adjustment is also made on realisation. Where the adjusted purchase price differs from par value, the premium or discount is amortised or released over the period to maturity. Any permanent diminution in the value of such financial fixed assets would result in a write down of the cost of the securities to their recoverable amounts and would be charged to the income and expenditure account.

Other liquid assets are stated at the lower of cost and net realisable value.

Mortgage backed securities. Such securities purchased for the purpose of liquidity management are held within liquid assets. Other mortgage backed securities are held as commercial assets.

Unsecured loans. Interest from unsecured lending business is credited to income based on the outstanding monthly balance.

Provisions for losses on commercial assets. Provisions are made to reduce the value of advances and loans to the amount which the Directors considered was likely ultimately to be received.

Throughout the period and at the period end, individual assessments are made of all advances and loans on properties which are in possession, or in arrears by three months or more. Specific provision is made against those advances and loans which are considered to be impaired. In considering the specific provision for impaired loans, account is taken of any discount which may be needed against the value of the property at the balance sheet date to agree a sale within three months of that date, the amount recoverable under mortgage indemnity policies and anticipated realisation costs. The Directors recognised that not all accounts in arrears will result in possession and apply a factor based on recent experience to reflect this probability when calculating the provision for accounts in arrears.

A general provision is made against those advances in arrears but not in possession and any other outstanding receivables the receipt of which may be doubtful. This provision is based upon the Society's experience and the general economic climate which would indicate that losses may ultimately be realised.

Interest in respect of all loans is credited to the income and expenditure account as it becomes receivable. Provision for irrecoverable interest on mortgage accounts in serious arrears and repossessed properties is made against interest receivable.

Commercial assets in the balance sheet are shown net of all provisions. The charge to the income and expenditure account comprises the increase in provisions together with capital losses written off in the period.

Advances subject to non-recourse finance. Advances subject to non-recourse finance, net of provisions, are included in the balance sheet under the linked presentation method. Provision has been made against such assets in accordance with the Society's provisioning policy, details of which are provided above. Provisions made are charged to the income and expenditure account to the extent of the Society's exposure.

Non-retail funds issue costs. Costs associated with the issue of wholesale funds, including subordinated liabilities, are accounted for as an adjustment to the amount of the liability and amortised over the relevant period to maturity. Unamortised expenditure is written off in full in the year in which related call or put options are exercised.

Subscribed capital issue costs. Costs associated with the issue of permanent interest bearing shares are accounted for as a permanent deduction from the amount of the liability.

Deposits. Deposits taken by the offshore deposit-taking subsidiary were subsequently lent to the Society and were repayable on demand.

PART IV: ACCOUNTANTS' REPORTS

Foreign currency transactions. Assets and liabilities held in foreign currency are translated into sterling at the period end rates of exchange except where they are covered by forward exchange contracts.

Exchange differences arising on unmatched transactions are dealt with in the income and expenditure account.

Deferred taxation. Provision is made for deferred tax under the liability method only to the extent that it is probable that an actual liability will crystallise.

Pension costs. The costs of providing pensions is calculated using actuarial valuation methods.

The regular cost charged to the income and expenditure account is calculated so as to produce a substantially level percentage of the current and future pensionable payroll.

Variations from the regular cost so calculated are allocated to the income and expenditure account over the remaining service lives of employees.

The excess funding at implementation of SSAP 24: Accounting for Pension Costs, has been included in prepayments.

Long term assurance business. The value of long term life assurance business in force represents the present value of profits expected to arise in the future from business written at the balance sheet date. The value was determined by the appointed actuary of Leeds Life Assurance Limited.

Movements in the value of the long term assurance business in force and the surplus within the long term business fund, grossed up at the underlying rates of taxation as appropriate, are credited to the Group income and expenditure account.

2. Interest receivable

	<i>Year ended 30th September 1994 £m</i>	<i>10 month period ended 31st July 1995 £m</i>
On secured advances	1,214.5	1,091.6
On other lending		
to associated bodies	8.1	6.6
other	27.8	23.5
On debt securities		
interest and other income	150.9	122.0
profits net of losses	21.0	11.3
On other liquid assets		
interest and other income	65.6	77.2
Net income on financial instruments	15.3	6.3
	<u>1,503.2</u>	<u>1,338.5</u>

Interest on secured advances, as shown above, has been reduced by £14.0m (1994 £19.6m) representing interest suspended on non-performing loans in accordance with the Society's accounting policy. Movements in the suspended interest account are as follows:

	<i>Year ended 30th September 1994 £m</i>	<i>10 month period ended 31st July 1995 £m</i>
At the beginning of the year/period	31.4	41.0
Interest written off during the year/period	(10.0)	(27.2)
Interest suspended in the year/period	19.6	14.0
At the end of the year/period	<u>41.0</u>	<u>27.8</u>

PART IV: ACCOUNTANTS' REPORTS

The amount of interest suspended as at 31st July 1995 has been deducted in arriving at the value of commercial assets in the balance sheets.

3. Interest payable

	<i>Year ended 30th September 1994 £m</i>	<i>10 month period ended 31st July 1995 £m</i>
On retail funds and deposits	760.1	698.9
On non-retail funds and deposits	274.5	255.2
Net expense on financial instruments	10.2	6.5
	<u>1,044.8</u>	<u>960.6</u>
Interest payable on non-retail funds includes the following:		
Interest payable on subordinated liabilities	24.7	19.3
Interest payable on subscribed capital	10.2	8.5
	<u>34.9</u>	<u>27.8</u>

4. Other income and charges

	<i>Year ended 30th September 1994 £m</i>	<i>10 month period ended 31st July 1995 £m</i>
Fees and commissions receivable	97.8	69.0
Fees and commissions payable	(3.1)	(2.7)
Results of long term assurance business:		
statutory basis (excluding pre-launch costs)*	(9.1)	3.0
increase in value of long term assurance subsidiary to take account of the value of business in force	3.4	0.9
Other operating income	15.5	11.9
	<u>104.5</u>	<u>82.1</u>

* Pre-launch costs borne by the life assurance subsidiary were included within Group exceptional administrative expenses in 1994 (note 5).

