Offering Circular

(incorporated in England under the Building Societies Act 1986)

£2,000,000,000

Euro Medium Term Note Programme

On 7 December 2000, Skipton Building Society (the "**Issuer**" or the "**Society**") established a Euro Medium Term Note Programme (the "**Programme**") and issued an Offering Circular on that date describing the Programme. This Offering Circular supersedes any offering circular with respect to the Programme issued prior to the date hereof. Any Notes (as defined below) issued under the Programme on or after the date of this Offering Circular are issued subject to the provisions described herein. This does not affect Notes issued prior to the date of this Offering Circular.

Under the Programme the Issuer may from time to time issue notes (the "**Notes**" which expressions shall include Senior Notes and Subordinated Notes (each as defined herein)) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The Notes may be in bearer form or registered form ("**Bearer Notes**" and "**Registered Notes**" respectively).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed £2,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Overview of the Programme" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "**relevant Dealer**" shall, in the case of an issue of Notes being (or intended to be) subscribed to by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

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

Application has been made to the Financial Conduct Authority (the "**FCA**") in its capacity as competent authority (the "**U.K. Listing Authority**") for Senior Notes and Subordinated Notes issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the official list of the U.K. Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market.

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

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

The Programme has been rated Baa1 by Moody's Investor Services Limited (**"Moody's**") and A- by Fitch Ratings Limited ("**Fitch**") in respect of Senior Notes with a maturity of more than one year and Baa2 by Moody's in respect of Subordinated Notes. Moody's and Fitch are established in the European Union and are registered under the Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such Moody's and Fitch are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation. Senior Notes issued under the Programme may be rated or unrated. Where a Tranche of Senior Notes is rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the rating assigned to the Programme by the relevant rating agency. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or any U.S. State securities laws and may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons as defined in Regulation S under the Securities Act unless an exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction.

Arranger

Barclays

Dealers

Barclays
BNP PARIBAS
HSBC
J.P. Morgan
Lloyds Bank
NatWest Markets
Société Générale Corporate & Investment Banking

The date of this Offering Circular is 15 June 2017

IMPORTANT INFORMATION

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

The Issuer accepts responsibility for the information contained in this Offering Circular and the Final Terms for each Tranche (as defined below) of Notes issued under the Programme. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

None of the Arranger, the Dealers or the Trustee (as defined below) has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger, the Dealers or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection with the Programme. None of the Arranger, the Dealers or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the Programme.

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

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the Arranger, any of the Dealers or the Trustee that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, the Arranger, any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct as of any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arranger, the Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

***IMPORTANT – EEA RETAIL INVESTORS –** If the Final Terms in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes, from 1 January 2018, are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently no key information*

*document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.*

IMPORTANT INFORMATION RELATING TO THE USE OF THIS OFFERING CIRCULAR AND OFFERS OF NOTES GENERALLY

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Arranger, the Dealers and the Trustee do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arranger or any of the Dealers or the Trustee which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular 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 Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom) and Japan — see "Subscription and Sale" below.

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

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

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

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

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

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

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

PRESENTATION OF INFORMATION

Certain Defined Terms and Conventions

*Capitalised terms which are used but not defined in any particular section of this Offering Circular will have the meaning attributed to them in "*Terms and Conditions of the Notes*" or any other section of this Offering Circular. In addition, the following terms as used in this Offering Circular have the meanings defined below:*

In this Offering Circular, all references to:

- *"**U.S. dollars**", "**U.S.$** " and "**$**" refer to United States dollars;*
- *"**Sterling**" and "**£**" refer to pounds sterling;*
- *"**euro**" and "**€**" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended; and*
- *the "**Act**" are to the Building Societies Act 1986 (as amended), which expression shall include, where applicable, any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or any other statutory modification or re-enactment.*

References to a billion are to a thousand million.

Certain figures and percentages included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

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STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) acting as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or overallotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

Risk Factors

The Issuer has identified in this Offering Circular the material factors which could materially adversely affect its business and ability to make payments due under the Notes. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Issuer's control. In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

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

FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME

The Group's results may be adversely affected by general economic conditions and other business conditions in the United Kingdom, the Eurozone and elsewhere

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

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

There has been a steady improvement in the United Kingdom economy in the last three years, with growth outstripping expectations. Many sectors of the economy have shown robust and sustained growth, these include industrial, manufacturing and the construction sectors. The housing market has been particularly buoyant with prices and transactions increasing month on month, although recent figures suggest that the annual rate at which prices are rising is now slowing. Domestically, both public and household spending are still being constrained by austerity measures, although a continued decline in the unemployment rate has taken place. This improvement taken together with the Bank of England's view on wage inflation will determine the pace and timing of future base rate movements. However, the Issuer still faces the risk of stagnating real disposable incomes holding back sustained recovery.

The Issuer's consolidated Group results are influenced by general economic and other business conditions, including the prevailing interest rate environment. A continuation of the current historically low Bank of England base rate is likely to lead to continuing pressure on the Issuer's interest rate margin. The Issuer's mortgage standard variable rate for buy-to-let loans ("**BTL SVR**") and mortgage standard variable rate for owner occupied loans ("**Owner Occupied SVR**"), which still applies to some mortgage loans ("**SVR Loans**"), is capped at 3 per cent. above base rate unless the cap is removed in "exceptional circumstances". The Issuer's Board defined "exceptional circumstances" as prevailing in 2010 where either (a) Base Rate is less than or equal to 2.70 per cent. or (b) Base Rate minus the UK average instant access savings rate (as published monthly by the Bank of England) is less than or equal to 2.25 per cent. for each of the three preceding months. On 1 March 2010, the Issuer

exercised its contractual right to remove the cap on its SVR Loans, and increased its BTL SVR and Owner Occupied SVR from 3.50 per cent. to 4.95 per cent. The Issuer's BTL SVR is currently set at 4.70 per cent. and the Issuer's Owner Occupied SVR is currently set at 4.70 per cent. No assurance can be given that exceptional circumstances will continue to prevail and if they cease to prevail in the future, the cap will be applicable to the SVR Loans. On 14 November 2012, the Issuer introduced a second administered rate called the buy-to-let mortgage variable rate ("**BTL MVR**") and the owner occupied mortgage variable rate ("**Owner Occupied MVR**" and, together with the BTL SVR, the Owner Occupied SVR and the BTL MVR, the "**Administered Rates**")). The BTL MVR is applied to any new buy-to-let mortgage loans taken from 14 November 2012 and is currently set at 4.94 per cent. The Owner Occupied MVR is applied to any new owner occupied mortgage loans taken from 14 November 2012 and is currently set at 4.74 per cent. No cap is applied to the BTL MVR or Owner Occupied MVR.

If there is a slowdown in the global economy or the United Kingdom economy, then retail customers may reduce their financial services purchases. This could have an adverse effect on the Group's ability to generate revenue through the disbursement and servicing of new mortgage loans, the fees earned through estate agency and related services and income earned from advice to investors. The Issuer's results are more specifically affected by the financial health of, and the price and volume of transactions in, the United Kingdom housing market (as to which, see "United Kingdom residential housing market risks may adversely impact the Issuer's business" risk below). Other smaller members of the Group include subsidiaries whose trading risks relate to investment advice and invoice finance/factoring.

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

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

The Issuer depends upon access to wholesale funding sources (including accessing the international debt capital markets) for around 10 per cent. of its funding requirements. As at the end of December 2016, around 90 per cent. of the Group's loans and advances were funded by customer deposits. More short term unsecured money-market funding is now available as counterparties review credit criteria positively. Other wholesale funding markets which once experienced periods of closure for new external issuances of securities are now exhibiting strong signs of recovery. The Issuer has continued to manage its funding requirements successfully through a combination of raising new funds from the wholesale market, debt capital market as well as through government and central bank facilities.

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

The FLS commenced on 1 August 2012. The aim of the FLS is to boost the incentive for banks and building societies to lend to UK households and private non-financial companies. The FLS is designed to reduce funding costs for participating institutions so that they can make loans cheaper and more easily available. Access to the FLS is directly linked to how much each institution lends to the real economy. Those that increase lending are able to borrow more from the FLS and at a lower cost than those that scale back their lending. Under the FLS as originally announced, participating financial institutions were, for a period of 18 months to the end of January 2014, able to borrow funds with a

maturity of up to four years. This availability period was extended to allow drawdowns up to the end of January 2016 and has subsequently been extended further to allow drawdowns up to the end of January 2018.

On 4 August 2016, the Bank of England announced the TFS, which is designed to reinforce the transmission of cuts to the Bank of England base rate to those interest rates actually faced by households and businesses by providing term funding to banks and building societies at rates close to the Bank of England's base rate. In addition to its primary monetary policy objective, the TFS will provide participants with a cost effective source of funding by allowing participants to borrow central bank reserves in exchange for eligible collateral to support additional lending to the real economy. The drawdown period under the TFS will run from 19 September 2016 to 28 February 2018. The TFS is being made available to banks and building societies that are participants in the Bank of England's Sterling Monetary Framework and signed up to the Discount Window Facility.

The availability of this Government support for UK financial institutions, to the extent that it provides access to cheaper and more attractive funding than other sources, reduces the need for those institutions to fund themselves in the retail or wholesale markets. The Issuer is participating in the TFS and as at 31 December 2016, the Issuer had drawn £300m. The Issuer is participating in the FLS and as at 31 December 2016, the Issuer had drawn £980m of UK treasury bills. The staggered withdrawal of FLS for new drawings to January 2018 could increase funding costs for those institutions which have previously utilised that support.

In addition, other financial institutions that have relied significantly on Government support to meet their funding needs will also need to refinance or find alternative sources of funding when that support is reduced or withdrawn and, in such a scenario, the Issuer expects to face increased competition for funding, particularly retail funding on which it is reliant, in the future. This competition could further increase its funding costs and so adversely impact its results of operations and financial position and potentially impact upon its ability to satisfy its obligations under the Notes. The Issuer expects to mitigate the impact of this refinancing concentration by seeking funds from alternative sources. There can be no assurance that such plans will be successful. The Issuer's available funding options are regularly reviewed. If such funding options are not successful in mitigating the impact of this refinancing concentration, the Issuer could face liquidity constraints. The Issuer manages its refinancing concentration under the government-backed liquidity schemes as part of its general ongoing funding strategy.

Although the wholesale funding markets have been steadily improving, there can be no assurance that they will not deteriorate in the future. The Issuer has access to wholesale markets via a number of routes (including those mentioned above) in order to mitigate against a deterioration in market conditions.

The Issuer holds buffer eligible liquidity in excess of the Prudential Regulation Authority's ("**PRA**") minimum regulatory requirement and reviews this position daily. The Issuer is anticipating to have a Net Stable Funding Ratio in excess of the 100% minimum requirement, due to come into effect on 1 January 2018. Additional internal stress and scenario testing is also performed weekly (or more regularly if required) to assess the adequacy of the liquidity and contingent liquidity available to the Issuer. These results are reviewed weekly by senior management and monthly by the Issuer's Asset and Liability Committee ("**ALCO**") and the Board.

The Issuer is subject to a periodic Statutory Liquidity Review Process by the PRA and any recommendations resulting from this are implemented accordingly.

Legal Ranking of Notes

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

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

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

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

These changes also have the effect of granting:

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

(ii) a second-ranking preference to deposits and share accounts (or a relevant part thereof) of natural persons and micro, small and medium enterprises, which would be eligible for FSCS protection but for the fact that they either (a) exceed the £85,000 coverage limit of the FSCS or (b) were made through a branch outside the EU. Such deposits and share accounts (or the relevant part thereof) will rank after the preferential debts referred to in paragraph (i) above but in priority to the claims of ordinary (i.e. non-preferred) unsecured creditors in the event of an insolvency.

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

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

(i) the assets of the Issuer would be applied first to satisfying in full all claims in respect of those deposits and share accounts which enjoy preferential status (as described above) before any recovery would be made on claims in respect of Senior Notes (and

the claims in respect of Senior Notes would rank *pari passu* with those deposits and share accounts which are not afforded preferential status); and

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

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

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

United Kingdom housing market

One of the Issuer's primary activities is mortgage lending in the United Kingdom with loans secured against residential property. The UK residential mortgage market performance is closely correlated to the UK economic cycle. As well as fluctuations at a national level, the UK residential mortgage market is subject to significant regional variations. The Issuer's retail mortgage lending is only secured against properties in the UK. The Issuer's natural concentration in the UK market, whilst currently well diversified, could then be exacerbated by over-exposure to one geographical location, or reliance on particular product types.

A downturn in the UK economy, either regionally or nationally, would reduce demand for housing or consequently reduce house price growth and sales, which could result in lower levels of lending, the Issuer's core activity. A fall in property prices resulting from a deterioration of the economy and increased unemployment could lead to increased numbers of borrowers defaulting on their mortgage loans and result in losses being incurred by the Issuer where the net recovery proceeds are insufficient to redeem the outstanding loans. There can be no assurance that the housing market will not deteriorate and the United Kingdom's economic environment may affect the rate at which the new mortgage loans are originated and may also affect the level of attrition of the Issuer's existing borrowers. The Skipton Group has exposure to the buy-to-let market. Whilst this market has performed strongly in recent years, there can be no guarantee that this will continue.

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

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

United Kingdom personal financial services market

The United Kingdom financial services market for products such as savings and regulated investments (where the Issuer acts as distributor for third parties) is competitive. Further increased demand for retail funding from financial institutions and a downturn in equity markets could have an adverse effect on the Issuer's sales opportunities, and therefore on the Issuer's financial position.

The Group is predominantly focused in the UK and is to a large extent exposed to the UK property market. Therefore, the general UK macro-economic environment is a key determinant of the success of the Group. The main drivers that impact the Group include:

- interest rates;
- inflation;
- unemployment; and
- the housing market (volume of transactions and house price inflation).

The Mortgages and Savings division which includes the Issuer but also deposit taking and mortgage lending in the Channel Islands and the UK through Skipton International Limited ("**SIL**"); specialist mortgage businesses Amber Homeloans Limited ("**Amber**") and North Yorkshire Mortgages Limited ("**NYM**") and the Group's special purpose vehicles ("**SPVs**"), formed to acquire funds from the wholesale markets, and the intermediate holding company Skipton Group Holdings Limited ("**SGHL**"), continues to operate in a low interest rate and relatively benign economic environment, which has been supported in recent years by government initiatives such as the FLS introduced in 2012 and the TFS introduced in 2016. These initiatives have provided market liquidity and have reduced competition for retail savings.

Whilst levels of mortgage arrears have continued to fall throughout 2016, a general downturn in the economy, increasing interest rates, higher unemployment or a material decline in house prices would impact the Mortgages and Savings division through higher levels of arrears and possessions, and ultimately higher credit losses. Whilst the Mortgages and Savings division specialist mortgage portfolios of Amber and NYM are likely to be more susceptible to economic shock, these portfolios have been closed to new business since 2008 and are in run-off. In addition, the Issuer announced on 10 April 2017 that Amber and NYM had agreed the sale of a £219.6m portfolio of mortgage loans, comprising of approximately 1,600 UK mortgages. The sale is designed to reduce the Group's exposure to current or recent non-performing mortgages and completed at the end of April 2017.

The Issuer's business is also complemented by additional subsidiary businesses, such as the Connells Limited group of companies ("**Connells**"). The results of the Estate Agency division are principally driven by the volume of UK property transactions, particularly second hand property sales. This market is heavily influenced by consumer confidence, driven by the general state of the economy, level of unemployment and interest rates, together with the availability of mortgages, particularly for first time buyers. A slowdown in the housing market puts pressure on Connells' income levels. However, the Estate Agency division is partially protected against the performance of its core business through its own diversification into complementary businesses such as asset management and lettings along with surveying and valuation businesses. The changes proposed by the Government in the 2016 Autumn Statement on the prospect of letting fees may impact Connell's revenue flows.

Any downturn in the business prospects of any or of all of these subsidiaries could adversely affect the performance of the Group.

Any decline in the Issuer's credit rating may affect the market value of the Issuer's securities and the accessibility of wholesale funding

The Issuer's credit ratings are an assessment of its profitability, financial strength and its ability to pay obligations, including those on any securities issued (including the Notes). Consequently, actual or anticipated declines in the Issuer's credit ratings may affect the market value of the Issuer's securities (including the Notes).

A negative change of sentiment towards financial institutions generally operating in the United Kingdom's residential mortgage market (including the Issuer) could occur which may result in wholesale funding being more difficult to obtain and/or being more costly, which could have a material adverse effect on the liquidity and funding of all United Kingdom financial services institutions, including the Issuer. If the Issuer's credit rating were to decline, in the short term the Issuer may have to increase its level of retail funding. Whilst the Issuer's strong retail franchise would enable this, such funding would be expected to come at a significantly higher cost to the Issuer. In addition, any such events could affect the market value of the Notes.

The Issuer's hedging strategies may not prevent losses

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

The Issuer's derivatives counterparties may not honour their contracts

The Issuer uses derivatives to manage its market risks. These derivatives are negotiated and transacted with a range of counterparties. As of the date of this Offering Circular there has not been a situation in which the Issuer's derivative counterparties have not honoured their obligations under the derivative agreements. A failure by one or more counterparties to honour the terms of its derivatives contract with the Issuer could have an adverse effect on the business, operations and financial condition of the Issuer.

The Issuer is now centrally clearing all eligible derivative contracts under European Securities and Markets Authority (ESMA) rules. Under the European Market Infrastructure Regulations, the Issuer's exposure is with a centralised clearing body, London Clearing House. There is protection under these rules and margin management on an intra-day basis ensures any additional exposure due to mark to market changes in valuation are covered. Additionally, the Issuer has collateralised swap agreements in place with all major swap counterparties in order to minimise the risk of loss in the event of default by a counterparty. However, there can be no guarantee that such strategy will effectively prevent all counterparty-related loss.