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5. Administrative expenses

	<i>Year ended 30th September 1994 £m</i>	<i>10 month period ended 31st July 1995 £m</i>
Staff costs (note 6)	115.6	96.4
Depreciation and other amounts written off tangible fixed assets	17.0	16.2
Other expenses	116.1	69.1
	<u>248.7</u>	<u>181.7</u>
Included in other expenses are the following:		
Finance lease charges	0.6	0.3
Operating lease charges		
hire of equipment	12.5	12.5
others	7.9	6.6
Remuneration of auditors		
— audit work	0.3	0.2
Exceptional administrative expenses included above comprise:		
Long term assurance and unit trust business launch costs	11.6	—
Cost of voluntary redundancy programme	11.0	—
	<u>22.6</u>	<u>—</u>

No disclosure has been made of the non-audit fees of the auditors as none was required when the Accounts were prepared and it is not possible to extract retrospectively the relevant information.

6. Staff numbers and costs

The average number of persons employed, including executive directors, during the period was as follows:

	<i>Full time</i>	<i>10 month period ended</i>	<i>Part time</i>	<i>10 month period ended</i>
	<i>Year ended 30th September 1994</i>	<i>31st July 1995</i>	<i>Year ended 30th September 1994</i>	<i>31st July 1995</i>
Principal office and administration centres	1,510	1,473	180	170
Branch and estate agency offices	3,461	3,491	1,319	1,326
	<u>4,971</u>	<u>4,964</u>	<u>1,499</u>	<u>1,496</u>

The aggregate costs of these persons were as follows:

	<i>Year ended 30th September 1994 £m</i>	<i>10 month period ended 31st July 1995 £m</i>
Wages and salaries	98.6	80.8
Social security costs	7.5	6.5
Other pension costs	9.5	9.1
	<u>115.6</u>	<u>96.4</u>

PART IV: ACCOUNTANTS' REPORTS

7. Remuneration of and transactions with Directors

	<i>Fees</i> £000	<i>Bonus</i> £000	<i>Benefits in kind</i> £000	<i>Pension contributions</i> £000	<i>Total</i> £000
Year ended 30th September 1994					
Services as a Director (Non-Executive)	431	—	—	2	433
Other services (Executive Directors)	538	206	25	12	781
	<u>969</u>	<u>206</u>	<u>25</u>	<u>14</u>	<u>1,214</u>
10 month period ended 31st July 1995					
Services as a Director (Non-Executive)	366	—	—	2	368
Other services (Executive Directors)	362	256	24	8	650
	<u>728</u>	<u>256</u>	<u>24</u>	<u>10</u>	<u>1,018</u>
Compensation for loss of office					262
					<u>1,280</u>

Services as a Director include payments to former Directors of £11,024 (1994 £12,392).

Excluding pension contributions, the emoluments of the Chairman amounted to £87,500 (1994 £106,500) and the emoluments of the highest paid full time Director amounted to £346,829 (1994 £298,624).

The Executive Directors of the Society participated in bonus schemes based on short term and medium term business performance. These bonus schemes ceased on the effective date of the merger and the bonuses accumulated by and paid to Executive Directors at that date are included above. None of the Directors received any emoluments in connection with the merger with Halifax Building Society.

The payment to a former Executive Director in respect of compensation for loss of office included a motor vehicle and office equipment with an estimated money value of £12,041.

The emoluments of all Directors, excluding pension contributions, which fell within the following ranges were:

£	<i>Year ended</i> <i>30th September</i> <i>1994</i>	<i>10 month period ended</i> <i>31st July</i> <i>1995</i>	£	<i>Year ended</i> <i>30th September</i> <i>1994</i>	<i>10 month period ended</i> <i>31st July</i> <i>1995</i>
	No.	No.		No.	No.
5,001 – 10,000	1	—	85,001 – 90,000	1	1
10,001 – 15,000	1	—	95,001 – 100,000	—	1
15,001 – 20,000	—	1	105,001 – 110,000	1	—
20,001 – 25,000	1	3	185,001 – 190,000	1	—
25,001 – 30,000	3	2	235,001 – 240,000	1	—
30,001 – 35,000	1	—	265,001 – 270,000	—	1
45,001 – 50,000	1	—	295,001 – 300,000	1	—
55,001 – 60,000	1	—	345,001 – 350,000	—	1
60,001 – 65,000	—	1			

Directors' loans and transactions

The aggregate amount outstanding at 31st July 1995 in respect of loans advanced in the ordinary course of business from the Society, or a subsidiary company, to Directors of the Society or persons connected with Directors of the Society was £171,151 representing loans to 11 persons (30th September 1994 £258,799 representing loans to 14 persons).

The Society maintained a register under Section 68 of the Act of all such loans, transactions and arrangements.

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8. Profit on sale of properties

	<i>Year ended 30th September 1994 £m</i>	<i>10 month period ended 31st July 1995 £m</i>
Profit on sale of properties	13.7	—

The exceptional credit for 1994 represents the profit on sale of Direct Line House, Leeds. The tax effect of this sale included within the tax charge (note 9) amounts to £3.2m.

9. Tax on profit on ordinary activities

The charge for the period comprises:

	<i>Year ended 30th September 1994 £m</i>	<i>10 month period ended 31st July 1995 £m</i>
Current period		
UK corporation tax at 33% (1994 – 33%)	95.2	72.8
taxation arising on the increase in value of long term life assurance business in force	1.1	0.3
deferred tax at 33% (1994 – 33%)	(10.8)	10.1
	85.5	83.2
Prior years		
UK corporation tax	(8.7)	—
deferred tax	5.2	—
	82.0	83.2

For the purpose of these Accounts, no tax credit has been taken in respect of expenses incurred in connection with the merger with Halifax Building Society.

PART IV: ACCOUNTANTS' REPORTS

10. Liquid assets

	<i>As at 30th September 1994 £m</i>	<i>As at 31st July 1995 £m</i>
Liquid assets comprise		
Cash in hand and balances with Bank of England	49.6	95.6
Treasury bills and other eligible bills		
treasury bills and similar securities	71.1	—
other eligible bills	102.0	—
Loans and advances to credit institutions	1,003.2	1,465.2
Debt securities		
issued by public bodies	635.1	549.2
issued by other borrowers	1,659.2	1,187.4
Other	32.0	8.1
	<u>3,552.2</u>	<u>3,305.5</u>
Repayable from the date of the balance sheet in the ordinary course of business as follows		
Loans and advances to credit institutions		
repayable on demand	62.2	8.1
in not more than three months	689.0	1,187.9
in more than three months but not more than one year	239.5	256.7
in more than one year but not more than five years	0.6	0.5
	<u>991.3</u>	<u>1,453.2</u>
accrued interest	11.9	12.0
	<u>1,003.2</u>	<u>1,465.2</u>
Debt securities		
in not more than one year	1,698.5	275.4
in more than one year but not more than five years	525.0	970.0
in more than five years	39.8	452.6
	<u>2,263.3</u>	<u>1,698.0</u>
accrued interest	31.0	38.6
	<u>2,294.3</u>	<u>1,736.6</u>
Analysis of debt securities		
Transferable debt securities (excluding accrued interest)		
listed on a recognised investment exchange	580.1	467.6
unlisted	1,683.2	1,230.4
	<u>2,263.3</u>	<u>1,698.0</u>
Market value of listed debt securities (excluding accrued interest)	<u>578.8</u>	<u>471.8</u>
Analysis of securities		
Transferable securities held as financial fixed assets		
at maturity value	2,369.9	1,703.4
net unamortised discount/premium	(4.9)	(5.4)
	<u>2,365.0</u>	<u>1,698.0</u>
Adjusted cost of securities held as financial fixed assets (excluding accrued interest) comprises:		
treasury bills and other eligible bills	101.7	—
debt securities	2,263.3	1,698.0
	<u>2,365.0</u>	<u>1,698.0</u>

PART IV: ACCOUNTANTS' REPORTS

The Directors of the Society considered that all transferable securities were intended for use on a continuing basis in the Society's activities and they are therefore classified as financial fixed assets.

Movements during the period of transferable securities (excluding accrued interest) held as financial fixed assets are analysed as follows:

	<i>Year ended 30th September 1994 £m</i>	<i>10 month period ended 31st July 1995 £m</i>
Adjusted cost		
at the beginning of the period	2,509.0	2,365.0
additions	11,372.9	9,805.0
disposals	(11,516.9)	(10,472.0)
At the end of the period	<u>2,365.0</u>	<u>1,698.0</u>

11. Provisions for bad and doubtful debts

Provisions for bad and doubtful debts have been made as follows:

	<i>Residential Property £m</i>	<i>Advances Secured on Land £m</i>	<i>Other Commercial Assets £m</i>	<i>Total £m</i>
At 1st October 1993				
general provision	20.9	—	1.6	22.5
specific provision	77.0	23.5	24.8	125.3
	<u>97.9</u>	<u>23.5</u>	<u>26.4</u>	<u>147.8</u>
Amounts written off during year				
general provision	—	—	—	—
specific provision	89.7	17.4	11.9	119.0
	<u>89.7</u>	<u>17.4</u>	<u>11.9</u>	<u>119.0</u>
Income and expenditure account				
Provisions for bad and doubtful debts				
general provision	—	—	4.6	4.6
specific provision	66.9	5.4	5.3	77.6
Charge for year	<u>66.9</u>	<u>5.4</u>	<u>9.9</u>	<u>82.2</u>
At 1st October 1994				
general provision	20.9	—	6.2	27.1
specific provision	54.2	11.5	18.2	83.9
	<u>75.1</u>	<u>11.5</u>	<u>24.4</u>	<u>111.0</u>
Arising on acquisition				
general provision	1.3	—	—	1.3
specific provision	1.5	—	—	1.5
	<u>2.8</u>	<u>—</u>	<u>—</u>	<u>2.8</u>
Amounts written off during period				
general provision	—	—	—	—
specific provision	12.0	4.9	14.6	31.5
	<u>12.0</u>	<u>4.9</u>	<u>14.6</u>	<u>31.5</u>

PART IV: ACCOUNTANTS' REPORTS

	<i>Residential Property £m</i>	<i>Advances Secured on Land £m</i>	<i>Other Commercial Assets £m</i>	<i>Total £m</i>
Income and expenditure account				
Provisions for bad and doubtful debts				
general provision	—	—	0.4	0.4
specific provision	31.7	—	1.3	33.0
Charge for the period	31.7	—	1.7	33.4
As at 31st July 1995				
general provision	22.2	—	6.6	28.8
specific provision	75.4	6.6	4.9	86.9
	97.6	6.6	11.5	115.7
Interest due on commercial assets has been suspended as follows:				
At 1st October 1993	27.3	4.1	—	31.4
amounts written off during year	(10.0)	—	—	(10.0)
charge for year	19.6	—	—	19.6
At 1st October 1994	36.9	4.1	—	41.0
amounts written off during period	(24.7)	(2.5)	—	(27.2)
charge for the period	14.0	—	—	14.0
At 31st July 1995	26.2	1.6	—	27.8
Total at 30th September 1994	112.0	15.6	24.4	152.0
Total at 31st July 1995	123.8	8.2	11.5	143.5

Adjustments to provisions for bad and doubtful debts carried at 1st October 1993 are not of sufficient materiality to the Group to warrant separate disclosure.