Regulation

The Issuer is regulated by the Financial Conduct Authority (the "**FCA**") and the PRA who together regulate, amongst other things, the sale of residential mortgages, consumer lending, investment advice and general insurance products. The regulatory regime requires the Issuer to be compliant across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Issuer fails to be compliant with relevant regulations, there is a risk of an adverse impact on the business due to sanctions, fines or other action imposed by the regulatory authorities. Future changes in regulation, fiscal or other policies are unpredictable and beyond the Issuer's control and could materially adversely affect its business or operations.

Future legislative and regulatory changes could force the Issuer to comply with certain operational restrictions, take steps to raise further capital, and/or increase the Issuer's expenses and/or otherwise adversely affect the Issuer's business results, financial condition or prospects, those minimum regulatory requirements may increase in the future and/or the FCA or the PRA may change the manner in which it applies existing regulatory requirements.

The FCA, PRA, and other bodies such as the Financial Ombudsman Service (the "FOS"), could impose further regulations or obligations in relation to current and past dealing with retail customers. As a result, the Issuer may incur costs in complying with these regulations or obligations relating to its business, including potential compensation and costs relating to sales advice given to retail customers.

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

(1) The Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**"). Certain measures relating to the ring-fencing of domestic retail banking services of UK banks,

contained in the Banking Reform Act, have recently entered into force, although the full regime is not expected until 2019. The UK Government has carved building societies out of the ring-fencing legislation but has the power to amend the Building Societies Act to bring building societies legislation into line with the ring-fencing requirements if it considers it necessary at a later date.

(2) Following the review conducted by the Financial Policy Committee (the "**FPC**") on the leverage ratio and the publication of its final report on 31 October 2014, the FPC made recommendations as to the overall leverage ratio framework for the United Kingdom banking system. For the majority of UK building societies this currently requires a minimum leverage ratio of 3 per cent. and a countercyclical buffer of up to approximately 0.9 per cent. The Issuer's leverage ratio as at 31 December 2016 was 5.9 per cent.

(3) At EU level, following the report of the European Commission's high level expert group on reforming the structure of the EU Banking Sector, the European Commission published a legislative proposal on bank structural reform in January 2014 ("**Liikanen**"). The Issuer does not anticipate that the legislative proposal will have any impact on the UK building societies due to the Banking Reform Act and existing restrictions, provided the United Kingdom obtains derogation under the EU proposals, but there can be no assurance that the proposals will not have an adverse effect on the Issuer's operations, business, results, financial condition or prospects.

(4) Consumer credit regulation transferred to the FCA on 1 April 2014 in accordance with provisions under the Financial Services Act 2012 (the "**FS Act**"). The carrying on of certain credit-related activities (including in relation to servicing credit agreements) otherwise than in accordance with permission from the FCA will render a credit agreement unenforceable without FCA approval and the FCA will have the power to render unenforceable contracts made in contravention of its rules on cost and duration of credit agreements or in contravention of its product intervention rules. The FS Act also provides for formalised co-operation to exist between the FCA and the FOS (which determines complaints by eligible complainants in relation to authorised financial services firms, consumer credit licensees and certain other businesses), particularly where issues identified potentially have wider implications with a view to the FCA requiring firms to operate consumer redress schemes.

(5) The European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers in March 2011 (the "**Mortgage Directive**"). The Council of the European Union adopted the Mortgage Directive on 28 January 2014. The Mortgage Directive was required to be implemented by each Member State of the European Union by 21 March 2016. Proposals for the implementation of the Mortgage Directive were set out by the FCA. The Mortgage Directive requires (among other things): standard information in advertising; standard pre-contractual information; adequate explanations to the borrower on the proposed credit agreement and any ancillary service; calculation of the annual percentage rate of charge in accordance with a prescribed formula; assessment of creditworthiness of the borrower; and a right of the borrower to make early repayment of the credit agreement. The Mortgage Directive also imposes prudential and supervisory requirements for credit intermediaries and non-bank lenders.

(6) The Mortgage Directive was implemented in the UK on 21 March 2016 by way of the Mortgage Credit Directive Order 2015 (the "**MCD Order**") which contains amendments to legislation including the FSMA, the Consumer Credit Act 1974 and the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. In outline, the MCD Order (i) puts in place a new regulatory regime for consumer buy-to-let mortgages ("**CBTL mortgages**"); (ii) widens the definition of regulated mortgage contract to include second charge mortgages; and (iii) transfers the regulation of some existing agreements (e.g. second charge mortgages)

from the FCA's consumer credit regime to the FCA's mortgage regime. For the most part the UK Government has sought to put in place what it has described as the minimum requirements to meet its legal obligations under the Mortgage Directive in respect of buy-to-let mortgages. The legislation provides that firms do not need to apply the UK Government's appropriate framework for buy-to-let mortgages where a borrower is acting wholly or predominantly for the purposes of a business. The UK Treasury has stated that they would expect CBTL activity to represent a small proportion of total buy-to-let transactions. It is too early to tell what effect the implementation of the Mortgage Directive into UK law will have on the Issuer's mortgage business and operations.

The Issuer cannot assure investors that the implementation of any of the foregoing matters or any other regulatory or legislative changes that may be proposed will not have a material adverse effect on its operations, business, results, financial condition or prospects.

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

The Issuer is also investing significantly to ensure that it will be able to comply with developing regulatory requirements. If the Issuer is unsuccessful in efficiently adopting the requisite new compliance practices, this will adversely impact its ability to operate in the financial services markets and to deliver an appropriate level of operational and financial performance.

Risks relating to the Banking Act 2009 and the BRRD

Under the Banking Act 2009, substantial powers have been granted to H.M. Treasury, the Bank of England (including the PRA) and the FCA (together, the "**Authorities**") as part of the special resolution regime (the "**SRR**"). These powers may be used to deal with and stabilise United Kingdom incorporated institutions with permission to accept deposits pursuant to Part IV of FSMA and building societies (within the meaning of Section 119 of the Building Societies Act 1986) so authorised (each a "**relevant entity**") that are in financial difficulty and in certain circumstances their United Kingdom established group companies. In respect of UK building societies, the relevant tools include (i) modified property transfer powers which also refer to cancellation of shares and conferring rights and liabilities in place of such shares, (ii) in place of the share transfer powers, a public ownership tool which may involve (amongst other things) arranging for deferred shares in a building society to be publicly owned, cancellation of private membership rights and the eventual winding up or dissolution of the building society and (iii) modified bail-in powers such that exercise of the tool may be immediately preceded by the demutualisation of the building society through the conversion of it into a company or the transfer of all of the property, rights or liabilities of the society to a company. It is possible that the extended tools described above could be used prior to the point at which an application for insolvency proceedings with respect to a relevant entity could be made and, in certain circumstances, the UK authorities may exercise broad pre-resolution powers in respect of relevant entities with a view to removing impediments to the exercise of the stabilisation tools. The Banking Act also provides for two new insolvency and administration procedures for relevant entities.

If an instrument or order were to be made under the Banking Act in respect of the Issuer, such instrument or order may (amongst other things) (i) result in a transfer to another issuer via the mechanisms described above, (ii) affect the Issuer's ability to satisfy its obligations under the Notes

and/or (iii) result in modifications to the terms of the Notes, which may have certain tax implications. In addition, the Banking Act contains particular powers for provision to be included in an instrument or order that such instrument or order (and possibly certain related events) be disregarded in determining whether certain widely defined *"*default event*"* provisions have occurred (which default events could include certain events of default under any Notes) and provides for the disapplication or modification of laws (with possible retrospective effect) and/or fiscal consequences in connection with the exercise of powers under the Banking Act. Secondary legislation which makes provision for stabilisation tools to be used in respect of any "banking group company" has been published and came into force on 1 August 2014. The definition of "banking group company" will encompass certain of the Issuer's subsidiaries and affiliates. The amendments to the Banking Act allow all of the current stabilisation options under the SRR and the bail-in stabilisation power to be applied to any of the Issuer's group companies that meet the definition of a "banking group company". There can be no assurance that no other legislation will be introduced which might have an adverse effect on the position of Noteholders.

In Europe, the BRRD provides for a package of minimum early intervention and resolution-related tools and powers for relevant authorities and provides for special rules for cross border groups.

In addition, the BRRD provides for resolution authorities to have the further power to permanently write-down or convert into equity capital instruments such as Subordinated Notes at the point of non-viability and before any other resolution action is taken ("**non-viability loss absorption**"). Any shares issued to holders of Subordinated Notes upon any such conversion into equity may also be subject to any application of the general bail-in tool.

For the purposes of the application of any non-viability loss absorption measure, the point of non-viability under the BRRD is the point at which the relevant authority determines that the institution meets the conditions for resolution (but no resolution action has yet been taken) or that the institution will no longer be viable unless the relevant capital instruments (such as Subordinated Notes) are written-down or converted or extraordinary public support is to be provided and without such support the appropriate authority determines that the institution would no longer be viable.

The BRRD also provides for a Member State as a last resort, after having assessed and exploited the above resolution tools to the maximum extent possible whilst maintaining financial stability, to be able to provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the EU state aid framework. The Banking Act therefore sets out additional conditions for the use of the temporary public ownership tool and provision of financial assistance.

The Authorities have been granted wide powers under the Banking Act and the following paragraphs set out some of the possible consequences of the exercise of those powers under the SRR.

(a) The SRR may be triggered prior to insolvency of the Issuer

The purpose of the stabilising options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the stabilisation options may be exercised if (i) the relevant Authority is satisfied that a relevant entity (such as the Issuer) is failing or is likely to fail, (ii) following consultation with other Authorities, the relevant Authority determines that it is not reasonably likely that (ignoring the stabilising options) action will be taken that will result in the relevant entity no longer failing or being likely to fail, and (iii) the Authorities consider the exercise of the stabilisation options to be necessary, having regard to certain public interest considerations (such as the stability of the United Kingdom financial system, public confidence in the United Kingdom banking system and the

protection of depositors) and (iv) the relevant Authority considers that the specific resolution objectives would not be met to the same extent by the winding up of the relevant entity.

It is therefore possible that one or more of the stabilisation options could be exercised prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated.

On 6 August 2015, the European Banking Authority (the "**EBA**") published translations of its May 2015 guidelines on the circumstances in which an institution shall be deemed as "failing or likely to fail" by supervisors and resolution authorities. These have applied since 1 January 2016. The guidelines set out the objective criteria which should apply when supervisors and Authorities make such a determination.

Although the Banking Act provides for conditions to the exercise of any resolution powers and the EBA guidelines set out the objective elements for determining whether an institution is failing or likely to fail, it is uncertain how the Authorities would assess such conditions in any particular situation. The relevant Authorities are also not required to provide any advance notice to Noteholders of their decision to exercise any resolution power. Therefore, Noteholders may not be able to anticipate a potential exercise of any such powers nor the potential effect of any exercise of such powers on the Issuer or the Notes.

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

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

a. transferring the Notes free from any restrictions on transfer and free from any trust, liability or encumbrance;

b. delisting the Notes;

c. converting the Notes into another form or class (for example, into equity securities);

d. disapplying any termination or acceleration rights or events of default under the terms of the Notes which would be triggered by the transfer; or

e. where property is held on trust, removing or altering the terms of such trust.

The bail-in power includes the power to cancel or write-down (in whole or in part) certain liabilities (including the Notes) or modify the terms of certain contracts (including the Notes) for the purposes of reducing or deferring the liabilities of a United Kingdom building society under resolution and the power to convert certain liabilities (including the Notes) from one form to another.

Accordingly, there can be no assurance that the taking of any such actions would not adversely affect the rights of Noteholders and/or adversely affect the price or value of their investment or that the ability of the Issuer to satisfy its obligations under the Trust Deed, the Agency Agreement, the Dealer Agreement and the Notes would be unaffected. In such circumstances, Noteholders may have a claim for compensation under one of the compensation schemes currently existing under, or contemplated by, the Banking Act if any action is taken in respect of the Notes. However, such compensation will be limited to the return the Noteholder might otherwise have received on an insolvency of the Issuer (less the value already received through resolution), and there can be no assurance that Noteholders would thereby recover compensation promptly.

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

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

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

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

If a partial transfer were effected, under the terms of which the liabilities under the Notes were not transferred, Noteholders may have a claim for compensation under one of the compensation schemes currently existing under, or contemplated by, the Banking Act (including pursuant to The Banking Act 2009 (Third Party Compensation Arrangements for Partial Property Transfers) Regulations 2009).

However, such compensation will be limited to the return the Noteholder might otherwise have received on an insolvency of the Issuer (less the value already received through resolution) and there can be no assurance that Noteholders would thereby recover compensation promptly.

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

In accordance with PRA requirements, the Issuer reviews its recovery plan annually and ensures that its recovery plan and resolution pack are up to date. Material developments in the Issuer's business and in the business of any member of the Group are reflected in the recovery plan and resolution pack and the PRA is notified of any material changes made to the recovery plan and resolution pack promptly (and in any event within one month of making any such change).

Basel III

On 16 December 2010, 13 January 2011 and 12 January 2014, the Basel Committee issued guidance on a number of fundamental reforms to the regulatory capital framework including the eligibility criteria for Tier 1 and Tier 2 capital instruments as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions ("**Basel III**").

In the EU, the Basel III reform package has been implemented in the European Economic Area through a regulation (the "**Capital Requirements Regulation**" or "**CRR**") and an associated directive (the "**Capital Requirements Directive**" or the "**CRD**", together "**CRD IV**") which were adopted by the Council of Ministers on 20 June 2013. Full implementation began from 1 January 2014, with particular elements being phased in over a period of time, to be fully effective by 2024.

The Issuer's capital is reported as a ratio of risk adjusted assets expressed as a percentage in different measures: Common Equity Tier 1 capital, Tier 1 capital and total capital. If the Issuer fails, or is perceived to be likely to fail, to meet its minimum regulatory requirements, this may result in administrative actions or regulatory sanctions.

In December 2013, the PRA published its policy statement PS7/13 "Strengthening Capital Standards: implementing CRD IV, feedback and final rule" on the UK rules, as applicable to the Issuer, which implement certain permitted national discretions in CRD IV. While CRD IV allows regulators to phase in the new measures over a period of time, the PRA chose to accelerate this timetable, with most capital deductions applying in full from 2014.

The PRA expects firms to meet Pillar 2A with at least 56 per cent. in Common Equity Tier 1 capital, no more than 44 per cent. in Additional Tier 1 capital and at most 25 per cent. in Tier 2 capital.

On 29 July 2015, the PRA published its feedback statement, supervisory statement and statement of policy alongside the changes to its Pillar 2 framework for implementation on 1 January 2016. It outlines methodologies for calculating Pillar 2A capital requirements, introduces new governance and risk management capital buffer requirements, and renames the Capital Planning Buffer as the PRA Buffer. Where the PRA assesses a firm's risk management and governance to be significantly weak, it may also set the PRA buffer to cover the risk posed by those weaknesses until they are addressed.

Accordingly, there is a risk that the Issuer will be required to hold higher levels of, or better quality capital than is currently anticipated or planned for. If and to the extent that the PRA adopts capital or other requirements which exceed existing capital requirements, this may adversely impact the Issuer's competitiveness relative to any banks and financial institutions subject to less stringent requirements.

CRD IV also introduces a new leverage ratio requirement. The leverage ratio is a non-risk based measure that is designed to act as a supplement to risk based capital requirements. The leverage calculation determines a ratio based on the relationship between Tier 1 capital and total consolidated exposure (i.e. total exposure is the sum of on-balance sheet exposures, derivative exposures, securities financing transaction exposures and off-balance sheet items).

The UK has implemented leverage ratio requirements in advance of the EU-wide implementation under CRD IV. In April 2015, secondary legislation was enacted writing the FPC Leverage recommendations (published on 31 October 2014) into law. This grants the FPC powers of direction over the leverage ratio and introduced requirements to which the Issuer is, or may become subject. These requirements include: a minimum leverage ratio of 3 per cent. (this is at the same level as the EBA leverage ratio recommendation to be implemented in 2018, but in the future, any changes to the proposed level of the EU-wide leverage ratio may also impact the Issuer); a countercyclical leverage ratio buffer; and, from 2019, a supplementary leverage ratio buffer. There are also requirements for leverage ratio reporting and disclosure. On 4 August 2016 the PRA announced that it would be implementing changes to the leverage ratio calibration suggested by the FPC in advance of a planned review of the leverage ratio framework in 2017. It is unclear what effects, if any, the future changes to the leverage ratio calibration could have on the financial condition and prospects of the Issuer. Over the Issuer's business planning horizon, the Issuer expects to remain above its regulatory leverage ratio requirement. Should the Issuer fail, or be perceived likely to fail, to meet leverage requirements, this may result in administrative actions or regulatory sanctions.

To support the effectiveness of bail-in and other resolution tools, the BRRD requires that all institutions must meet an individual minimum requirement for eligible liabilities (known as MREL) which may be bailed-in, calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities. Items eligible for inclusion in MREL will include an institution's own funds, along with "eligible liabilities".