The charge for the period is stated after a charge of £0.4m (1994 credit of £0.2m) in respect of subsidiaries' specific provisions.

12. Commercial assets

Advances subject to non-recourse finance.

On 7th June 1994 the Society drew down a £100m senior and mezzanine non-recourse loan facility with a syndicate of banks. As security for repayment of the facility, the Society sub-charged by way of a first fixed charge its interest in £103m of residential mortgages. Loans could only be withdrawn from this arrangement if they were found to be in breach of the warranties given by the Society to the funding banks. No additional mortgage loans could be added to the facility.

The facility was repayable solely from the repayment or prepayment of the underlying mortgages and the Society had no liability to pay the banks' interest or principal from its own funds, nor did it intend to do so. Interest is payable quarterly in arrears.

As part of its normal balance sheet management policy the Society had entered into certain interest rate swaps with the funding banks in respect of the mortgages which were subject to the non-recourse finance facility.

Surpluses generated by the transaction were taken as income by the Society.

PART IV: ACCOUNTANTS' REPORTS

At 31st July 1995 the financial impact of this transaction in the Accounts of the Group could be summarised as follows:

	<i>As at 30th September 1994 £m</i>	<i>As at 31st July 1995 £m</i>
<i>Balance Sheet</i>		
Gross amount of assets subject to non-recourse finance	101.3	97.4
Provision for losses	—	—
	<u>101.3</u>	<u>97.4</u>
<i>Income and Expenditure Account</i>		
Net interest margin	0.3	1.2
Provision for losses	—	—
	<u>0.3</u>	<u>1.2</u>

The Society was not obliged to support any losses in respect of the mortgages subject to non-recourse finance, other than to the extent of over-collateralisation shown, nor did it intend to do so.

The providers of the facility had agreed in writing in the loan facility agreement that they would seek repayment of the facility, as to both principal and interest, only to the extent that sufficient funds were generated by the mortgages and related security and that they would not seek recourse in any other form.

Other commercial assets comprise:

	<i>As at 30th September 1994 £m</i>	<i>As at 31st July 1995 £m</i>
Unsecured loans	161.6	172.8
Secured loans	260.5	79.2
Residential properties held for development work in progress	4.6	3.8
Others	25.1	27.9
Investments in associated bodies:		
shares in associated bodies (note 14)	0.6	0.1
general reserve	0.1	—
	<u>452.5</u>	<u>283.8</u>
Value of long term assurance business in force	2.3	2.9
Long term business fund surplus (note 18)	12.9	15.9
	<u>467.7</u>	<u>302.6</u>

PART IV: ACCOUNTANTS' REPORTS

13. Commercial assets maturity analysis

The maturity of advances secured on residential property, other advances secured on land and certain class 3 loans, being unsecured loans and secured loans, from the date of the balance sheet is as follows:

	<i>As at 30th September 1994 £m</i>	<i>As at 31st July 1995 £m</i>
Accrued interest	10.5	8.4
Repayable on demand	140.5	123.1
In not more than three months	285.6	350.0
In more than three months but not more than one year	205.3	204.4
In more than one year but not more than five years	858.5	876.9
In more than five years	15,308.7	15,794.4
	<u>16,809.1</u>	<u>17,357.2</u>
Less: provisions (note 1)	152.0	143.5
	<u>16,657.1</u>	<u>17,213.7</u>
The maturity analysis comprises:		
Advances secured on residential property	16,078.2	16,811.4
Advances secured on land	156.8	150.3
Other commercial assets (note 12)		
unsecured loans	161.6	172.8
secured loans	260.5	79.2
	<u>16,657.1</u>	<u>17,213.7</u>

The actual experience of repayments may differ from the above since many mortgage loans are repaid early.

14. Investments in associated bodies

	<i>Investments in associated undertakings £m</i>	<i>Investments in other associated bodies £m</i>	<i>Total £m</i>
Shares in associated bodies			
Cost			
At 1st October 1994 and 31st July 1995	<u>—</u>	<u>0.1</u>	<u>0.1</u>

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Subsidiaries

The Society directly held 100 per cent. of the ordinary share capital of the following companies which are limited by shares and registered in England and Wales (unless otherwise stated):

	<i>Principal activity</i>
County Wide Property Investments Limited	Owner of commercial property
Leeds Direct Services Limited	Administration of business expansion scheme
Leeds Life Assurance Limited	Provision of life assurance and related products
Leeds Overseas Limited (incorporated in the Isle of Man)	Offshore licensed deposit taker
Leeds Permanent Development Services Limited	Property development
Leeds Permanent Financial Planning Limited	Independent financial advisory company
Leeds Unit Trusts Limited	Provision of unit trust and PEP products
Property Leeds (UK) Limited	Provision of estate agency services
Sussex County Homes Limited	Residential property development

On 7th March 1995 the Society acquired the whole of the issued share capital of the following mortgage companies which are registered in England and Wales:

- Lovell Park Mortgages (LM1) Limited (formerly London and Manchester (Mortgages) (No 1) Limited)
- Lovell Park Mortgages (LM2) Limited (formerly London and Manchester (Mortgages) (No 2) Limited)
- Lovell Park Mortgages (LM3) Limited (formerly London and Manchester (Mortgages) (No 3) Limited)
- Lovell Park Mortgages (LM4) Limited (formerly London and Manchester (Mortgages) (No 4) Limited)
- Lovell Park Mortgages (LM5) Limited (formerly London and Manchester (Mortgages) (No 5) Limited)

The acquisition has been accounted for using the acquisition method of accounting.

The subsidiary companies operated within the UK with the exception of Leeds Overseas Limited, whose area of operation is the Isle of Man.

Directly held by associated body

	<i>Proportion held of issued share capital</i>	<i>Principal Activity</i>
Link Interchange Network Limited	N/A	Money transmission

The company is limited by guarantee, registered in England and Wales and operates in the United Kingdom.

Linked by resolution

	<i>Principal Activity</i>
Leeds Permanent Pension Scheme Trustees Limited	Trustee for Leeds Permanent Staff Pension and Life Assurance Scheme

PART IV: ACCOUNTANTS' REPORTS

15. Tangible fixed assets

	<i>Land and Buildings</i>			<i>Equipment Fixtures Fittings & Vehicles</i>	<i>Payments on Account & Assets in course of Construction</i>	<i>Total</i>
	<i>Freehold £m</i>	<i>Long Leasehold £m</i>	<i>Short Leasehold £m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Cost						
At 1st October 1993	168.0	3.3	9.3	98.9	5.3	284.8
Additions	2.4	1.3	1.2	29.9	0.8	35.6
Disposals	(14.5)	(0.6)	(0.1)	(20.3)	—	(35.5)
Transfers	5.3	—	—	0.8	(6.1)	—
At 1st October 1994	161.2	4.0	10.4	109.3	—	284.9
Additions	3.8	0.2	0.6	25.2	—	29.8
Disposals	(3.5)	(0.1)	—	(9.2)	—	(12.8)
At 31st July 1995	161.5	4.1	11.0	125.3	—	301.9
Depreciation						
At 1st October 1993	—	—	4.3	42.6	—	46.9
Charged in year	—	—	0.5	16.5	—	17.0
Disposals	—	—	—	(18.4)	—	(18.4)
At 1st October 1994	—	—	4.8	40.7	—	45.5
Charged in period	—	—	0.5	15.7	—	16.2
Disposals	—	—	—	(7.0)	—	(7.0)
At 31st July 1995	—	—	5.3	49.4	—	54.7
Net book value						
At 31st July 1995	161.5	4.1	5.7	75.9	—	247.2
At 30th September 1994	161.2	4.0	5.6	68.6	—	239.4

The net book value of land and buildings occupied by the Group for its own activities comprises:

	<i>As at 30th September 1994 £m</i>	<i>As at 31st July 1995 £m</i>
At the end of the period	135.5	146.2

Included in the total net book value of equipment, fixtures, fittings and vehicles is £10.1m (1994 £10.0m) in respect of assets held under finance leases. Depreciation for the period on these assets was £2.3m (1994 £2.6m).

16. Other assets

	<i>As at 30th September 1994 £m</i>	<i>As at 31st July 1995 £m</i>
All falling due within one year from the end of the period	22.7	22.5

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17. Prepayments and accrued income

	<i>As at 30th September 1994 £m</i>	<i>As at 31st July 1995 £m</i>
Pension scheme surplus (note 30)	50.4	49.0
Interest accrued on off balance sheet instruments	28.6	33.6
Other	10.1	22.1
	<u>89.1</u>	<u>104.7</u>

18. Long term assurance

The long term assurance assets and liabilities attributable to policyholders are derived from the accounts of Leeds Life Assurance Limited as follows:

	<i>As at 30th September 1994 £m</i>	<i>As at 31st July 1995 £m</i>
Investments: securities	17.4	21.1
cash	2.2	—
	<u>19.6</u>	<u>21.1</u>
Sundry debtors	2.6	3.2
Current bank accounts	2.3	5.8
Creditors: amounts falling due within one year	(1.7)	(3.3)
	<u>22.8</u>	<u>26.8</u>
Net assets per Leeds Life Assurance Limited accounts	22.8	26.8
Less: attributed to members of the Society	(12.9)	(15.9)
	<u>9.9</u>	<u>10.9</u>
Long term assurance assets attributable to policyholders	9.9	10.9
The net assets attributable to the long term assurance fund of Leeds Life Assurance Limited have increased during the period as a result of the following:		
premium income	1.1	3.9
investment return	0.2	2.5
	<u>1.3</u>	<u>6.4</u>
Claims	—	—
Commission	(0.1)	(0.1)
Administrative expenses	(6.7)	(3.6)
Taxation	0.8	1.3
Transfer from shareholders' profit and loss account	27.5	—
	<u>22.8</u>	<u>4.0</u>
Increase in value of fund	22.8	4.0
Value of fund brought forward	—	22.8
Value of fund carried forward	22.8	26.8
less surplus attributed to members of Society (note 12)	(12.9)	(15.9)
	<u>9.9</u>	<u>10.9</u>
Long term assurance liabilities attributable to policyholders	9.9	10.9

The long term assurance liabilities attributable to policyholders represent the amounts retained to meet actuarial liabilities at the balance sheet date. Premium income, claims and commissions are stated net of reinsurance.