In November 2016, the Bank of England published a Statement of Policy entitled “The Bank of England’s approach to setting a minimum requirement for own funds and eligible liabilities ("**MREL**") – Responses to Consultation and Statement of Policy”. The paper sets out the Bank of England’s policy for exercising its power to direct institutions to maintain a minimum requirement for MREL under section 3A(4) of the Banking Act. Although the provisions of the BRRD transposed into UK law relating to MREL took effect from 1 January 2016, the Bank of England has confirmed that it intends to make use of the transition period allowed by the BRRD and the EBA regulatory technical standards on the criteria for determining MREL and proposes in most cases that an institution’s MREL requirement will be set equal to the applicable minimum capital requirement until 1 January 2020. The Bank of England has stated that, by the end of 2020, it intends to conduct a review of its general approach to the calibration of MREL and the final transition date. This review will have regard to intervening changes in the UK regulatory framework and likely changes to the capital framework arising from the work of the Basel Committee.

Until these measures are finally applied, it is not possible to determine the impact that they will have on the Issuer once implemented. The proposals could increase the Issuer’s costs and may affect the Issuer’s plans to grow its balance sheet. The Issuer has been designated as a single point of entry firm and the Bank of England has provided an indicative MREL requirement that will be required to be met as at 1 January 2020. However such amount is indicative and may change. If MREL requirements exceed current regulatory capital requirements, the Issuer may need to raise additional eligible instruments or reduce total assets. Accordingly, the effects of these proposals could adversely impact the results of operations, financial condition and prospects of the Issuer.

IFRS 9 Financial Instruments

IFRS 9 replaces the existing requirements in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised requirements on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the requirements on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018.

The Group is in the process of assessing the potential impact of IFRS 9 application on its consolidated financial statements which, given the nature of the Group’s operations, is expected to be significant. In particular, the calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances. The actual impact of adopting IFRS 9 on the Group’s consolidated financial statements in 2018 is not yet known and cannot be reliably estimated; this will be dependent on the financial instruments held by the Group and the economic conditions at that time, as well as accounting elections and judgements that the Group will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments, for which preparations are well underway.

The Group is also assessing the potential impact of IFRS 9 application for regulatory capital purposes. This requires a detailed technical assessment of the initial one-off impact on transition to IFRS 9, as well as consideration of the ongoing impact of this change. The supervisory bodies are currently consulting on possible capital treatments following IFRS 9 adoption, including transitional

arrangements, and the Society awaits confirmation of the final rules. The actual impact of adopting IFRS 9 for capital planning purposes is not yet known and cannot be reliably estimated. The quantitative effect will depend on, inter alia, the actual impact of adopting IFRS 9 on the Group's consolidated financial statements and also the final capital rules.

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

Subject to confirmation by the relevant UK regulatory authority, the Issuer or its members determine whether it remains a building society or if it demutualises (save in circumstances where a direction is made under section 42B of the Building Societies Act or a UK authority makes an instrument or order under the Banking Act, which results in demutualisation through the conversion of it into a company or the transfer of all the property, rights or liabilities of the society to a company).

The Building Societies Act includes provisions under which a building society may demutualise by transferring the whole of its business to an existing company (referred to as a 'takeover') or to a specially formed company (referred to as a 'conversion'). In addition, the Building Societies Act (as modified by the Mutual Societies (Transfers) Order 2009 (the "**Mutual Transfers Order**") made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (the "**Funding and Mutual Societies Transfers Act**")) includes provisions under which a building society may transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the Funding and Mutual Societies Transfers Act). At present, the claims of depositors and other unsubordinated creditors of the Issuer would rank ahead of share accounts (which term excludes any deferred shares) and the members' rights to any surplus in the event of a liquidation of the Issuer and the claims of subordinated creditors of the Issuer would rank behind share accounts but ahead of members' rights to any surplus in the event of a liquidation of the Issuer. If, however, the Issuer transfers its business to a specially formed company or an existing company (as defined in the Building Societies Act) or to a subsidiary of another mutual society, all the liabilities of the Issuer which immediately prior thereto were classified as share accounts will thereafter rank at least *pari passu* with all other unsecured and unsubordinated liabilities of the Issuer's successor.

Following a transfer of business to a company (including where the transfer is to a subsidiary of another mutual society) by the Issuer the obligations under the Notes will become obligations of any transferee entity and rank (i) in priority to both the rights of the holders of the equity share capital in the company to any repayment of capital or surplus on a liquidation and any obligations of the company (whether or not created prior to such transfer) expressed to rank junior to such Notes, (ii) equally with other unsecured and unsubordinated creditors (including inter-bank lenders and retail depositors) and (iii) behind any statutorily preferential creditors.

Financial Services Compensation Scheme ("FSCS")

The FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or likely to be unable, to pay claims against them. An institution's FSCS levy is linked to its share of the United Kingdom deposit market. The FSCS levy may have a material impact on the corporate profits of the Issuer. Claims on the FSCS are funded by loans from the Bank of England and until such loans are repaid, increased levies on United Kingdom deposit-taking institutions fund interest payments on such loans. As a result of various claims under the FSCS, the Issuer, in common with all regulated United Kingdom deposit takers, has recently been subject to significantly increased FSCS levies. As at 31 December 2016, the Issuer has paid £40.3 million in levies in relation to the FSCS. As at 31 December 2016, a provision of £2.3 million was held in respect of levies to FSCS. In certain circumstances, regulated United Kingdom deposit takers may further be required to fund, by way of a further increase in the FSCS levy, the capital repayment to the Bank of England of a loan.

There can also be no assurance that there will be no actions taken under the Banking Act that may lead to future claims against the FSCS, and concomitant increased FSCS levies payable by the Issuer (and other regulated United Kingdom deposit takers), which may have a material adverse effect on its results of operations. Any such increases in the Issuer's costs and liabilities related to the levy may have a material adverse effect on its results and operations. Further costs and risks to the Group may also arise from discussions at national and EU levels around the future design of financial services compensations schemes, including increasing the scope and level of protection and moving to pre-funding of compensation schemes.

In April 2014, the new EU directive on deposit guarantee schemes ("**DGSD**") was adopted and EU member states had until 3 July 2015 to implement it into national law. The revised DGSD requires EU Member States to ensure that by 3 July 2024 the available financial means of the deposit guarantee schemes reach a minimum target level of 0.8 per cent. of the covered deposits of credit institutions and national schemes are to be funded through regular contributions before the event (*ex-ante*) to the deposit guarantee schemes. This requirement differs from the current FSCS regime which requires ex-post financing where fees are required after a payment to depositors has occurred. Under the DGSD, in case of insufficient *ex-ante* funds, the deposit guarantee scheme will collect immediate after the event (*ex-post*) contributions from the banking sector and as a last resort will have access to alternative funding arrangements such as loans from public or private third parties. The PRA has consulted on the United Kingdom implementation of the DGSD, published final rules on 1 April 2015 and published revisions on 3 July 2015. These rules proposed, amongst other things, changes to the United Kingdom FSCS which introduced temporary high balance deposit protection, up to £1 million, for up to six months for certain limited types of deposits.. It is possible, as a result of these new rules, that future FSCS levies on the Issuer may differ from those at present, and such reforms could result in the Issuer incurring additional costs and liabilities, which may adversely affect the Issuer's business, financial conditions and/or results of operations. From 30 January 2017, the deposit compensation limit increased from £75,000 to £85,000.

Credit risk

Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Group. The Group faces this risk from its lending to:

- individual customers (retail mortgages);
- businesses through historical commercial lending and ongoing debt factoring and invoice discounting; and
- wholesale counterparties for the purposes of liquidity management.

Liquidity risk

Liquidity risk is the risk that the Issuer is unable to meet its current and future financial obligations as they fall due.

The Issuer's treasury function is responsible for the day-to-day management of the Group's liquidity and wholesale funding. The Board sets the Group's liquidity risk appetite and limits over the level, composition and maturity of liquidity and deposit funding balances, reviewing these at least annually. Compliance with these limits is monitored daily by Finance and Risk personnel.

The Issuer also carries out liquidity stress testing against a number of scenarios including those prescribed by the PRA, considering a wide range of liquidity and economic factors. Early warning indicators are regularly assessed by a variety of functions across the Issuer to ensure liquidity is maintained at appropriate levels and reported to the Liquidity Management Group (LMG), ALCO and the Board on a monthly basis.

To diversify funding sources, additional funding is provided by accessing longer term wholesale funding markets. In addition, funding has been accessed from the FLS and the TFS.

The quality of the Group's liquidity portfolio has also been maintained, with as at 31 December 2016, 45 per cent. of total liquidity comprising cash held at the Bank of England. The Group also holds a

portfolio of high quality but less liquid assets held for liquidity management purposes. As at 31 December 2016, the proportion of total liquid assets rated A3 or above was 98.8 per cent.

Conduct risk

Conduct risk is the risk of delivering poor or inadequate outcomes for customers.

The framework to control this area is maintained and overseen by the Conduct and Operational Risk Committee ("**CORC**").

Mortgage advice – Likely to be the largest financial commitment undertaken by borrowers, it is important that any reliable mortgage advice given is reliable. The Issuer provides advice directly and through its Estate Agency division, Connells. In an environment of strong house price inflation there is risk of customers stretching their ability to meet their mortgage commitments. Rigorous quality checking and compliance monitoring are operated by the Issuer and Connells. The Issuer also operates rigorous affordability assessments as part of its mortgage underwriting process. This is subject to regular review to ensure that arrears experience does not exceed expectations, thus enabling early preventative action.

Pensions and investment advice – Whilst the Issuer prides itself on the quality of advice offered to customers, the provision of pensions and investment advice is inherently complex and, on occasion, can subsequently be found not to be suitable for the customer. The liberalisation of pensions announced by the Government in 2015 has increased the complexity of this area significantly and with it the risk of providing unsuitable advice. Alert to this risk, the Group maintains a robust compliance capability which supports development of appropriate customer offerings and closely monitors the suitability of advice provided to customers.

Will writing – The Issuer offered a will writing service to customers until the end of 2016. Since then, provision of the service has been outsourced to another Group company, Redstone Wills, which specialises in this area. This followed a review which concluded that the commercial return generated by the service did not justify the risks involved in the Issuer offering a will writing service directly.

This risk factor should not be taken as implying that either the Issuer or the Group will be unable to comply with its obligations as a building society with securities admitted to the Official List or as a supervised firm regulated by the FCA and the PRA.

Reputational risk

Reputational risk is the risk to earnings, liquidity or capital arising from negative market or public opinion. Such risk effectively arises through the poor management of risks generally. The consequences would adversely impact the future prospects of the Group and could expose the Group to litigation and financial loss. This risk is managed by:

- maintaining and investing in control structures;
- continuing to focus on customer outcomes;
- promoting the Issuer through marketing and external communications; and
- working within the risk management framework which has reputational risk as a key consideration.

Interest Rate risk

Interest rate risk is the risk of loss arising from adverse movements in market interest rates.

Interest rate risk arises from the mortgages, savings and other financial products that the Group offers. This risk is managed through the use of appropriate financial instruments, including derivatives used to hedge exposures, with established risk limits, reporting lines, mandates and other control procedures. For further information in relation to the Issuer's hedging activities please see above under "*The Issuer's hedging strategies may not prevent losses"* and "*The Issuer's derivatives counterparties may not honour their contracts"*.

Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between market rates, are also monitored closely and regularly reported to the ALCO, the Board Risk Committee and the Board. This risk is also managed, where appropriate, through the use of derivatives, with established risk limits and other control procedures.

Derivatives are only used to limit the extent to which the Group will be affected by changes in interest rates, foreign exchange rates or other indices which affect fair values or cash flows. Derivatives are therefore used exclusively to hedge risk exposures. The principal derivatives used by the Group are interest rate contracts such as interest rate swaps.

The Group's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed accordingly, in line with PRA guidance.

Equity risk

Equity risk is the risk of loss due to adverse movements in equity markets.

The Group has a shareholding in Zoopla Property Group Plc (now known as ZPG Plc) ("**Zoopla**") owning 2.7 per cent. of its shares as at 31 December 2016.

The value of equity investments can fluctuate, and therefore the Group holds capital to absorb such fluctuations in order to protect its regulatory capital position. The Board also regularly reviews the strategy for its investments to ensure that members' interests are protected. The market value of the Group's shareholding in Zoopla, based on the share price at 31 December 2016, is £36.0m.

Operational risk

Operational risk is the risk of financial loss or reputational damage arising from inadequate or failed internal processes, systems or human error.

Change Management – The scale and pace of regulatory change has been significant in recent years. Alongside this the Issuer has an ambitious change programme designed to ensure that its customer proposition and service delivery are aligned to customer expectations. The Board and senior management are cognisant that a large and demanding change programme which is inadequately managed can lead to the crystallisation of unforeseen risks resulting in poor service to customers. Focus and resource has been devoted to developing a robust governance regime to deliver effective oversight of projects from business case approval through to progress monitoring, implementation of a standard project lifecycle methodology and capacity planning.

Information Technology

The pace of technological development has created a period of significant change in financial services. The Issuer will continue to invest in its technology provision to provide an excellent level of customer service and manage risks in this area which include:

Cyber crime – Cyber risk incorporates a wide array of potential threats to Group businesses. These can include network or perimeter threats, a breach of online controls leading to increased risk of

online fraud as well as data leakage. These threats are of increasing significance given the expected growth in online customer transaction levels. In response to this, Group businesses continue to focus efforts on proactively managing the evolving nature of cyber threat to ensure that the Group is best placed to protect itself and its customers. The Cyber Risk strategy is signed off annually by the Board Risk Committee.

Business resilience – Market experience has shown that executing IT change has significant risk attached to it and can lead to the loss of core systems and the ability to provide expected levels of customer care. The Issuer is fully aware of these inherent risks and continues to review its approach to business resilience and continuity to ensure that this is reflective of business changes over time and remains robust in the event of a disaster.

Model risk

Model risk is the risk that, as a result of weaknesses or failures in the design or use of a model, a financial loss occurs or a poor business or strategic decision is made.

To mitigate this risk the Model Governance Committee ("**MGC**") provides a formal forum for managing and assessing model risk in the Issuer's business, ensuring that all key models:

- go through a formal review and approval process;
- have a strict change control process;
- undergo a consistent model, development and validation process;
- are monitored routinely and reviewed periodically in line with a risk based timetable; and
- undergo a pre-determined model development and validation process.

Pension obligation risk

The Group had, as at 31 December 2016, funding obligations for two defined benefit schemes which carried funding deficits. The schemes were closed to new entrants and to future accrual of benefit by 31 December 2009. Pension obligation risk is the risk that the value of the schemes' assets, together with ongoing contributions, will be insufficient to cover their obligations over time. The schemes are also exposed to possible changes in pensions legislation.

To manage the Group's exposure to pension obligation risk:

- the Board regularly reviews the Group's pension risk strategy;
- the Board and the pension scheme Trustees receive professional advice from different actuarial advisers;
- the pension scheme Trustees meet at least quarterly to monitor the investment performance of scheme assets and make investment decisions, liaising with the principal employer in accordance with the scheme rules and taking advice from professional investment consultants;
- the pension scheme Trustees also monitor the pension obligation position (on the Trustees' funding basis); and
- the pension obligation position (on an IAS 19 basis) is updated every six months and reported, along with key pension risk metrics, to the Board Risk Committee.

Political uncertainty

On 23 June 2016, the UK held a referendum on whether the UK should remain a member of the European Union. The UK voted to leave the European Union and the UK Government invoked article 50 of the Lisbon Treaty relating to withdrawal on 29 March 2017. Under article 50, the Treaty on the European Union and the Treaty on the Functioning of the European Union cease to apply in the relevant state from the date of entry into force of a withdrawal agreement or, failing that, two years after the notification of intention to withdraw, although this period may be extended in certain circumstances. There are a number of uncertainties in connection with the future of the UK and its relationship with the European Union. The negotiation of the UK's exit terms and related matters may take several years. Until the terms and timing of the UK's exit from the European Union are confirmed and until the nature of the new relationship between the UK and the European Union is known, it is not possible to determine the impact that the referendum, the UK's departure from the European Union and/or any related matters may have on general economic conditions in the UK (including on the performance of the UK housing market) and/or on the business of the Issuer. As such, no assurance can be given that such matters would not adversely affect the ability of the Issuer to satisfy its obligations under the Notes and/or the market value and/or the liquidity of the Notes in the secondary market.

Systemic risk could adversely affect the Issuer's business

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

Payment Protection Insurance

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

The Statement followed the Consultation Paper (CP10/06) and the FSA pressed forward with their measures stated in the Consultation Paper (CP10/12). Following publication of the Statement, the British Bankers Association ("**BBA**") and others requested a judicial review of the FSA's proposed approach to the assessment and redress of complaints in respect of sales of PPI.

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

In November 2014, the UK Supreme Court ruled in Plevin v. Paragon Personal Finance Ltd [2014] UKSC 61 ("**Plevin**") that a failure to disclose to a client a large commission payment on a single premium PPI policy made the relationship between a lender and the borrower unfair under section 140A of the Consumer Credit Act 1974. As a result, the FCA announced on 27 May 2015 that it was considering whether additional rules or guidance on PPI complaints are required subsequent to the Plevin decision. On 2 October 2015, the FCA announced that it was proposing to consult, by the end of 2015, on the introduction of a deadline by which consumers would need to make their PPI complaints or else lose their rights to have them assessed by the FOS. In November 2015, the FCA published its Consultation Paper CP 15/39 entitled "Rules and guidance on payment protection insurance complaints". On 2 August 2016, the FCA published feedback to CP 15/39, together with a further consultation paper, Consultation Paper CP 16/20, on changes to the proposed rules and guidance concerning the handling of PPI complaints in light of Plevin. The results of the consultation and the final rules and guidance, Policy Statement PS 17/3, were published on 3 March 2017 and may result in an increase in the volume of 'Plevin-based' unfair relationship claims brought against the lenders who failed to disclose significant PPI commissions when entering into credit agreements. A key aspect of the FCA's final rules is a PPI complaints deadline falling two years from 29 August 2017 when the proposed rules come into force – hence PPI consumers would have until 29 August 2019 to complain to the firm or to the FOS.