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19. Retail funds and deposits

	<i>As at</i> <i>30th September</i> <i>1994</i> <i>£m</i>	<i>As at</i> <i>31st July</i> <i>1995</i> <i>£m</i>
Retail funds and deposits comprise:		
shares	13,768.1	14,700.7
deposits	779.0	702.0
	<u>14,547.1</u>	<u>15,402.7</u>

Repayable from the date of the balance sheet in the ordinary course of business as follows:

	<i>Shares</i> <i>£m</i>	<i>Deposits</i> <i>£m</i>	<i>Total</i> <i>£m</i>
At 30th September 1994			
Accrued interest	288.9	9.5	298.4
On demand	13,252.4	695.0	13,947.4
In not more than three months	—	30.3	30.3
In more than three months but not more than one year	—	44.2	44.2
In more than one year but not more than five years	226.8	—	226.8
	<u>13,768.1</u>	<u>779.0</u>	<u>14,547.1</u>
At 31st July 1995			
Accrued interest	264.1	6.9	271.0
On demand	14,086.7	579.0	14,665.7
In not more than three months	—	63.1	63.1
In more than three months but not more than one year	1.0	24.9	25.9
In more than one year but not more than five years	348.9	28.1	377.0
	<u>14,700.7</u>	<u>702.0</u>	<u>15,402.7</u>

20. Non-retail funds and deposits

	<i>As at</i> <i>30th September</i> <i>1994</i> <i>£m</i>	<i>As at</i> <i>31st July</i> <i>1995</i> <i>£m</i>
Non-retail funds and deposits comprise:		
Amount owed to credit institutions*	606.7	266.5
Debt securities in issue		
certificates of deposit	696.0	421.0
negotiable bonds	348.5	357.7
fixed and floating rate notes	1,681.7	1,850.3
Other deposits	857.0	663.7
Accrued interest	82.1	93.8
	<u>4,272.0</u>	<u>3,653.0</u>

*Including subsidiaries' bank loans repayable on demand of £nil (1994 £2.3m).

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Repayable from the date of the balance sheet in the ordinary course of business as follows:

	<i>Amounts owed to credit institutions £m</i>	<i>Debt securities in issue £m</i>	<i>Other deposits £m</i>	<i>Total £m</i>
At 30th September 1994				
Repayable on demand	2.3	—	16.5	18.8
In not more than three months	435.5	804.6	738.8	1,978.9
In more than three months but not more than one year	76.9	197.3	89.7	363.9
In more than one year but not more than two years	5.0	191.5	5.0	201.5
In more than two years but not more than five years	36.2	1,394.7	7.0	1,437.9
In more than five years	50.8	138.1	—	188.9
	<u>606.7</u>	<u>2,726.2</u>	<u>857.0</u>	<u>4,189.9</u>
Accrued interest	4.6	72.7	4.8	82.1
	<u>611.3</u>	<u>2,798.9</u>	<u>861.8</u>	<u>4,272.0</u>
At 31st July 1995				
Repayable on demand	—	—	18.1	18.1
In not more than three months	175.1	581.0	555.3	1,311.4
In more than three months but not more than one year	18.6	232.2	83.3	334.1
In more than one year but not more than two years	4.1	614.3	—	618.4
In more than two years but not more than five years	—	1,048.1	7.0	1,055.1
In more than five years	68.7	153.4	—	222.1
	<u>266.5</u>	<u>2,629.0</u>	<u>663.7</u>	<u>3,559.2</u>
Accrued interest	3.1	83.1	7.6	93.8
	<u>269.6</u>	<u>2,712.1</u>	<u>671.3</u>	<u>3,653.0</u>

21. Other liabilities

	<i>As at 30th September 1994 £m</i>	<i>As at 31st July 1995 £m</i>
<i>Falling due within one year</i>		
Income tax	61.9	80.4
Corporation tax	88.6	77.0
Other taxation and social security	11.3	7.9
Other creditors	21.9	27.5
Finance leases	3.6	2.5
	<u>187.3</u>	<u>195.3</u>
<i>Falling due after more than one year</i>		
Finance leases	6.1	7.8
	<u>193.4</u>	<u>203.1</u>
The maturity of net obligations under finance leases is as follows:		
Within one year	3.6	2.5
In the first to second year	1.8	2.9
In the second to fifth year	4.3	4.9
	<u>9.7</u>	<u>10.3</u>

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22. Accruals and deferred income

	<i>As at</i> <i>30th September</i> <i>1994</i> <i>£m</i>	<i>As at</i> <i>31st July</i> <i>1995</i> <i>£m</i>
Interest accrued on subordinated liabilities	13.2	9.0
Interest accrued on permanent interest bearing shares	2.4	1.1
Interest accrued on off-balance sheet instruments	6.4	0.7
Other	48.4	42.6
	<u>70.4</u>	<u>53.4</u>

23. Provisions for liabilities and charges

	<i>As at</i> <i>30th September</i> <i>1994</i> <i>£m</i>	<i>As at</i> <i>31st July</i> <i>1995</i> <i>£m</i>
<i>Deferred taxation</i>		
At the beginning of the period	14.4	8.8
Arising on acquisition	—	(0.4)
Amount (released)/provided during period	(5.6)	10.1
At the end of the period	<u>8.8</u>	<u>18.5</u>
Full provision for deferred taxation has been made. The amounts are set out below:		
Accrued interest	2.1	5.4
Pension scheme surplus	16.6	16.2
Other timing differences	(9.9)	(3.1)
	<u>8.8</u>	<u>18.5</u>

24. Subordinated liabilities

	<i>As at</i> <i>30th September</i> <i>1994</i> <i>£m</i>	<i>As at</i> <i>31st July</i> <i>1995</i> <i>£m</i>
Subordinated Floating Rate Notes due 1998	50.0	—
10½% Subordinated Bonds due 1998	50.0	50.0
Subordinated Variable Rate Notes due 2001	50.0	50.0
10½% Subordinated Bonds Due 2018	150.0	150.0
	<u>300.0</u>	<u>250.0</u>
less unamortised discounts and issue costs	1.9	1.9
	<u>298.1</u>	<u>248.1</u>

The Society issued the above instruments in order to provide capital backing for anticipated funding requirements. The 1998 Bonds are not redeemable in the ordinary course of business before 21st April 1998 and the 2018 bonds are not redeemable in the ordinary course of business before 16th February 2018. The Variable Rate Notes due 2001 are redeemable in five equal instalments on the interest payment date falling in September in each of the years from 1997 to 2001. The Society was permitted, with the prior consent of the Building Societies Commission, to repay the Variable Rate Notes on any interest payment date falling in or after September 1994.