Customer compensation

As at 31 December 2016, the customer compensation provision includes provisions for potential claims on PPI of £2.8m (2015: £1.7m). This includes provisions made during 2016 following Plevin. The Group has experienced a slight fall in PPI complaint levels and, despite uphold rates remaining low, a number of cases are referred to the FOS, each incurring a £550 fee. These provisions are expected to be utilised within the next three years. There can be no assurance, however, that this provision will be adequate to cover any liability the Issuer may face in respect of PPI policies.

Increasing competition may adversely affect the Issuer's income and business

Competition in the Issuer's business is based on name recognition, service, product and price. The Issuer competes with a large number of other financial services providers (including banks, building societies and insurance companies) and provides a range of financial services covering (but not limited to) mortgages, savings and financial advice. Other financial services competitors provide a different range of financial products, may have more competitive pricing in certain areas and may have greater financial resources with which to compete. Increasing competition may have a negative effect on the Issuer's results, if the Issuer is unable to match the products and services of its competitors.

The Issuer conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations in the markets in which it operates

Changes in government policy, legislation or regulatory interpretation applying to the financial services industry in the markets in which the Issuer operates may adversely affect its product range, distribution channels, capital requirements, liquidity and wholesale funding portfolios, and consequently, its reported financial results, financing requirements and capital strength. These changes include possible changes in government and regulatory policies, the regulation of selling practices and liquidity, solvency and capital requirements.

The financial services environment can also be adversely affected by instances of financial crime and technological change.

There is also a potential risk to the financial sector generally of a sovereign downgrade of the United Kingdom by the rating agencies.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME

Risks related to the structure of a particular issue of Notes

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

Risks applicable to all Notes

If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return

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

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

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

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

Redemption for regulatory reasons

In certain circumstances where the Issuer is unable to achieve the Tier 2 capital recognition of the Notes including as a result of a change in the regulatory classification of the Notes that was not reasonably foreseeable as at the Issue Date of the Notes, the relevant Subordinated Notes may be redeemed prior to the stated maturity. The exercise of these rights by the Issuer may have an adverse effect on the position of holders of the Subordinated Notes.

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

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

Reset Notes

In the case of any Series of Reset Notes, the rate of interest on such Reset Notes will be reset by reference to the Reset Reference Rate, as adjusted for any applicable margin, on the reset dates specified in the relevant Final Terms. This is more particularly described in Condition 5(b). The reset of the rate of interest in accordance with such provisions may affect the secondary market for and the market value of such Reset Notes. Following any such reset of the rate of interest applicable to the Notes, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest on the relevant Reset Notes may be lower than the Initial Rate of Interest, the First Reset Rate of Interest and/or any previous Subsequent Reset Rate of Interest.

Risks applicable to Subordinated Notes

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

The Issuer's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority to the claims of the Senior Creditors (as defined in "Terms and Conditions of the Notes" herein) but without preference among themselves.

Subordinated Notes may be subject to loss absorption on any application of the general bail-in tool or at the point of non-viability of the Issuer

The BRRD contemplates that Subordinated Notes may be subject to non-viability loss absorption, in addition to the application of the general bail-in tool. See "Risks relating to the Banking Act 2009 and the BRRD".

Risks related to Notes generally

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

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

without the consent of the Noteholders and without regards to the individual interests of particular Noteholders

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

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes, the Coupons or any of the provisions of the Trust Deed which in the opinion of the Trustee is not materially prejudicial to the Noteholders or (ii) any modification of any of the Terms and Conditions of the Notes or any provision of the Notes, the Coupons or the Trust Deed which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 17 (*Substitution*) of the Terms and Conditions of the Notes.

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

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

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

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

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

Risks related to the market generally

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

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

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

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

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

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

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

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

Floating Rate Notes

Investment in Notes which bear interest at a floating rate comprise (i) a Reference Rate and (ii) a Margin to be added or subtracted, as the case may be, from such base rate. Typically, the relevant Margin will not change throughout the life of the Notes but there will be a periodic adjustment (as specified in the relevant Final Terms) of the Reference Rate (for example, every three months or six months) which itself will change in accordance with general market conditions. Accordingly, the market value of Floating Rate Notes may be volatile if changes, particularly short term changes, to market interest rates evidenced by the relevant Reference Rate can only be reflected in the interest rate of these Notes upon the next periodic adjustment of the relevant Reference Rate. Should the Reference Rate be at any time negative, it could, notwithstanding the existence of the relevant Margin, result in the actual floating rate being lower than the relevant Margin or even equal to zero.

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

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

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

Documents Incorporated by Reference

The following documents which have previously been published or are published simultaneously with this Offering Circular and have been filed with the FCA, shall be incorporated in, and form part of, this Offering Circular:

(a) the audited consolidated annual financial statements of the Issuer for the financial years ended 31 December 2015 and 31 December 2016, together with the auditor's reports thereon;

(b) the Strategic Report of the Issuer, as set out on pages 11 to 30 (inclusive) of the Issuer's Annual Report & Accounts 2016;

(c) the Memorandum and Rules of the Issuer;

(d) the Skipton Building Society Pillar 3 year end qualitative disclosures December 2015/2016; and

(e) the Terms and Conditions of the Notes contained in the previous Offering Circulars dated 6 December 2001, pages 14-38 (inclusive), 27 November 2002, pages 14-39 (inclusive), 6 January 2004, pages 14-39 (inclusive), 8 December 2004, pages 13-38 (inclusive), 6 April 2006, pages 18-43 (inclusive), 11 April 2007, pages 20-46 (inclusive), 9 April 2008, pages 21-48 (inclusive), 11 November 2009, pages 21-48 (inclusive), 9 December 2010, pages 23-50 (inclusive) and 24 April 2015, pages 31-64 (inclusive).

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

Any information which is incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

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

Copies of documents incorporated by reference in this Offering Circular can be obtained from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London and on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

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

Overview of the Programme

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

This overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive. Words and expressions defined in "Summary of Provisions Relating to the Notes while in Global Form" and "Terms and Conditions of the Notes" below shall have the same meanings in this overview.

Issuer:	Skipton Building Society
Description:	Euro Medium Term Note Programme
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme and risks relating to the structure of a particular series of Notes issued under the Programme. All of these are set out under "*Risk Factors".*
Arranger:	Barclays Bank PLC
Dealers:	Barclays Bank PLC BNP Paribas HSBC Bank plc J.P. Morgan Securities plc Lloyds Bank plc Société Générale The Royal Bank of Scotland plc (trading as NatWest Markets) and any other Dealers appointed in accordance with the Programme Agreement.
Trustee:	The Bank of New York Mellon, London Branch
Principal Paying Agent and Transfer Agent:	The Bank of New York Mellon, London Branch
Programme Size:	Up to £2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, Notes may be denominated in any currency agreed between the Issuer and the relevant Dealer.
Maturities:	Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, save that (i) in the case of Subordinated Notes the minimum maturity will be five years and one day and (ii) notwithstanding (i) above, in any case such other minimum or maximum maturities as may be

	allowed or required from time to time by the relevant monetary authority (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	Each Series of Notes may be issued: (i) in bearer form; or (ii) in registered form. Registered Notes may not be exchanged for Bearer Notes and Bearer Notes may not be exchanged for Registered Notes. Each Tranche of a Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with TEFRA D (as defined below). Otherwise each Tranche of Bearer Notes will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "**Global Certificates**". Definitive Notes will be serially numbered. Notes to be issued under the Programme will be either Senior Notes or Subordinated Notes. The Bearer Notes may or may not be issued in new global note form and the Registered Notes may or may not be issued under the new safekeeping structure, in each case as described in "Summary of Provisions Relating to Notes while in Global Form".
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "Subscription and Sale" below) including the following restrictions applicable at the date of this Offering Circular.
Reset Notes:	Interest will be payable in arrear on the dates specified in the Final Terms at the initial rate specified in the Final Terms, and thereafter the rate may be reset with respect to a specified time period by reference to the Reset Reference Rate. The rate of interest may be reset on more than one occasion.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Final Terms).
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the

	2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) on the basis of the reference rate set out in the applicable Final Terms. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes. Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. Subordinated Notes may not be redeemed earlier than the fifth anniversary of the issue date thereof except as described in "Terms and Conditions of the Notes" below.
Denomination of Notes:	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Final Terms), subject to compliance with all applicable laws and regulations, save that the minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction, subject as provided in Condition 8 (*Taxation*).
Negative Pledge:	Applicable to Senior Notes only as further described in Condition 4 (*Negative Pledge* (Senior Notes only).
Cross Default:	Applicable to Senior Notes only as further described in Condition 10 (*Events of Default*).
Status of the Notes (other than Subordinated Notes):	The Senior Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 3 (*Status of the Notes*), unsecured obligations of the Issuer and will rank *pari passu* among themselves, junior to obligations required to be preferred by law (which from 1 January 2015 includes member share accounts which are given preferential status by law) and equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from

	time to time outstanding.
Status of the Subordinated Notes:	The Subordinated Notes will constitute unsecured and subordinated obligations of the Issuer and will rank *pari passu* without preference among themselves and at least equally with all other Tier 2 Capital (as defined in Condition 7(j) (*Redemption and Purchase - Definitions*)) of the Issuer from time to time outstanding but will rank ahead of the holders of any subordinated obligations whose claims are expressed to rank behind the Subordinated Notes or the Coupons, as the case may be, and, for the avoidance of doubt, ahead of all claims in respect of any Deferred Shares (as defined in Condition 3 (*Status of the Notes*)) in the Issuer. The rights of the holders of Subordinated Notes and any relative Coupons will, in the event of the winding up of the Issuer, be subordinated in the manner provided in the Trust Deed and as specified in Condition 3 (*Status of the Notes*).
Rating:	The Programme is, rated Baa1 by Moody's and A- by Fitch in respect of Senior Notes with a maturity of more than one year and Baa2 by Moody's in respect of Subordinated Notes . Senior Notes issued under the Programme may be rated or unrated. Where a Tranche of Senior Notes is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the rating assigned to the Programme by the relevant rating agency. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Listing:	Application has been made for Notes issued under the Programme to be listed on the London Stock Exchange.
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes, will be governed by, and construed in accordance with, English law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom) and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes — see "Subscription and Sale" below. The Issuer is Category 2 for the purposes of Regulation S under the Securities Act. Notes in bearer form for U.S. tax purposes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor U.S. Treasury Regulation Section including, without limitation, regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) ("**TEFRA D**") unless (i) the applicable Final Terms states that such Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor U.S. Treasury Regulation Section including, without limitation, regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) ("**TEFRA C**") or (ii) the Notes are issued other than in compliance with TEFRA D or TEFRA C but in circumstances in which such Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal

Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the applicable Final Terms as a transaction to which TEFRA is not applicable.

Terms and Conditions of the Notes

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant laws and requirements (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Applicable Final Terms" below for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes constituted by a Trust Deed dated 7 December 2000 (such Trust Deed as modified and/or supplemented and/or restated from time to time, the "**Trust Deed**") and made between Skipton Building Society (the "**Issuer**" or the "**Society**") and The Bank of New York Mellon, London Branch (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the time being for the Noteholders (as defined below).

References herein to the "**Notes**" shall be references to the Notes of this Series and shall mean:

(i) in relation to any Notes represented by a global Note in bearer form (a "**Bearer Global Note**") or a global Certificate (a "**Global Certificate**"), units of each Specified Denomination in the Specified Currency;

(ii) any Global Note or Global Certificate;

(iii) any definitive Notes in bearer form ("**Bearer Notes**") issued in exchange for a Bearer Global Note; and

(iv) any definitive Notes in registered from ("**Registered Notes**") (whether or not issued in exchange for a Global Certificate).

The Notes and the Coupons (as defined below) have the benefit of an amended and restated Agency Agreement dated 24 April 2015 (such Agency Agreement as amended and/ or supplemented and/or restated from time to time, the "**Agency Agreement**") and made between the Issuer, The Bank of New York Mellon, London Branch as issuing and principal paying agent and agent bank (the "**Principal Paying Agent**", which expression shall include any successor principal paying agent), the other paying agents named therein (together with the Principal Paying Agent, unless the context otherwise requires, the "**Paying Agents**", which expression shall include any additional or successor paying agents), The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the "**Registrar**", which expression shall include any successor registrar) and a transfer agent and the other transfer agents named therein (together with the Registrar, unless the context otherwise requires, the "**Transfer Agents**", which expression shall include any additional or successor transfer agents) and the Trustee.

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

Interest bearing Bearer Notes have interest coupons ("**Coupons**") and, in the case of Bearer Notes which have more than 27 interest payments remaining, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Global Notes do not have Coupons or Talons attached on issue.

The Trustee acts for the benefit of the holders for the time being, of the Notes (the "**Noteholders**" or "**holders**", which expressions shall mean (in the case of definitive Bearer Notes) the bearers of the Notes and (in the case of definitive Registered Notes) the persons in whose name the Certificates are registered and shall, in relation to any Notes represented by a Global Note or a Global Certificate, be

construed as provided below). Any reference herein to "**Couponholders**" shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, "**Tranche**" means Notes which are identical in all respects (including as to listing and admission to trading) and "**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which (i) are expressed to be consolidated and form a single series and (ii) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

Copies of the Trust Deed and the Agency Agreement are available for inspection by prior appointment during normal business hours at the principal London office for the time being of the Trustee (being, at 15 June 2017, 40th Floor, One Canada Square, London E14 5AL) and at the specified office of each of the Principal Paying Agent, the Registrar and the other Paying Agents and Transfer Agents (such Agents and the Registrar being together referred to as the "**Agents**"). Copies of the applicable Final Terms are available for viewing at and copies may be obtained from The Bailey, Skipton, North Yorkshire BD23 1DN and The Bank of New York Mellon, London Branch, One Canada Square, London E14 5AL. If the Notes are to be admitted to trading on the regulated market of the London Stock Exchange the applicable Final Terms will be published on the website of the London Stock Exchange through a regulatory information service. The Noteholders, and the Couponholders are deemed to have notice of, are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed.

Words and expressions defined in the Trust Deed or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreements, the Trust Deed will prevail and, in the event of any inconsistency between the Trust Deed or the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

In the Conditions, "**euro**" means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

1. Form, Denomination and Title

Each Series of Notes is issued either (i) in bearer form or; (ii) in registered form . The Notes will be issued in the currency (the "**Specified Currency**") specified in the applicable Final Terms. Bearer Notes will be issued in the denominations (the "**Specified Denominations(s)**") specified in the applicable Final Terms. Registered Notes will be issued in multiples of the Specified Denomination specified in the applicable Final Terms (as defined below).

This Note may be a Fixed Rate Note, a Reset Note, a Floating Rate Note, a Zero Coupon Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Note may be a Senior Note or a Subordinated Note as shown in the applicable Final Terms.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable. Definitive Notes will be serially numbered.

Definitive Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(a) (*Transfers of Registered Notes - Transfer of Registered Notes*), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Subject as set out below, title to the Bearer Notes and Coupons will pass by delivery and title to the Registered Notes will pass upon registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). The Issuer, the Trustee and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing on it (or on the Certificate representing it) or notice of any previous loss or theft (or on such

Certificate)) for all purposes but, in the case of any Global Note or Global Certificate, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Bearer Global Note or a Global Certificate held on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking *S.A.* ("**Clearstream, Luxembourg**"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or, as the case may be, the registered holder of the relevant Global Certificate shall be treated by the Issuer, the Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note or, as the case may be, the relevant Global Certificate and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly.

Notes which are represented by a Global Note or a Global Certificate will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Final Terms.

2. Transfers of Registered Notes

(a) *Transfer of Registered Notes*

Subject as provided in Conditions 2(e) (*Transfers of Registered Notes - Closed Periods*) and (f) (*Transfers of Registered Notes - Regulations*), Registered Notes may be transferred in whole or in part in a multiple of a Specified Denomination upon the surrender (at the specified office of the Registrar or any transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor.

(b) *Exercise of Options or Partial Redemption in respect of Registered Notes*

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

(c) *Delivery of New Certificates*

Each new Certificate to be issued pursuant to Conditions 2(a) (*Transfers of Registered Notes - Transfer of Registered Notes*) or 2(b) (*Transfers of Registered Notes - Exercise of Options or Partial Redemption in respect of Registered Notes*) shall be available for delivery within three business days of receipt of the request for exchange, form of transfer or Put Notice (as defined in Condition 7(d) (*Redemption and Purchase - Redemption at the Option of the Noteholders (other than holders of Subordinated Notes) (Investor Put)*)) or surrender of the Certificate for exchange.

Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer, Put Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Put Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(c) (*Transfers of Registered Notes - Delivery of New Certificates*), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) *Exchange Free of Charge*

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

(e) *Closed Periods*

No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 7(c) (*Redemption and Purchase - Redemption at the Option of the Issuer (Issuer Call)*), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

(f) *Regulations*

All transfers of Registered Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be made available free of charge by the Registrar to any holder of a Registered Note upon request.

3. Status of the Notes

(a) *Status of Senior Notes*

The Senior Notes (being those Notes that specify their status as Senior) and any relative Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4 (*Negative Pledge* (Senior Notes only)) unsecured obligations of the Issuer and rank *pari passu* among themselves, junior to obligations required to be preferred by law (which from 1 January 2015 includes member share accounts which are given preferential status by law) and equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer.

(b) *Status of Subordinated Notes*

The Subordinated Notes and any relative Coupons are unsecured obligations of the Issuer subordinated as provided below and rank *pari passu* and without any preference among themselves and at least equally with all other Tier 2 Capital (as defined in Condition 7(j) (*Redemption and Purchase - Definitions*)) of the Issuer from time to time outstanding but will rank ahead of the holders of any subordinated obligations whose claims are expressed to rank behind the Subordinated Notes or the Coupons, as the case may be, and, for the avoidance of doubt, ahead of all claims in respect of any Deferred Shares (as defined below) in the Issuer.

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

"**Act**" means the Building Societies Act 1986 (as amended) (including, where applicable, any statutory modification thereof or re-enactment thereof or any statutory instrument, order or regulations made thereunder or under any such statutory modification or re-enactment).

"**Deferred Shares**" means deferred shares within the meaning of the Act.

"**Senior Creditors**" means (i) (but only in respect of a winding up while the Issuer remains a building society) all members holding shares in the Issuer as regards the principal of their shares in the Issuer and any interest due in respect of those shares (other than members holding Deferred Shares whose claims rank or express 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)); (ii) depositors and other creditors of the Issuer (including persons who become holders of deposits pursuant to Section 100 of the Act if the Issuer transfers its business to a successor pursuant to Section 97 of the Act) but not including creditors (if any) whose claims rank or are expressed to rank *pari passu* with or junior to the claims of the Noteholders and the Couponholders or creditors with whose claims the Notes and the Coupons rank or are expressed to rank *pari passu* or junior (whether only in the event of a winding up of the Issuer or otherwise) or members in respect of claims in relation to Deferred Shares (as defined above)); (iii) creditors whose claims are in respect of unsubordinated obligations of the Issuer; and (iv) creditors whose claims are in respect of subordinated obligations of the Issuer other than claims (x) in respect of obligations which constitute, or would but for any applicable limitation on the amount of such capital, constitute, Tier 1 Capital or Tier 2 Capital (each as defined in Condition 7(j) (*Redemption and Purchase – Definitions*) or (y) which otherwise rank, or are expressed to rank, *pari passu* with, or junior to, the claims in respect of the Subordinated Notes.

The provisions of this Condition 3(b) (*Status of the Notes - Status of Subordinated Notes*) apply only to the principal and interest and any other amounts payable to the Noteholders and Couponholders in respect of the Notes and the Coupons and nothing in these Terms and Conditions shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee of the rights and remedies in respect thereof.

(c) *No Set-off*

Subject to applicable law, no Noteholder, Couponholder or the Trustee, on behalf of such Noteholders and Couponholders, may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Subordinated Notes or the relative Coupons and each Noteholder, Couponholder and the Trustee, on behalf of such Noteholders and Couponholders, in respect of any Subordinated Note shall, by virtue of being the holder of any such Subordinated Note or Coupon, be deemed to have waived all such rights of set-off, both before and during any winding-up or administration of the Issuer. Notwithstanding the provision of the foregoing sentence, if any of the said rights and claims of any Noteholder or Couponholder arising under or in connection with the Subordinated Notes is discharged by set-off, such Noteholder or Couponholder will immediately pay an amount equal to the amount of such discharge to the Issuer, or in the event of winding-up or administration of the Issuer, to the liquidator or administrator in the Issuer's winding up or administration and, until such time as payment is made, will hold a sum equal to such amount in trust for the Issuer or, if applicable, the liquidator or administrator in the Issuer's winding-up or administration. Accordingly, such discharge will be deemed not to have taken place.

N.B. Attention is drawn to "Certain Provisions of the Building Societies Act 1986 and the Supervisory Authority" elsewhere in this Offering Circular.

4. Negative Pledge (Senior Notes only)

So long as any of the Senior Notes and any relative Coupons remain outstanding (as defined in the Trust Deed), the Issuer will neither create nor have outstanding any mortgage, lien (other than a lien arising by operation of law), pledge, charge or other security interest upon the whole or any part of its undertaking or assets, present or future (including any uncalled capital), to secure any Loan Stock or any guarantee of or indemnity in respect of any Loan Stock without at the same time or prior thereto securing the Notes and the Coupons equally and rateably therewith to the satisfaction of the Trustee or providing such other security or other arrangements for the Senior Notes and any relative Coupons as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the

Noteholders or which shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

"**Covered Bonds**" means bonds, notes or other securities (however defined) designated by the Issuer as covered bonds and secured on a segregated pool of assets.

"**Loan Stock**" means indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities (other than Covered Bonds) which for the time being are, or are intended to be, or are capable of being, quoted, listed, dealt in or traded on any stock exchange, over-the-counter or other established securities market (whether or not initially distributed by way of private placing), but excluding any such indebtedness which has a stated maturity not exceeding one year.

5. Interest

(a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable in arrears on the Interest Payment Date(s) in each year up to but excluding the Maturity Date. For so long as any of the Fixed Rate Notes is represented by a Global Note or Global Certificate held on behalf of Clearstream, Luxembourg and/or Euroclear, interest will be calculated on the full nominal amount outstanding of the Fixed Rate Notes and will be paid to Clearstream, Luxembourg and Euroclear for distribution by them to entitled accountholders in accordance with their usual rules and operating procedures. In respect of each definitive Fixed Rate Note, interest will be calculated on its outstanding nominal amount.

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

As used in these Terms and Conditions, "Fixed Interest Period" means the period from (and including) an Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period or if, in the case of Notes in definitive form, no Fixed Coupon Amount is specified in the applicable Final Terms, such interest shall be calculated by applying the Rate of Interest to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note or Global Certificate held on behalf of Clearstream, Luxembourg and/or Euroclear, the full nominal amount outstanding of the Fixed Rate Notes; or

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

and, in each case multiplying such sum by the applicable Day Count Fraction (as defined in Condition 5(e) (*Interest - Day Count Fractions*) below, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

If no Day Count Fraction for Fixed Rate Notes is specified in the applicable Final Terms then the Day Count Fraction for such Notes shall be "30/360" for Notes denominated in United States dollars and "Actual/Actual (ICMA)" for all other Notes.

In these Terms and Conditions:

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

(b) *Interest on Reset Notes*

(i) *Rates of Interest and Interest Payment Dates*

Each Reset Note bears interest:

(A) from (and including) the Interest Commencement Date specified in the applicable Final Terms to (but excluding) the First Reset Date at the rate per annum equal to the Initial Interest Rate;

(B) from (and including) the First Reset Date to (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date at the rate per annum equal to the First Reset Rate of Interest; and

(C) if applicable, from (and including) the Second Reset Date to (but excluding) the first Subsequent Reset Date (if any), and each successive period from (and including) any Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date (if any) (each a "**Subsequent Reset Period**") at the rate per annum equal to the relevant Subsequent Reset Rate of Interest,

(in each case rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) payable, in each case, in arrear on the Interest Payment Date(s) in each year and on the Maturity Date so specified if that does not fall on an Interest Payment Date.

The Rate of Interest and the amount of interest (the "**Interest Amount**") payable shall be determined by the Calculation Agent, (A) in the case of the Rate of Interest, at or as soon as practicable after each time at which the Rate of Interest is to be determined, and (B) in the case of the Interest Amount in accordance with the provisions for calculating amounts of interest in Condition 5(a) (*Interest - Interest on Fixed Rate Notes*) and, for such purposes, references in the fourth paragraph of Condition 5(a) (*Interest - Interest on Fixed Rate Notes*) to "Fixed Rate Notes" shall be deemed to be to "Reset Notes" and Condition 5(a) (*Interest - Interest on Fixed Rate Notes*) shall be construed accordingly.

In this Condition 5(b):

"**First Margin"** means the margin specified as such in the applicable Final Terms;

"**First Reset Date**" means the date specified in the applicable Final Terms;

"**First Reset Period**" means the period from (and including) the First Reset Date until (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date;

"**First Reset Rate of Interest**" means, in respect of the First Reset Period and subject to Condition 5(b)(ii) (*Interest - Interest on Reset Notes - Fallbacks*), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum, converted from a basis equivalent to the Fixed Leg Swap Duration or the Reference Bond Yield, as the case may be, to a basis equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (such calculation to be determined by the Issuer in conjunction with a leading financial institution selected by it), of (A) the relevant Reset Reference Rate and (B) the First Margin;

"**Fixed Leg Swap Duration**" has the meaning specified in the applicable Final Terms;

"**Initial Rate of Interest**" has the meaning specified in the applicable Final Terms;

"**Mid-Market Swap Rate**" means for any Reset Period the mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the Fixed Leg Swap Duration (calculated on the basis of the Day Count Fraction as specified in the applicable Final Terms as determined by the Calculation Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (iii) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Mid-Swap Maturity (calculated on the basis of the Day Count Fraction as specified in the applicable Final Terms as determined by the Calculation Agent);

"**Mid-Market Swap Rate Quotation**" means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

"**Mid-Swap Floating Leg Benchmark Rate**" means EURIBOR if the Specified Currency is euro or LIBOR for the Specified Currency if the Specified Currency is not euro;

"**Mid-Swap Maturity**" has the meaning specified in the applicable Final Terms;

"**Mid-Swap Rate**" means, in relation to a Reset Determination Date and subject to Condition 5(b)(ii) (*Interest - Interest on Reset Notes - Fallbacks*), either:

(i) if Single Mid-Swap Rate is specified in the applicable Final Terms, the rate for swaps in the Specified Currency:

(A) with a term equal to the relevant Reset Period; and

(B) commencing on the relevant Reset Date,

which appears on the Relevant Screen Page or such replacement page on that service which displays the information; or

(ii) if Mean Mid-Swap Rate is specified in the applicable Final Terms, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered swap rate quotations for swaps in the Specified Currency:

(A) with a term equal to the relevant Reset Period; and

(B) commencing on the relevant Reset Date,

which appear on the Relevant Screen Page or such replacement page on that service which displays the information,

in either case, as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on such Reset Determination Date, all as determined by the Calculation Agent provided, however, that if there is no such rate appearing on the Relevant Screen Page for a term equal to the relevant Reset Period, then the Mid-Swap Rate shall be determined through the use of straight-line interpolation by reference to two rates, one of which shall be determined in accordance with the above provisions, but as if the relevant Reset Period were the period of time for which rates are available next shorter than the length of the actual Reset Period and the other of which shall be determined in accordance with the above provisions, but as if the relevant Reset Period were the period of time for which rates are available next longer than the length of the actual Reset Period;

"**Rate of Interest**" means the Initial Rate of Interest, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest, as applicable;

"**Reference Bond**" means for any Reset Period the UK government bond selected by the Issuer on the advice of an investment bank of international repute as having an actual or interpolated maturity comparable with the relevant Reset Period that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in Sterling and of a comparable maturity to the relevant Reset Period.

"**Reference Bond Price**" means, with respect to any Reset Determination Date, (A) the arithmetic average of the Reference Government Bond Dealer Quotations for such Reset Determination Date, after excluding the highest and lowest such Reference Government Bond Dealer Quotations, or (B) if the Calculation Agent obtains fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations;

"**Reference Bond Reset Rate Time**" means the time specified in the applicable Final Terms;

"**Reference Bond Yield**" means the yield to maturity or interpolated yield to maturity (on the relevant day count basis) of the relevant Reference Bond;

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

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

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

"**Reset Date**" means the First Reset Date, the Second Reset Date and each Subsequent Reset Date (as applicable);

"**Reset Determination Date**" means, in respect of the First Reset Period, the second Reset Business Day prior to the First Reset Date, in respect of the first Subsequent Reset Period, the second Reset Business Day prior to the Second Reset Date and, in respect of each Subsequent Reset Period thereafter, the second Business Day prior to the first day of each such Subsequent Reset Period;

"**Reset Period**" means the First Reset Period or a Subsequent Reset Period, as the case may be;

"**Reset Reference Rate**" means either (i) if Mid-Swaps is specified in the applicable Final Terms the Mid-Swap Rate, or (ii) if Reference Bond is specified in the applicable Final Terms, the Reference Bond Yield, assuming a price for such Reference Bond (expressed as a percentage of its nominal amount) equal to the relevant Reference Bond Price;

"**Second Reset Date**" means the date specified in the applicable Final Terms;

"**Subsequent Margin**" means the margin specified as such in the applicable Final Terms;

"**Subsequent Reset Date**" means the date or dates specified in the applicable Final Terms; and

"**Subsequent Reset Rate of Interest**" means, in respect of any Subsequent Reset Period and subject to Condition 5(b)(ii) (*Interest - Interest on Reset Notes - Fallbacks*), the rate of interest determined by the Calculation Agent on the relevant Reset Determination Date as the sum, converted from a basis equivalent to the Fixed Leg Swap Duration specified in the applicable Final Terms or the Reference Bond Yield, as the case may be, to a basis equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (such calculation to be determined by the Issuer in conjunction with a leading financial institution selected by it), of (A) the relevant Reset Reference Rate and (B) the relevant Subsequent Margin.

(ii) *Fallbacks*

If on any Reset Determination Date the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page, the Calculation Agent shall request each of the Reference Banks (as defined below) to provide the Calculation Agent with its Mid-Market Swap Rate Quotation as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on the Reset Determination Date in question.

If two or more of the Reference Banks provide the Calculation Agent with Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period shall be the sum (converted as set out in the definition of such term above) of the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotations and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date only one of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this paragraph, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be the sum (converted as set out in the definition of such term above) of (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotation and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date none of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this Condition 5(b)(ii) (*Interest - Interest on Reset Notes - Fallbacks*), the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be determined to be the rate of interest as at the last preceding Reset Note Reset Date or, in the case of the first Reset Determination Date, the First Reset Rate of Interest shall be the Initial Rate of Interest.

For the purposes of this Condition 5(b)(ii) (*Interest - Interest on Reset Notes - Fallbacks*) "**Reference Banks**" means the principal office in the principal financial centre of the Specified Currency of four major banks in the swap, money, securities or other market most closely connected with the relevant Mid-Swap Rate as selected by the Issuer on the advice of an investment bank of international repute.

(iii) *Notification of First Reset Rate of Interest, Subsequent Reset Rate of Interest and Interest Amount*

The Calculation Agent will cause the First Reset Rate of Interest, any Subsequent Reset Rate of Interest and, in respect of a Reset Period, the Interest Amount payable on each Interest Payment Date falling in such Reset Period to be notified to the Issuer, the Principal Paying Agent, the Trustee and any competent authority or stock exchange by or on which the relevant Reset Notes are for the time being listed and notice thereof to be published in accordance with Condition 15 (*Notices*) as soon as possible after their determination but in no event later than the fourth London Business Day (as defined in Condition 5(c)(iv) (*Interest - Interest on Floating Rate Notes - Determination of Rate of Interest and Calculation of Interest Amounts*)) thereafter.

(iv) *Determination or Calculation by an agent appointed by the Trustee*

If for any reason the Calculation Agent defaults in its obligation to determine the Rate of Interest or calculate any Interest Amount in accordance with Condition 5(b)(i) (*Interest - Interest on Reset Notes - Rates of Interest and Interest Payment Dates*), the Trustee may (at the expense of the Issuer) appoint an agent to do so and such determination shall be deemed to have been made by the Calculation Agent. In doing so, such agent shall apply the foregoing provisions of this Condition 5(b) (*Interest - Interest on Reset Notes*) with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(v) *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 5(b) (*Interest - Interest on Reset Notes*) by the Calculation Agent or any agent appointed by the Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trustee, the Calculation Agent, the other Paying Agents and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Calculation Agent or the Trustee or any agent appointed by the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on Floating Rate Notes*

(i) *Interest Payment Dates*

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date at a rate equal to the Rate of Interest and such interest will be payable in arrears on either:

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

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

Such interest will be payable in respect of each Interest Period. In these Terms and Conditions, "**Interest Period**" means the period from (and including) an Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date). For so long as any of the Floating Rate Notes is represented by a Global Note or a Global Certificate held on behalf of Clearstream, Luxembourg and/or Euroclear, interest will be calculated on the full nominal amount outstanding of the relevant Notes and will be paid to Clearstream, Luxembourg and Euroclear for distribution by them to entitled accountholders in accordance with their usual rules and operating procedures. In respect of each definitive Floating Rate Note, interest will be calculated on its outstanding nominal amount.