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25. Subscribed capital

	<i>As at 30th September 1994 £m</i>	<i>As at 31st July 1995 £m</i>
13% Permanent Interest Bearing Shares	75.0	75.0
less unamortised discounts and issue costs	0.6	0.6
	<u>74.4</u>	<u>74.4</u>

The Society issued the above on 3rd June 1991 and, pursuant to a Board resolution on 19th August 1991, the shares count as capital. Interest is payable on 10th June and 10th December each year. The net proceeds of the issue are used for general funding purposes.

26. General reserve

	<i>As at 30th September 1994 £m</i>	<i>As at 31st July 1995 £m</i>
At the beginning of the period	981.8	1,145.6
Profit for the financial period	163.8	148.9
At the end of the period	<u>1,145.6</u>	<u>1,294.5</u>

The Group's general reserve and the profit for the financial period include £2.9m (1994 £2.3m) and £0.6m (1994 £2.3m) respectively reflecting the increase in the value of the long term assurance business in force of Leeds Life Assurance Limited less related taxation which has not yet been realised by that company.

The cumulative amount of goodwill resulting from acquisitions in earlier financial years which has been written off to the general reserve is £30.2m (1994 £30.2m).

27. Non-sterling assets and liabilities

The aggregate amount of all assets and all liabilities included in the Group's balance sheet denominated in a currency other than sterling was as follows:

	<i>As at 30th September 1994 £m</i>	<i>As at 31st July 1995 £m</i>
Assets	210.3	179.0
Liabilities	<u>757.2</u>	<u>772.4</u>

28. Guarantees, other financial commitments and assets charged

Building Societies Act 1986

The Society was obliged under the Building Societies Act 1986 to discharge the liabilities of its subsidiary companies and other associated bodies insofar as those bodies were unable to discharge the liabilities out of their own assets.

Building Societies Investor Protection Fund

The Society had a contingent liability in respect of contributions to the Building Societies Investor Protection Fund provided under the Building Societies Act 1986.

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Isle of Man Depositors Compensation Scheme

Leeds Overseas Limited, a subsidiary licensed under the Isle of Man Banking Act 1975 to 1986, has a contingent liability to the Isle of Man Depositors Compensation Scheme. This was introduced by the Banking Business (Compensation of Depositors) Regulations 1991. This company has not been notified of any potential claims under the Scheme at the date of signing the Accounts.

Leeds Permanent Building Society has joined with Leeds Overseas Limited in giving an indemnity in favour of Leeds Permanent Overseas Limited in respect of all liabilities to make further payment in terms of the Scheme.

Leeds Overseas Limited has assumed all actual, contingent and future liabilities in respect of this Scheme on behalf of Leeds Permanent Overseas Limited which ceased to trade during 1994.

	<i>As at 30th September 1994 £m</i>	<i>As at 31st July 1995 £m</i>
Capital commitments		
Contracts for capital expenditure not provided for	10.3	9.2
Capital expenditure authorised by the Board which has not been contracted for	18.0	2.0

Leasing commitments

The Group leases a number of properties and certain items of plant and equipment under operating leases.

The annual rentals under the leases are as follows:

	<i>As at 30th September 1994</i>	<i>As at 31st July 1995</i>
	<i>Land and buildings £m</i>	<i>Land and buildings £m</i>
	<i>Other £m</i>	<i>Other £m</i>
Operating leases which expire		
within one year	0.3	0.4
in one to five years	0.6	0.6
over five years	8.9	9.0
	9.8	10.0

Other commitments

	<i>As at 30th September 1994 £m</i>	<i>As at 31st July 1995 £m</i>
Exchange rate contracts		
underlying principal amount	981.6	808.8
risk weighted amount	5.2	5.3
replacement cost	2.2	4.3
Interest rate contracts		
underlying principal amount	6,577.5	3,938.4
risk weighted amount	23.8	13.1
replacement cost	96.4	45.8

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The risk weighted amount of exchange rate and interest rate contracts has been calculated using Building Societies Commission exposure rates and the replacement cost obtained by marking to market contracts and aggregating those with a positive value.

Assets charged

At 31st July 1995 the aggregate amount of assets charged to secure liabilities was £nil (1994 £155.0m) and the aggregate amount of liabilities so secured was £nil (1994 £150.0m) excluding accrued interest.

29. Client monies

At 31st July 1995 client monies held by Property Leeds (UK) Limited in approved accounts amounted to £2.9m (1994 £4.1m). This amount, together with the matching liability to the clients concerned is not included in these accounts.

30. Pension scheme

The Society and its subsidiaries operated a number of pension schemes for the majority of employees.

The main scheme provided defined benefits based on final pensionable salary. The assets of the scheme were held separately from the Society in a trustee administered fund. Contributions to the scheme and pension costs were charged to the income and expenditure account so as to spread the cost of pensions over employees' working lives with the Society. Contributions to the scheme were assessed in accordance with the advice of a qualified actuary.

Actuarial valuations are carried out triennially with the most recent valuation made as at 30th September 1993 using the projected unit method. The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be two per cent. per annum higher than the rate of annual salary increases, four per cent. per annum higher than the rate at which present and future pensions would increase and 4.5 per cent. per annum higher than the rate of annual growth in equity dividends.

The latest actuarial valuation as at 30th September 1993 showed that the market value of the assets of the scheme was £226.0m and that the actuarial value of those assets represented 135 per cent. of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The same method and assumptions, but allowing for an additional 0.5 per cent. per annum investment return, have been used to assess excess funding and the pension charge under SSAP24. Net excess funding of £49.0m (1994 £50.4m) as at the balance sheet date is included in prepayment. Additional excess funding arising from scheme experience has been spread over the average expected future working lives of scheme members in equal instalments with an interest credit on the outstanding balance.