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

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

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

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

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

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

(A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre (other than TARGET2 System) specified in the applicable Final Terms;

(B) if TARGET2 System is specified as an Additional Business Centre in the applicable Final Terms, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the "**TARGET2 System**") is open; and

(C) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which, if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

(ii) *Rate of Interest*

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

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided in Condition 5(c)(iii) (*Interest - Interest on Floating Rate Notes - Minimum and/or Maximum Rate of Interest*) below, be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this Condition 5(c)(ii)(A) (*Interest - Interest on Floating Rate Notes - Rate of Interest - ISDA Determination for Floating Rate Notes*), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap

transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions each as amended and updated as at the Issue Date of the first Tranche of the Notes, published by the International Swaps and Derivatives Association, Inc. (the "**ISDA Definitions**") and under which:

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

(2) the Designated Maturity is a period specified in the applicable Final Terms; and

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

For the purposes of this Condition 5(c)(ii)(A) (*Interest - Interest on Floating Rate Notes - Rate of Interest - ISDA Determination for Floating Rate Notes*), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

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

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided in Condition 5(c)(iii) (*Interest - Interest on Floating Rate Notes - Minimum and/or Maximum Rate of Interest*) below, be either:

(1) the offered quotation (if there is only one quotation on the relevant Screen Page); or

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

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

If the Relevant Screen Page is not available or if no offered quotation appears or fewer than three offered quotations appear, in each case as at the Specified Time, the Principal Paying Agent shall request each of the Reference Banks (as defined in the Agency Agreement) to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Principal Paying Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Principal Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Principal Paying Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Principal Paying Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Principal Paying Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

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

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

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

(iv) *Determination of Rate of Interest and Calculation of Interest Amounts*

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

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

(A) in the case of Floating Rate Notes which are represented by a Global Note or Global Certificate held on behalf of Clearstream, Luxembourg and/or Euroclear, the full nominal amount outstanding of the relevant Notes; or

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

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

(v) *Linear Interpolation*

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

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

(vi) *Notification of Rate of Interest and Interest Amounts*

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and any competent authority or stock exchange by or on which the relevant Floating Rate Notes are for the time being listed and notice thereof to be published in accordance with Condition 15 (*Notices*) as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each relevant competent authority or stock exchange by or on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 15 (*Notices*). For the purposes of this paragraph, the expression "**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(vii) *Determination or Calculation by an agent appointed by the Trustee*

If for any reason the Principal Paying Agent defaults in its obligation to determine the Rate of Interest or calculate any Interest Amount in accordance with Condition 5(c)(ii) (*Interest - Interest on Floating Rate Notes - Rate of Interest*) or (iv) (*Determination of Rate of Interest and Calculation of Interest Amounts*), as the case may be, and in each case in accordance with paragraph (iv) and (v), the Trustee may (at the expense of the Issuer) appoint an agent to do so and such determination shall be deemed to have been made by the Principal Paying Agent. In doing so, such agent shall apply the foregoing provisions of this Condition 5(c) (*Interest on Floating Rate Notes*) with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(viii) *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 5(c) (*Interest - Interest on Floating Rate Notes*) by the Principal Paying Agent or any agent appointed by the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trustee, the Principal Paying Agent, the Paying Agents and the Transfer Agents and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Principal Paying Agent or any agent appointed by the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(d) *Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

(e) *Day Count Fractions*

In this Condition 5 (*Interest*):

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest for any Fixed Interest Period or Interest Period, as applicable:

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

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

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

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

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

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

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

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

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

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

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

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls; "Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

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

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

6. Payments

(a) *Method of Payment*

Subject as provided below:

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

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

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8 (*Taxation*)) any law implementing an intergovernmental approach thereto.

(b) *Presentation of Definitive Bearer Notes and Coupons*

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 6(a) (*Payments - Method of Payment*) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Fixed Rate Notes in definitive bearer form (other than Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum 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 relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

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

Upon the date on which any Floating Rate Note, Reset Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "**Long Maturity Note**" is a Fixed Rate Note in definitive bearer form (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

(c) *Payments in respect of Bearer Global Notes*

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

(d) *Registered Notes*

(i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 6(d)(ii) (*Payments - Registered Notes*) below.

(ii) Payments of interest on each Registered Note (whether or not in global form) shall be made in the relevant currency drawn on a bank in the principal financial centre of the country of such Specified Currency and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the "**Record Date**"). Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date and such payment of interest may be made by transfer to an account in the relevant Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such currency.

(e) *General Provisions Applicable to Payments*

The holder of a Global Note or Global Certificate shall be the only person entitled to receive payments in respect of Notes represented by such Global Note or Global Certificate and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note or Global Certificate in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Certificate must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note or Global Certificate.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

(i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(f) *Payment Day*

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 9 (*Prescription*)) is:

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

(A) the relevant place of presentation;

(B) London;

(C) each Additional Financial Centre (other than TARGET2 System) specified in the applicable Final Terms;

(D) if TARGET2 System is specified as an Additional Financial Centre in the applicable Final Terms, a day on which the TARGET2 System is open; and

(ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open;

(g) *Interpretation of Principal and Interest*

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

(i) any additional amounts which may be payable with respect to principal under Condition 8 (*Taxation*) or any undertaking given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;

(ii) the Final Redemption Amount of the Notes;

(iii) the Early Redemption Amount of the Notes;

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

(v) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7(f) (*Redemption and Purchase - Early Redemption Amounts*)); and

(vi) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions and the Trust Deed to interest in respect of the Notes shall be deemed to include any additional amounts which may be payable with respect to interest under Condition 8 (*Taxation*) or under any obligation or undertaking given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

7. Redemption and Purchase

(a) *Redemption at Maturity*

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

(b) *Redemption for Tax Reasons*

Subject (in the case of Subordinated Notes only) to Regulatory Approval and compliance with the Regulatory Preconditions (each as defined below), and provided that notice is given (within the period specified in the applicable Final Terms) to the Trustee and, in accordance with Condition 15 (*Notices*), the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately prior to the giving of such notice that:

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

(b) on the occasion of the next payment due in respect of the Notes, the Issuer will or would be required to pay additional amounts as described under Condition *8 (Taxation)* or to account to any taxing authority in the Tax Jurisdiction for any amount (other than any tax withheld or deducted from interest payable in respect of the Notes) calculated by reference to any amount payable in respect of the Notes; or

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

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

(ii) in the case of Subordinated Notes only, the Issuer has demonstrated to the satisfaction of the Supervisory Authority that such Tax Event is material and was not reasonably foreseeable as at the Issue Date of such Subordinated Notes,

the Issuer may redeem at any time (if this Note is not a Floating Rate Note) or on the next Interest Payment Date (if this Note is a Floating Rate Note) all (but not some only) of the Notes at their Early Redemption Amount referred to in Condition 7(g) (*Redemption and Purchase - Purchases*) below together, if applicable, with interest accrued to (but excluding)

the date fixed for redemption. Upon the expiry of such notice the Issuer shall be bound to redeem the Notes accordingly.

Prior to the publication of any notice of early redemption pursuant to this Condition 7(b) (*Redemption and Purchase - Redemption for Tax Reasons*), the Issuer shall deliver to the Trustee a certificate signed by any two Directors of the Issuer setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and an opinion of independent legal advisors of recognised standing satisfactory to the Trustee to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee shall be entitled, without liability to any person, to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the relevant conditions precedent, in which event it shall be conclusive and binding on the Trustee and the Noteholders.

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

Subject (in the case of Subordinated Notes only) to Regulatory Approval and compliance with the Regulatory Preconditions, if Issuer Call is specified as being applicable in the applicable Final Terms, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in applicable Final Terms to the Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount equal to the Minimum Redemption Amount or a Maximum Redemption Amount.

In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will (i) in the case of Redeemed Notes represented by definitive Notes, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Notes represented by a Global Note, be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 (*Notices*) not less than 15 days prior to the date fixed for redemption.

(d) *Redemption at the Option of the Noteholders (other than holders of Subordinated Notes) (Investor Put)*

If Investor Put is specified as being applicable in the applicable Final Terms (unless the Note is a Subordinated Note), upon the holder of any Note giving to the Issuer in accordance with Condition 15 (*Notices*) not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms, (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

If this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must deliver such Note at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "**Put Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 7(d) (*Redemption and Purchase - Redemption at the Option of the Noteholders (other than holders of Subordinated Notes) (Investor Put)*). If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary or common safekeeper, as the case may be, for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from

time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly.

(e) *Regulatory Event Redemption of Subordinated Notes*

Subject to Regulatory Approval and compliance with the Regulatory Preconditions, the Issuer may, in its sole discretion, if a Regulatory Event has occurred and is continuing, having given notice (within the period specified in the applicable Final Terms) to the Trustee, the Principal Paying Agent and, in accordance with Condition 15 (*Notices*), the Noteholders (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Subordinated Notes at their Early Redemption Amount referred to in Condition 7(f) (*Redemption and Purchase - Early Redemption Amounts*) below together, if applicable, with interest accrued to (but excluding) the date fixed for redemption.

Prior to the publication of any notice of early redemption pursuant to this Condition 7(e) (*Redemption and Purchase - Regulatory Event Redemption of Subordinated Notes*), the Issuer shall deliver to the Trustee a certificate signed by any two Directors of the Issuer confirming that a Regulatory Event has occurred and is continuing and that the applicable conditions precedent have been satisfied and in each case the details thereof. The Trustee shall be entitled, without liability to any person, to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the relevant conditions precedent, in which event it shall be conclusive and binding on the Trustee and the Noteholders. Upon the expiry of such notice the Issuer shall be bound to redeem the Subordinated Notes accordingly.

(f) *Early Redemption Amounts*

For the purpose of Condition 7(b) (*Redemption and Purchase - Redemption for Tax Reasons*) above and Condition 10 (*Events of Default*):

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

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

$$\text{Early Redemption Amount} \quad RP \quad (1 \quad AY)^{y}$$

where:

"**RP**" means the Reference Price; and

"**AY**" means the Accrual Yield; and

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

(g) *Purchases*

Subject in the case of Subordinated Notes to obtaining the Regulatory Approval and compliance with the Regulatory Preconditions, the Issuer or any Subsidiary (as defined in the Trust Deed) of the Issuer may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by

tender, tenders must be available to all Noteholders alike. All Notes so purchased (other than Notes purchased by a Subsidiary of the Issuer which is a dealer in securities) will be surrendered to any Paying Agent for cancellation.

(h) *Cancellation*

All Notes which are redeemed will forthwith be cancelled (together, in the case of definitive Bearer Notes, with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and Notes purchased and cancelled pursuant to Condition 7(g) (*Redemption and Purchase - Purchases*) above (together, in the case of definitive Bearer Notes, with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

(i) *Late Payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 7(a) (*Redemption and Purchase - Redemption at Maturity*), (b) (*Redemption for Tax Reasons*), (c) (*Redemption at the Option of the Issuer (Issuer Call)*) or (d) (*Redemption at the Option of the Noteholders (other than holders of Subordinated Notes) (Investor Put)* above) or upon its becoming due and repayable as provided in Condition 10 (*Events of Default*) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7(f)(ii) (*Redemption and Purchase - Early Redemption Amounts*) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

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

(ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent, the Registrar or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 15 (*Notices*).

(j) *Definitions*

As used in these Conditions:

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

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

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

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

"**Regulatory Event**" means, as a result of any change (or pending change which the Supervisory Authority considers to be sufficiently certain) in the regulatory classification of the

Notes which becomes effective after the date of issue of the Notes and that results, or would be likely to result, in:

(i) if "Regulatory Event (Subordinated Notes only): Full Exclusion" is specified in the applicable Final Terms, the entire principal amount of the Subordinated Notes being excluded from the Tier 2 Capital of the Issuer (whether on an individual or consolidated basis); or

(ii) if "Regulatory Event (Subordinated Notes only): Full or Partial Exclusion" is specified in the applicable Final Terms, the entire principal amount of the Subordinated Notes or any part thereof being excluded from the Tier 2 Capital of the Issuer (whether on an individual or consolidated basis);

"**Regulatory Preconditions**" means in relation to any redemption of the Notes pursuant to Conditions 7(b) (*Redemption and Purchase - Redemption for Tax Reasons*), 7(d) (*Redemption and Purchase - Redemption at the Option of the Noteholders (other than holders of Subordinated Notes) (Investor Put)*) or 7(e) (*Redemption and Purchase - Regulatory Event Redemption of Subordinated Notes*) or a purchase of the Notes pursuant to Condition 7(g) (*Redemption and Purchase - Purchases*):

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

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

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

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

"**Tier 1 Capital**" has the meaning given to it (or any successor term) in the Capital Adequacy Regulations; and

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

8. Taxation

All payments of principal and interest in respect of the Notes and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have

been receivable in respect of the Notes or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Certificate or Coupon presented for payment:

(a) by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Certificate or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Certificate or Coupon; or

(b) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6(f) (*Payments - Payment Day*));

As used in these Terms and Conditions:

(i) "**Tax Jurisdiction**" means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax; and

(ii) the "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly 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 moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 15 (*Notices*).

9. Prescription

Claims will become prescribed (in the case of principal) after 10 years and (in the case of interest) after five years after the Relevant Date (as defined in Condition 8 (*Taxation*)) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(b) (*Payments - Presentation of Definitive Bearer Notes and Coupons*) or any Talon which would be void pursuant to Condition 6(b) (*Payments - Presentation of Definitive Bearer Notes and Coupons*).

10. Events of Default

(a) *Senior Notes*

The Trustee, at its discretion may, and if so requested in writing by the holders of at least one quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or pre-funded and/or secured to its satisfaction), give notice to the Issuer that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at their Early Redemption Amount (determined in accordance with Condition 7(f) (*Redemption and Purchase - Early Redemption Amounts*)) plus accrued interest as provided in the Trust Deed, if any of the following events (each an "**Event of Default**") shall occur:

(i) if default is made in the payment in the Specified Currency of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 14 days; or

(ii) if default is made by the Issuer in the performance or observance of any Condition or provision binding on the Issuer under the Notes or the Trust Deed and (except in any case where the default is, in the opinion of the Trustee, incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) such default continues for 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

(iii) if:

(1) any payment aggregating an amount of at least £10,000,000 (or its equivalent in any other currency or currencies) in respect of the principal of or any premium of or interest on any Indebtedness for Moneys Borrowed of the Issuer or any Material Subsidiary is not made on its due date (or by the expiry of any applicable grace period therefor); or

(2) any Indebtedness for Moneys Borrowed of the Issuer or any Material Subsidiary having an outstanding aggregate principal amount of at least £10,000,000 (or its equivalent in any other currency or currencies) becomes due and payable prior to its stated maturity by reason of default; or

(3) if any guarantee of or indemnity in respect of any payment aggregating an amount of at least £10,000,000 (or its equivalent in any other currency or currencies) in respect of any Indebtedness for Moneys Borrowed of any third party given by the Issuer or any Material Subsidiary is not honoured when due and called upon (or by the expiry of any applicable grace period therefor); or

(iv) if an administrator or other similar official is appointed in relation to the Issuer or any Material Subsidiary or in relation to the whole or, in the opinion of the Trustee, a material part of the assets of any of them or if an encumbrancer takes possession of, or an administrative or other receiver is appointed in relation to, the whole or, in the opinion of the Trustee, any material part of the assets of the Issuer or a Material Subsidiary or a distress or execution is levied or enforced upon or sued out against the whole or, in the opinion of the Trustee, any material part of the assets of the Issuer or a Material Subsidiary and, in any such case, is not discharged within 60 days; or

(v) if, except for the purposes of or pursuant to a Permitted Transfer (as defined below):

(1) the Issuer stops payment to its creditors generally or, in the opinion of the Trustee, ceases to carry on the whole or substantially the whole of its business; or

(2) the Supervisory Authority presents a petition for the winding up of the Issuer or an effective resolution, instrument of dissolution or award for dissolution is passed, entered into or made or an order is made or an effective resolution is passed for the winding up or the dissolution of the Issuer or the Issuer is wound up or dissolved in any other manner; or

(3) an order is made pursuant to the Act the effect of which is to prevent the Issuer from accepting the deposit of, or otherwise borrowing, any money or from accepting any payment representing the whole or any part of the amount due by way of subscription for a share in the Issuer, other than a payment which fell due before the making of the said order; or

(4) the Issuer's authorisation under the Act is revoked or is not renewed or the registration of the Issuer as a building society is suspended or cancelled or the Issuer requests any such suspension or cancellation; or

(5) the Issuer amalgamates with, or transfers the whole or, in the opinion of the Trustee, a material part of its engagements or its business to another person or Skipton Group Holdings Limited amalgamates with, or transfers the whole or a part of its undertaking or its business to another person which part is, in the opinion of the Trustee, material in the context of the engagements or undertaking or business of the Issuer and Skipton Group Holdings Limited as a whole; or

(6) the Issuer gives notice in writing that it wishes to cease to be permitted under Part IV of the Financial Services and Markets Act 2000 (the "**FSMA**") to accept the deposit of, or otherwise borrow, any money; or

(vi) if, except for the purposes of a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders or for the purposes of a solvent winding up where the assets of a Material Subsidiary attributable directly or indirectly to the Issuer are distributed to any one or more of the Issuer and the other Subsidiaries which are, or would as a result become, Material Subsidiaries:

(1) a Material Subsidiary stops payment to its creditors generally or, in the opinion of the Trustee, ceases to carry on the whole or substantially the whole of its business; or

(2) an order is made by any competent court or resolution is passed for the winding up or dissolution of any Material Subsidiary,

PROVIDED, in the case of any Event of Default other than those described in Conditions 10(a)(i) (*Events of Default - Senior Notes*) above and 10(a)(v)(2) (*Events of Default - Senior Notes*) above, the Trustee shall have certified to the Issuer that the Event of Default is, in its opinion, materially prejudicial to the interests of the Noteholders.

For the purposes of this Condition 10 (*Events of Default*):

(i) "**Indebtedness for Moneys Borrowed**" means any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of (1) money borrowed, (2) liabilities under or in respect of any acceptance or acceptance credit or (3) any notes, bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash;

(ii) a "**Material Subsidiary**" shall mean any Subsidiary of the Issuer whose:

(1) total assets (attributable to the Issuer) are equal to 10 per cent. or more of the consolidated total assets of the Issuer and its Subsidiaries; or

(2) gross income (attributable to the Issuer) is equal to 10 per cent. or more of the Consolidated Revenue (as defined in the Trust Deed),

all as more particularly defined in the Trust Deed and a certificate addressed to the Trustee) by two Directors of the Issuer that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties; and

(iii) a "**Permitted Transfer**" shall mean:

(1) an amalgamation of the Issuer and one or more other building societies under section 93 of the Act; or

(2) a transfer by the Issuer of all or substantially all (being 90 per cent. or more of the Issuer's engagements including its obligations under the Notes, the Trust Deed and the Agency Agreement) or (on terms which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders) any smaller part of its engagements under section 94 of the Act; or

(3) a transfer by the Issuer of its business to a company under sections 97 to 102D of the Act; or

(4) an alteration in the status of the Issuer by virtue of any statute or statutory provision which alters, or permits the alteration of, the status of building societies generally or building societies which meet specified criteria to that of an institution authorised under the FSMA or to a body which is regulated on a similar basis to an institution authorised under the FSMA; or

(5) any other reconstruction or amalgamation or transfer to a subsidiary of another mutual society pursuant to the 2007 Act the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders.