The Group income and expenditure charge for the period was £9.1m (1994 £9.4m). A credit of £6.6m (1994 £8.1m) has also been made to interest receivable so as to take account of interest accruing on the net excess funding included in prepayments £4.0m (1993 £4.9m) and the variation in cost arising from the experience surplus £2.6m (1994 £3.2m).

On 1st April 1996 the assets and liabilities of the Leeds Permanent Building Society Staff Pension and Life Assurance Scheme were transferred to the Halifax Building Society Retirement Fund. A funding review was performed following the transfer as at 1st April 1996 using the same actuarial assumptions as set out above. The market value of the assets of the Halifax Building Society Retirement Fund was £1,268m at 1st April 1996. The actuarial value of the assets represented 138 per cent. of the benefits that had accrued to members, after allowing for expected future increases in earnings.

There are no other post-retirement benefits of sufficient materiality to warrant separate disclosure.

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31. Income tax

Following the decision of the House of Lords in October 1990 that the Income Tax (Building Societies) Regulations 1986 were *ultra vires* in so far as they purported to levy tax on interest paid by building societies during the year of assessment 1985-86, the Leeds launched proceedings in the High Court to recover the sums wrongfully collected from it. Shortly afterwards, the Government introduced retrospective legislation (now section 53 of the Finance Act 1991) to validate the unlawful levies, so as to nullify the Society's legal proceedings. The Society thereupon launched alternative proceedings challenging the composite rate fixed by the Treasury for the years in which the unlawful levies were collected. If successful, these proceedings would have resulted in the Society recovering the amount claimed in its original High Court action. However, the Government introduced further retrospective legislation (now section 64 of the Finance Act 1992) to validate the rates in question whether previously unlawful or not, so as to nullify the Society's alternative proceedings also. In December 1992 the Society lodged an application to the European Commission of Human Rights for a ruling as to whether the original levies themselves, and the Government's subsequent interference with the Society's right to seek redress in the courts, are in accordance with the United Kingdom's treaty obligations. The amounts unlawfully levied amount to approximately £57m, without interest. The case proceeded to an oral hearing before the European Commission in January 1995 at which the European Commission unanimously declared the application admissible without prejudging its merits. Under the Building Societies Act 1986 the benefit of the application by the Society passed to Halifax Building Society on the merger of the two societies. The European Commission's view of the merits of the application was the subject of a report issued on 19th September 1996. The European Commission has found in favour of the Government on two counts but has upheld the Society's complaint that Article 6 of the European Convention for the Protection of Human Rights and Fundamental Freedoms has been breached by the Government because by passing retrospective legislation it denied the Society its right to a fair hearing in court. The European Commission's report will be referred during May 1997 to the European Court of Human Rights for final determination. No credit has been taken in the Accounts for any possible recovery.

Yours faithfully

KPMG Audit Plc
Chartered Accountants

PART V: ILLUSTRATIVE NET ASSET POSITION ON LISTING

1. Illustrative net asset position of Halifax plc and its subsidiaries on listing

The Board believes that, in the absence of unforeseen circumstances and on the basis of the notes set out below, the illustrative net asset position of the Group immediately prior to conversion and the pro forma illustrative net asset position of the Group immediately following conversion, adjusted to reflect certain events which are scheduled to take place immediately on conversion, will be as follows.

	<i>Illustrative net asset position of the Group immediately prior to conversion £m</i>	<i>Adjustments £m</i>	<i>Pro forma illustrative net asset position of the Group immediately following conversion £m</i>
Assets			
Liquid assets	18,700		18,700
Commercial assets	83,500		83,500
Fixed and other assets	1,600		1,600
Long term assurance assets attributable to policyholders	14,200		14,200
Total assets	<u>118,000</u>		<u>118,000</u>
Liabilities			
Shares, deposits and loans (See Note 3 below)	92,595	17	92,612
Other liabilities	2,200		2,200
Long term assurance liabilities attributable to policyholders	14,200		14,200
Capital resources			
Subordinated liabilities	1,700	275	1,975
Subscribed capital	275	(275)	—
Shareholders' funds (see Note 4 below)			
Share capital	—	502	502
Reserves	7,030	(519)	6,511
Total liabilities and capital resources	<u>118,000</u>		<u>118,000</u>

Notes:

- For the purposes of the illustrative net asset position, it is assumed that vesting day will be 31st May 1997, the nearest management accounting reference date to the expected vesting day. The actual position on vesting day may differ from that shown above. The table above has been prepared for illustrative purposes only and, because of its nature, it cannot give a complete picture of the financial position of the Group.
- The pro forma illustrative net asset position has been revised from that shown on page 99 of the Transfer Document. The table above is derived from the 1997 Group operating plan updated for the audited results for the 11 month period to 31st December 1996. The 1997 Group operating plan reflects the anticipated flows of retail and wholesale funds together with the Group's forecast level of net lending and other income and expense flows based on current market expectations.
- Following conversion, the item "Shares, deposits and loans" will become "Deposits and loans".
- Shareholders' funds (equal to net assets) represent, in the case of the Group immediately prior to conversion, the general reserve and, in the case of the Group immediately following conversion, share capital and reserves.
- In arriving at the pro forma illustrative net asset position of the Group immediately following conversion, the following adjustments have been made:
 - The share capital represents the nominal amount of free shares to be issued. The nominal amount of each free share will be 20 pence and it has been assumed that 2,510 million free shares will be issued, giving a total issued nominal share capital of £502 million.
 - Reserves have been reduced by the assumed nominal amount of free shares of £502 million and the statutory cash bonus which is estimated to be £17 million. The actual position on vesting day may be different.
 - PIBS are reclassified on conversion from subscribed capital to subordinated liabilities in accordance with their terms.

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