(b) *Subordinated Notes*

(i) In the event of a default being made for a period of 14 days or more in payment of any principal or interest due on the Subordinated Notes or any of them, in each case as and when the same ought to be paid, the Trustee may, in order to enforce the obligations of the Issuer under the Trust Deed, the Subordinated Notes and Coupons, at its discretion without further notice, institute proceedings for the winding up of the Issuer and/or prove in any winding up of the Issuer, but may take no further action in respect of such default.

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

(iii) In the event of the cancellation of the Issuer's registration under the Act (except pursuant to Section 93, Section 94, Section 97 or Section 103(1)(a) of the Act), the commencement of the winding up of the Issuer or the commencement of the dissolution of the Issuer (except in any such case a winding up or dissolution for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a Successor in Business (as defined in the Trust Deed) or the transfer of the Issuer's business to a subsidiary of another mutual society pursuant to the 2007 Act 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 give notice to the Issuer that the Subordinated Notes are, and they shall accordingly thereby forthwith become, immediately due and repayable at their Early Redemption Amount (determined in accordance with Condition 7(f) (*Redemption and Purchase - Early Redemption Amounts*)) plus accrued interest as provided in the Trust Deed.

11. Enforcement

(a) *Enforcement in respect of Senior Notes*

The Trustee may, at its discretion and without notice, institute such proceedings against the Issuer as it may think fit to enforce the obligations of the Issuer under the Notes or the Trust Deed, but it shall not be bound to take any such proceedings or any other action in relation to the Notes or under the Trust Deed unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in nominal amount of the Notes then outstanding, and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to proceed as aforesaid, fails to do so within a reasonable time and such failure is continuing.

(b) *Enforcement in respect of Subordinated Notes*

(i) Upon any Subordinated Notes becoming due and repayable, the Trustee may at its discretion institute proceedings for the winding-up of the Issuer, and/or prove in any winding up of the Issuer but may take no further action to enforce the obligations of the Issuer for payment of any principal or interest in respect of the Subordinated Notes.

(ii) Without prejudice to Condition 11(b)(i) (*Enforcement - Enforcement in respect of Subordinated Notes*) above, if the Issuer breaches any of its obligations under the Trust Deed or the Subordinated Notes (other than any obligation for the payment of any principal or interest in respect of the Subordinated Notes) then and/or at any time after the Subordinated Notes become due and repayable the Trustee may, subject as provided below, at its discretion and without further notice bring such proceedings as

it may think fit to enforce the obligation in question. The Issuer shall not, as a result of the bringing of any such proceedings, be obliged to pay any sums representing or measured by reference to principal or interest on the Subordinated Notes sooner than the same would otherwise have been payable by it.

(iii) The Trustee shall not be bound to take any such proceedings as are referred to in Conditions 11(b)(i) (*Enforcement - Enforcement in respect of Subordinated Notes*) and (ii) above unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in nominal amount of the Subordinated Notes then outstanding, and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

(iv) No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do and such failure is continuing, in which case the Noteholder or, as the case may be, Couponholder shall have only such rights against the issuer as those which the Trustee is entitled to exercise. No Noteholder or Couponholder shall be entitled to institute proceedings for the winding up of the Issuer, or to prove in any winding up of the Issuer, except that if the Trustee, having become bound to proceed against the Issuer as aforesaid, fails so to do within a reasonable time and such failure is continuing, or being able to prove in any winding up of the Issuer fails so to do, then any such holder may on giving an indemnity satisfactory to the Trustee in the name of the Trustee (but not otherwise) himself or herself institute proceedings for the winding up in England of the Issuer and/or prove in any winding up of the Issuer to the same extent (but not further or otherwise) to which the Trustee would have been entitled so to do. No remedy against the Issuer, other than the institution of proceedings for the winding up of the Issuer or the proving or claiming in any winding up of the Issuer, shall be available to the Trustee or the Noteholders or Couponholders for the recovery of amounts owing in respect of the Subordinated Notes or under the Trust Deed.

(c) Nothing in this Condition 11 (*Enforcement*) shall affect or prejudice the payment of the costs, fees, charges, expenses, liabilities or remuneration of the Trustee under the Trust Deed or the rights and remedies of the Trustee in respect thereof.

12. Replacement of Notes, Certificates, Coupons and Talons

Should any Note, Certificate Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Notes or Coupons) or the Registrar (in the case of Certificates) upon payment by the claimant of such costs and expenses 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, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

13. Agents

The names of the initial Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

The Issuer is entitled (with the prior written consent of the Trustee) to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

(a) there will at all times be a Principal Paying Agent and a Registrar; and

(b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent and a Transfer Agent each with a specified office in such place as may be required by the rules and regulations of the relevant competent authority or the relevant stock exchange.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6(e) (*Payments - General Provisions Applicable to*

Payments). Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 15 (*Notices*).

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and, in certain limited circumstances specified in the Agency Agreement, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

14. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9 (*Prescription*).

15. Notices

All notices regarding the Notes will be deemed to be validly given if published in a leading English language daily national newspaper of general circulation in the United Kingdom. It is expected that such publication in a newspaper will be made in the Financial Times in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority which the Notes are for the time being listed or by which they have been admitted to trading including publication on the website of the relevant stock exchange or relevant authority if required by those rules. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes or Global Certificates representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) or such website(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published on the website of the relevant stock exchange or relevant authority and/or in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the second day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent. Whilst any of the Notes are represented by a Global Note or a Global Certificate, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

16. Meetings of Noteholders, Modification and Waiver

(a) The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or these Terms and Conditions or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or by Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing more than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Coupons, these Terms and Conditions or the Trust Deed

(including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed by the Noteholders will be binding on all the Noteholders, whether or not they are present at any meeting and whether or not they voted on the resolution, and on all Couponholders.

(b) The Trustee may without the consent of the Noteholders or Couponholders:

(i) agree to any modification of any of the provisions of the Notes, the Coupons, these Terms and Conditions or the Trust Deed or any waiver or authorisation of any breach or proposed breach of any of these Terms and Conditions or any provision of the Trust Deed or determine that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, which in any such case, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders; or

(ii) agree to any modification of the Notes, the Coupons, these Terms and Conditions or the Trust Deed which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law.

Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and the Couponholders and any such modification shall, unless the Trustee agrees otherwise, be notified to the Noteholders in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

(c) In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination under this Condition or substitution under Condition 17 (*Substitution*)), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (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 or any political territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder 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 Noteholders or Couponholders except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

17. Substitution

(a) If the Issuer shall amalgamate with one or more other building societies under section 93 of the Act or transfer all or substantially all (being 90 per cent. or more of the Issuer's engagements including its obligations under the Notes, the Trust Deed and the Agency Agreement) of its engagements to another building society under section 94 of the Act or transfer its business to a successor in accordance with sections 97 to 102D of the Act, the successor will, pursuant to such provisions, but subject to the proviso below, automatically be substituted in place of the Issuer as principal debtor under the Trust Deed, the Notes and Coupons without any prior approval thereof being required from the Noteholders, the Couponholders or the Trustee and references to the Issuer shall be construed accordingly, provided that (in the case of Subordinated Notes):

(i) in the case of a proposed transfer in accordance with section 97 of the Act and other such applicable provisions, either (A) the Issuer satisfies the Trustee that the successor will be or (as the case may be) remain an authorised institution under the FSMA (or any statutory modification or re-enactment thereof) or (B) such transfer is approved by an Extraordinary Resolution of the Noteholders;

(ii) in connection with such transfer, any variation or supplement to these Conditions must be limited to dealing with matters arising out of the procedure by which the transfer takes place and the constitution of the transferee and must not vary or supplement these Conditions in a manner which would or might cause any of the financial resources derived by the Issuer from the issue of the Notes to which the Trust Deed relates and which comprise Tier 2 Capital to be excluded from the financial resources considered appropriate by the Supervisory Authority for the purposes of paragraph 4(1) of Schedule 6 of the FSMA;

(iii) the Issuer shall provide the Trustee with a certificate signed by two Directors confirming that the preconditions referred to in paragraphs (i) and (ii) above have been satisfied and, immediately following any such substitution, would remain satisfied. The Trustee shall be fully entitled to accept and rely upon any such certificate without liability to any person and where the Trustee chooses to accept any such certificate it will be conclusive and binding on all interested parties (including the Noteholders and Couponholders); and

(iv) any such variation or supplement to the Conditions referred to in paragraph (b) above shall be effected(at the expense of the Issuer) by the execution of a trust deed supplemental to the Trust Deed and shall bind any successor as fully as if the successor had been named in the Trust Deed as principal debtor in place of the Issuer. A memorandum of any such supplemental trust deed shall be endorsed by the Trustee on the Trust Deed and by the Issuer on the duplicate of the Trust Deed. Without prejudice to the foregoing, the Trustee shall have no obligation to enter into any such supplemental trust deed where, in the Trustee's sole opinion, it would incur additional obligations or its rights or protections would be in any way reduced.

(b) Without prejudice to Condition 17(a) (*Substitution*) above and subject as provided in the Trust Deed, the Trustee may agree, without the consent of the Noteholders or Couponholders, if it is satisfied that so to do would not be materially prejudicial to the interests of the Noteholders, to the transfer of the Issuer's business to a subsidiary of another mutual society pursuant to the 2007 Act or the substitution of either a Successor in Business to the Issuer (as defined in the Trust Deed) or a Subsidiary of the Issuer or a subsidiary of a Successor in Business to the Issuer, not being in any case a building society formed by the amalgamation of the Issuer and one or more other building societies pursuant to section 93 of the Act or a building society to which the Issuer has transferred its engagements pursuant to section 94 of the Act or the successor in accordance with section 97 or other applicable provisions of the Act, in place of the Issuer as principal debtor under the Trust Deed, the Notes and Coupons, provided that in the case of a substitution of a company which is a Subsidiary of the Issuer or a subsidiary of the Successor in Business to the Issuer, the obligations of such substitute in respect of the Trust Deed, the Notes and Coupons shall be guaranteed by the Issuer or the Successor in Business to the Issuer, as the case may be, in such form as the Trustee may require and provided further that (in the case of Subordinated Notes) the obligations of such Successor in Business to the Issuer or Subsidiary of the Issuer or subsidiary of a Successor in Business to the Issuer, as the case may be, and any such guarantee shall be subordinated on a basis considered by the Trustee to be equivalent to that in respect of the Issuer's obligations in respect of the Notes and Coupons.

(c) Any substitution referred to in Conditions 17(a) (*Substitution*) and (b) above shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders by the Issuer as soon as practicable thereafter in accordance with Condition 15 (*Notices*). In the case of Notes listed on the Official List (as defined in the Trust Deed), in the event of such substitution, a new Offering Circular will, if so required, be prepared in accordance with the Prospectus Directive.

18. 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 having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue and so that the same shall be consolidated and form a single Series with the outstanding Notes.

19. Contracts Rights of Third Parties

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

20. Governing Law and Submission to Jurisdiction

(a) *Governing law*

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

(b) *Submission to jurisdiction*

(i) Subject to Condition 20(b)(iii) (*Governing Law and Submission to Jurisdiction - Submission to jurisdiction*) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Trust Deed, the Notes and/or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes and/or the Coupons (a "**Dispute**") and accordingly each of the Issuer and the Trustee and any Noteholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.

(ii) For the purposes of this Condition 20(b) (*Governing Law and Submission to Jurisdiction - Submission to jurisdiction*), the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

(iii) To the extent allowed by law, the Trustee, the Noteholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

Summary of Provisions Relating to the Notes while in Global Form

Initial Issue of Notes

Bearer Notes will initially be issued in the form of a temporary global note (a "**Temporary Global Note**") or, if so specified in the applicable Final Terms, a permanent Global Note (a "**Permanent Global Note**" and, together with the Temporary Global Note, the "**Global Notes**") which, in either case, will:

(i) if the Global Notes are intended to be issued in new global note ("**NGN**") form, as stated in the applicable Final Terms, be delivered on or prior to the issue date of the relevant Tranche to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"); and

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

Upon the initial deposit of a Global Note with the Common Safekeeper or the Common Depositary, as the case may be, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Upon the initial registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to (i) in the case of Global Certificates intended to be held under the new safekeeping structure ("**NSS**"), the Common Safekeeper; and (ii) in the case of Global Certificates which are not intended to be held under the NSS, the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

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

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

Issuer — ICSDs Agreement

The Issuer has entered or will enter into an agreement with Euroclear and Clearstream, Luxembourg in respect of any Notes issued in NGN form or under the NSS that the Issuer may request be made eligible for settlement with Euroclear and Clearstream, Luxembourg (the "**Issuer-ICSDs Agreement**"). The Issuer-ICSDs Agreement provides that Euroclear and Clearstream, Luxembourg will, in respect of any such Notes, *inter alia*, maintain records of their respective portion of the issue outstanding amount of such Notes and will, upon the Issuer's request, produce a statement for the Issuer's use showing the total nominal amount of its customer holdings of such Notes as of a specified date.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**") as the holder of a Note represented by a Global

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

1. Exchange

(a) *Temporary Global Notes*

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

(i) if the applicable Final Terms indicates that such Global Note is issued in compliance with the TEFRA C or in a transaction to which TEFRA is not applicable (as to which, see "Overview of the Programme — Selling Restrictions" above), in whole, but not in part, for the Definitive Notes defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership for interests in a permanent Global Note or, if so provided in the applicable Final Terms, for Definitive Notes.

(b) *Permanent Global Notes*

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under "Partial Exchange of Permanent Global Notes" below, in part for Definitive Notes:

(i) if the applicable Final Terms provides that such Global Note is exchangeable at the request of the holder, by the holder giving notice to the Principal Paying Agent of its election for such exchange; and

(ii) otherwise, (1) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so and no successor clearing system is available or (2) if principal in respect of any Notes is not paid when due, in each case by the holder giving notice to the Principal Paying Agent of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

The exchange of a permanent Global Note for Definitive Notes upon notice from Euroclear and/or Clearstream (acting on the instructions of any holder) or at any time at the request of the Issuer should not be expressed to be applicable in the applicable Final Terms if the Notes are issued with a minimum Specified Denomination such as €100,000 (or its equivalent in another currency) plus one or more higher integral multiples of another smaller amount such as €1,000 (or its equivalent in another currency). Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a temporary Global Note exchangeable for Definitive Notes.

The following legend will appear on all Bearer Notes (other than Temporary Global Notes), and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE

LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

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

(c) *Global Certificates*

If the applicable Final Terms state that the Notes are to be represented by a Global Certificate on issue, transfers of the holding of Registered Notes represented by any Global Certificate pursuant to Condition 2(a) (*Transfers of Registered Notes - Transfer of Registered Notes*) may only be made in part:

(i) if the Registered Notes represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(ii) if principal in respect of any Notes is not paid when due; or

(iii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 1(c)(i) or 1(c)(ii) above, the holder of the Global Certificate has given the Registrar not less than 30 days' notice at its specified office of the intention of the holder of the Global Certificate to effect such transfer.

(d) *Delivery of Notes and Certificates*

On or after any due date for exchange the holder of a Global Note or Global Certificate may surrender such Global Note or, as the case may be, Global Certificate or, in the case of a partial exchange and where the temporary Global Note is not intended to be in NGN form or where the Global Certificate is not held under the NSS, present it for endorsement to or to the order of the Principal Paying Agent. In exchange for any Global Note or Global Certificate, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange and where the temporary Global Note is not intended to be in NGN form, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note or Global Certificate exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be. In this Offering Circular, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons in respect of Interest that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note or Global Certificate, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes and/or Certificates.

(e) *Exchange Date*

"**Exchange Date**" means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of an exchange for Registered Notes five days, or in the case of failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the city in which the relevant clearing system is located.

2. Amendment to Conditions

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

(a) *Payments*

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with TEFRA D before the Exchange Date will only be made to the extent that certification as to non-U.S. beneficial ownership has been received by Euroclear and Clearstream, Luxembourg. All payments in respect of Notes represented by a Global Note if the Global Note is not intended to be issued in NGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. On the occasion of each payment, (i) in the case of any Global Note which is not intended to be issued in NGN form, a record of such payment made on such Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose, and such record shall be *prima facie* evidence that the payment in question has been made and (ii) in the case of any Global Note which is intended to be a NGN, the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose shall instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such payment.

(b) *Prescription*

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

(c) *Cancellation*

Cancellation of any Note represented by a Global Note or Global Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant Global Note or Global Certificate as the case may be.

(d) *Purchase*

Notes represented by a permanent Global Note may only be purchased by the Issuer or any of its subsidiaries if they are purchased together with the rights to receive all future payments of interest (if any) set out in the applicable Final Terms.

(e) *Noteholders' Option*

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a Global Note or a Global Certificate may be exercised by the holder of the Global Note or Global Certificate giving notice to the Principal Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions (which notice may be given in electronic form), except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, unless the Global Note is in NGN form or where the Global Certificate is held under the NSS, presenting the Global Note or Global Certificate to the Principal Paying Agent, or to a Paying Agent acting on behalf of the Principal Paying Agent, for notation.

(f) *Trustee's Powers*

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

Use of Proceeds

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

Certain Provisions of the Building Societies Act 1986 and the Supervisory Authority

In this section, "**Supervisory Authority**" means the Prudential Regulation Authority and any successor organisation responsible for the supervision of building societies or authorised persons under the FSMA in the United Kingdom in the areas described below.

Amalgamation

Section 93 of the Act permits a building society to amalgamate with one or more building societies by establishing a building society as their successor. Amalgamation requires a shareholding members' resolution (as defined in Schedule 2 of the Act) passed by the shareholding members of each amalgamating society and a borrowing members' resolution (as defined in Schedule 2 of the Act) passed by the borrowing members of each amalgamating society. Confirmation by the Supervisory Authority is also required. The Act provides that on the date specified by the Supervisory Authority all of the property, rights and liabilities (which would include the Notes) of each of the societies shall by virtue of the Act be transferred to and vested in the successor, whether or not otherwise capable of being transferred or assigned.

Transfer of Engagements

Section 94 of the Act permits a building society to "transfer its engagements to any extent" to another building society which undertakes to fulfil such engagements. A transfer requires a shareholding members' resolution passed by the shareholding members of the transferor society and the transferee society, and a borrowing members' resolution passed by the borrowing members of the transferor society and the transferee society. However, the resolutions of the transferee society are not required if the Supervisory Authority consents to the transfer proceeding by a resolution of its board of directors only. The transfer must be confirmed by the Supervisory Authority. The Act provides that on the date specified by the Supervisory Authority and to the extent provided in the instrument of transfer, the property, rights and liabilities of the transferor society shall by virtue of the Act be transferred to and vested in the transferee society, whether or not otherwise capable of being transferred or assigned.

Transfer of Business to a Commercial Company

Sections 97 to 102D of the Act permit a building society to transfer the whole of its business to a company which has been specially formed by the society wholly or partly for the purpose of assuming and conducting the society's business in its place or is an existing company which is to assume and conduct the society's business in its place. The transfer must be approved by a requisite shareholding members' resolution (unless the Supervisory Authority directs otherwise in the case of a transfer to an existing company) in accordance with Schedule 2, paragraph 30(2)–(5) of the Act passed by the shareholding members and by a borrowing members' resolution passed by the borrowing members. The society must obtain the confirmation of the Supervisory Authority to the transfer and its terms. If the Supervisory Authority confirms the transfer then the Act provides that on the vesting date (as defined in the Act) all of the property, rights and liabilities (which would include the Notes) of the society making the transfer, whether or not capable of being transferred or assigned, shall by virtue of the Act and in accordance with transfer regulations (then in force) be transferred to and vested in the successor.

Where, in connection with any transfer, rights are to be conferred on members of the relevant society to acquire shares in the successor, the right is restricted to shareholding members of the society who have held their shares in the society throughout the period of two years expiring on a qualifying day specified in the transfer agreement and to holders on the qualifying day of deferred shares of the society of a class described in the transfer agreement. Also, all qualifying shareholding members' shares are converted into deposits with the successor. On any such transfer, investing members of the society who were members on the qualifying day but not entitled to vote on the transfer resolution will receive a cash bonus equal to their notional share of the reserves of the society (unless the Supervisory Authority directs otherwise in the case of a transfer to an existing company). If the transfer is to an existing company, any distribution of funds (apart from the statutory cash bonus referred to above) may only be made to shareholding members of the society who have held their shares in the society throughout the period of two years expiring on a qualifying day specified in the

transfer agreement and to holders on the qualifying day of deferred shares of the society of a class described in the transfer agreement.

Mutual Society Transfers

The Act (as modified by the Mutual Societies (Transfers) Order 2009) permits a building society to transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the 2007 Act. The successor subsidiary must be duly authorised to carry on its deposit-taking business by the Supervisory Authority or an equivalent EEA regulatory authority. The terms of the transfer to the relevant subsidiary must include provision for making membership of the holding mutual (or membership of the parent undertaking of such holding mutual) available to every qualifying member of the building society and to every person who, after the transfer, becomes a customer of the company, and the membership of the holding mutual (or such parent undertaking) must be on terms no less favourable than those enjoyed by existing members of the holding mutual (or such parent undertaking as the case may be).

A transfer of business to a subsidiary of another mutual society requires the approval of a shareholding members' resolution and a borrowing members' resolution.

Directed Transfers

The Act confers power on the Supervisory Authority, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, to direct a building society to transfer all of its engagements to one or more other building societies or to transfer its business to an existing company. The Financial Services Act 2012 also amended the Act to extend this power of direction to a transfer of a building society's business to an existing or specially formed company that is a subsidiary of another mutual society (as defined in section 3 of the 2007 Act). Where any such direction is made, the Supervisory Authority may also, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, direct that such transfer may proceed on the basis of a resolution of the board of directors of the building society, without the need for member approval.

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

Description of the Issuer

Introduction to the Society

Skipton Building Society was established originally in 1853. It was incorporated in England under the Building Societies Act 1874 as the Skipton and District Permanent Benefit Building Society and adopted its present name in 1929. The principal office of the Society is The Bailey, Skipton, North Yorkshire BD23 1DN and its telephone number is +44 (0)1756 705 000.

The Society distributes products through multiple channels including 95 branches, a central mortgage service centre, by telephone and the internet. During 2016 the Society employed an average of 1,137 full- and part-time staff at its principal office, 798 staff at its branches and 7,456 staff within its subsidiaries.

As at 31 December 2016 the Society, together with its subsidiaries (the "Group"), had total Group assets of £19,020 million, making it the fourth largest building society in the United Kingdom.

Constitution

The Society is incorporated under the Act for an unlimited duration. The Society is a building society authorised by the PRA and regulated by the FCA and PRA under registration number 153706 for accepting deposits, advising on and arranging mortgages and insurance.

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

Principal business areas and subsidiaries

General

The principal purpose of the Society, as stated in Clause 3 of its Memorandum, is that of making loans which are secured on residential property and funded substantially by its members. The Society's objective is to continue to be an independent, highly efficient and innovative seller of financial services while at the same time balancing the needs of its various stakeholders. To help achieve this objective the Society has a long term strategy of investing in related businesses where appropriate opportunities are identified. The Group offers a range of financial services products and services to individuals, from mortgages and investments, financial advice, estate agency services and life and other insurance sales. The diverse Group also provides a comprehensive range of mortgage and credit related services to businesses, including mortgage broking and business finance through mortgages and debt factoring.

Subsidiaries

The subsidiaries of the Society at 31 December 2016 are detailed in the Annual Report and Accounts as at 31 December 2016, incorporated by reference into this Offering Circular.

Mortgage lending

The Society competes in the UK residential mortgage market with a broad range of products targeted at different customer segments. The competitive nature of the UK mortgage market means that innovation is a key marketing competence. The Society continually reviews its product offerings and aims to deliver innovative and keenly priced mortgages. The Society's mortgage lending is supplemented by Skipton International Limited ("SIL"), a subsidiary providing mortgages in Guernsey, Jersey and to a small extent, in the UK. Amber Homeloans Limited ("Amber"), a specialist lending subsidiary, ceased new lending in March 2008 following a review of the risks surrounding this business and is now concentrating on managing its portfolio of loans. North Yorkshire Mortgages

Limited ("NYM"), a further specialist lending subsidiary, likewise ceased new lending in February 2008.

The Society announced on 10 April 2017 that Amber and NYM had agreed the sale of a £219.6m portfolio of mortgage loans, comprising of approximately 1,600 UK mortgages. The sale is designed to reduce the Group's exposure to current or recent non-performing mortgages and completed at the end of April 2017.

The Group's key operational expertise lies in timely mortgage processing and arrears management and, it continues to take all appropriate action to minimise losses on non-performing accounts and actively monitors the prudence of its lending policies, taking account of economic and other market conditions.

Savings

The Group continues to obtain the majority of its funding through retail member deposits. Competition in this market is intense; however the Group aims to offer members a varied and innovative mix of savings products which consistently offer good value to the customer.

Skipton Group	Group position as at	
	31 December 2016 (£m)	*31 December 2015* (£m)
Share balances	14,153	12,828

Offshore deposits are also accepted via SIL.

Estate agency

The Group offers estate agency services through the Connells group of companies which has 583 estate agency branches. In addition to this, through more than 293 chartered surveyors, Connells also provides residential survey and valuation services to homebuyers, lenders and other participants in the residential property market. Connells also has a growing lettings business with 384 lettings branches as at 31 December 2016. Connells benefits from its own diversification through an asset management business which acts as a natural mitigant in times when the core estate agency business is depressed.

The key driver of core estate agency income is the number of second hand house sales, which in 2016 increased by 1 per cent. on a like for like basis compared to 2015. The Connells group made a pre tax profit of £73.4 million in 2016 compared to £62.5 million in 2015.

Financial advice

During 2016 the financial advice service, previously undertaken by a separate subsidiary, Skipton Financial Services Limited (SFS), was integrated within the Society.

Investment portfolio

The Group's other subsidiary businesses are lesser in size and therefore make a lower financial contribution. The subsidiaries include: Skipton Business Finance, a debt factoring and invoice discounting business and Jade Software Corporation, a software developer. The Group also had a shareholding in an associate, Wynyard Group, a provider of software development services that was spun out of Jade Software Corporation. In October 2016, Wynyard was placed into voluntary administration, and subsequently entered into liquidation in February 2017.

Management

Board of Directors

The affairs of the Society are conducted and managed by a Board of Directors (the "Board") who are responsible for the Society's strategy and policy and are elected and serve in accordance with the Society's rules and Memorandum. The Board is responsible to the members for the proper conduct of

the affairs of the Society and in turn appoints and monitors executives who are responsible for the daily management of the Society.

The business address of the Society's Directors is at The Bailey, Skipton, North Yorkshire BD23 1DN. There are no potential conflicts between the duties to the Society of the Directors and their private interests and/or other duties. The members of the Board, their roles within the Society and their principal business occupation(s), as at the date of this Offering Circular, are as follows:

Director/ Date of Birth	Responsibility	Business Occupation	Date of Appointment
A P Bottomley (12/07/1965)	Distribution and Financial Services Director	Building Society Executive Director	01/01/2016
A J Burton (03/01/1959)	Non-Executive Director	Company Director	03/05/2016
M L Cassoni (27/12/1951)	Non-Executive Director	Business Consultant	31/07/2012
J R Coates (26/09/1951)	Non-Executive Director	Company Director	27/03/2017
D P Cockrem (15/11/1962)	Non-Executive Director	Company Director	01/09/2015
I M Cornelius (11/02/1969)	Commercial Director	Building Society Executive Director	11/06/2012
D J Cutter (01/01/1962)	Group Chief Executive	Building Society Executive Director	01/01/2000
R D East (18/03/1960)	Chairman	Company Director	29/11/2011
D A Hall (09/11/1955)	Non-Executive Director	Company Director	27/03/2017
M J Lund (01/07/1957)	Non-Executive Director	Company Director	25/04/2016
R S Ndawula (24/02/1974)	Group Finance Director	Building Society Executive Director	23/02/2015
G E Picken (21/04/1949)	Non-Executive Director	Company Director	17/01/2012
H C Stevenson (10/11/1960)	Non-Executive Director	Business Consultant	01/03/2013

Executive Committee

Whilst the Society's Board is responsible for strategy and policy, implementation of that policy and daily management of the Society's own business is delegated to the following senior executives who form the Society's Executive Committee:

Name	*Title*
D J Cutter	Group Chief Executive
R S Ndawula	Group Finance Director
A Bottomley	Distribution and Financial Services Director
I Cornelius	Commercial Director
R Fawcett	Chief Human Resources Officer
J Gibson	Chief Conduct Risk Officer and Secretary
A Nelson	Chief Financial Risk Officer
H Varney	Chief Operating Officer

The business address of the members of the Executive Committee is at The Bailey, Skipton, North Yorkshire BD23 1DN. There are no potential conflicts between the duties to the Society of the members of the Executive Committee and their private interests and/or other duties.

Board Audit Committee

The Audit Committee currently comprises Ms Cassoni (Chairman), Mrs Cockrem and Mr Picken all of whom are independent Non-Executive Directors. The senior executives and management attend by invitation. The Board is satisfied that the composition of the Audit Committee includes Directors with recent, relevant financial experience to provide appropriate challenge to management.

The Audit Committee's primary responsibilities are:

- To keep under review the effectiveness of the Group's internal controls, including financial controls and risk management systems;
- To monitor the integrity of the Group's financial reporting process, specifically by reviewing, challenging and recommending the Group's annual and interim financial statements to the Board for approval, reviewing and approving any formal announcements relating to the Group's financial performance and reviewing significant reporting judgements and reporting how these were addressed;
- To provide advice to the Board on whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for members to assess the Group's strategy, business model and performance;
- To provide oversight of the external audit process by monitoring the relationship with the external auditor, agreeing their remuneration and terms of engagement, monitoring their performance, objectivity and independence, ensuring that the policy to provide non-audit services is appropriately applied and making recommendations to the Board on their appointment, re-appointment or removal;
- To review the effectiveness of the Internal Audit and Compliance Monitoring functions, approve their annual plans, review performance against these plans on a quarterly basis, review their material findings and instigate plans to remedy any shortcomings; and
- To report to the Board on how it has discharged its responsibilities.

Financial Position

Capital Base

The Group has a strong capital base and this is demonstrated by the following key ratios which are comfortably in excess of the minimum levels set by both the Society's Board and regulator:

	Group Ratio at	
	*31 December 2016**	*31 December 2015*
	(%)	*(%)*
Fully Loaded Prudential Group Core Common Equity Tier 1 ratio	23.9	16.8
Tier 1 Capital ratio	23.9	16.8
Total Capital	24.7	17.5
Fully Loaded Leverage ratio.....	5.9	6.1

*It should be noted that the Group received approval from the PRA on 1 November 2016 to use a suite of IRB models for the assessment of credit risk associated with the majority of the lending portfolios. The ratios shown for 31 December 2016 are under the IRB approach whereas the ratios shown for 31 December 2015 are under the Standardised approach. The Tier 1 Capital ratio for 31 December 2016 under the Standardised approach would have been 17.3 per cent.

The Society's Permanent Interest Bearing Shares ("PIBS") are no longer included in Tier 1 as they fail to satisfy the CRD IV requirements. However £40 million of the Society's PIBS will continue to satisfy the criteria for Tier 2 capital and will therefore be phased into Tier 2.

In addition to the PIBS, Tier 2 capital includes the following subordinated liabilities:

	Group and Society	
	*2016**	*2015*
	£m	£m
Subordinated fixed rate notes 2017	10.1	10.1
Subordinated fixed rate notes 2018	35.5	35.5
Subordinated fixed rate notes 2022	31.2	31.2

*The above figures are at 31 December 2016. Since the 2016 year end, £10.1m of subordinated liabilities have matured and £66.7m of subordinated liabilities have been called.

All the fixed rate notes are denominated in Sterling, Coupons are paid on a fixed basis annually, except for the notes repayable in 2017 where coupons are paid on a fixed basis semi-annually.

All the notes are repayable at maturity or earlier, at the option of the Society. In each case the option for early repayment may only be exercised with the prior consent of the Prudential Regulation Authority (PRA). The note holders' rights are subordinated to those of depositors and other creditors.

As at 31 December, 2016 and 2015 the consolidated capital ratios of the Group (including both the subscribed capital and subordinated debt detailed above) were as follows:

	Group Position as at	
	31 December 2016	*31 December 2015*
	(%)	(%)
Gross capital ratio	8.60	8.67
Free capital ratio	7.28	7.39

The Group remains strongly capitalised and continues to manage capital to maintain a buffer over minimum regulatory ratios.

Gross capital represents the general reserve together with the available-for-sale reserve, cash flow reserve, translation hedging reserve, subordinated liabilities, subscribed capital and non-controlling interests, as shown within the Group Statement of Financial Position.

Free capital represents gross capital and provisions for collective impairment losses on loans and advances to customers, less property, plant and equipment, investment properties and intangible assets.

Funding

The Society remains committed to its traditional retail funding base but also believes in developing operational funding capacity and flexibility through wholesale sources.

Skipton Group

	Group Position as at	
	31 December 2016	*31 December 2015*
	(£m)	(£m)
Share accounts	14,153	12,828
Amounts owed to credit institutions	655	736
Amounts owed to customers	1,493	1,390
Debt securities	534	609
Total	16,835	15,563

Note: The above balances include accrued interest.

As at 31 December 2016, wholesale funding balances amounted to £1,498 million (31 December 2015: £1,653 million), a decrease of £155 million compared to the previous year. The Group's wholesale funding ratio at 31 December 2016 was 10.4 per cent. compared to 12.2 per cent. in 2015.

Liquidity

Building societies are required to hold a significant proportion of their assets in a readily realisable form. The types of investment in which building societies can hold regulatory liquidity are prescribed by regulations made by the PRA. The Society complies with these regulations. The following table shows total Group liquid assets and includes assets constituting regulatory liquidity:

Skipton Group

	Group Position as at	
	31 December 2016	*31 December 2015*
	(£m)	(£m)
Liquid assets (£m)	2,677	2,638
Liquid assets (% of shares and borrowings)	15.90	16.95

Risk Appetite

As a mutual organisation the Society's Board is charged with the protection of members' deposits and bases its risk appetite on avoiding strategies or business practices which would threaten members' interests.

The Board's risk appetite, *inter alia*, specifically addresses the maintenance of stakeholders' confidence, credit risk appetite, capital and liquidity adequacy, fair treatment of customers, the culture of the business and the operational control framework and is supported by a comprehensive range of metrics used to assess business performance and risk exposure against its risk appetite.

Group Risk Management Framework

Through the Board Risk Committee's approved risk management framework and governance structure, the Group has a formal mechanism for identifying and managing risks throughout the

business. This framework is designed to deliver the corporate plan in line with the Board's overall risk appetite and is based upon the best practice 'Three Lines of Defence' model which operates as follows:

- First line of defence, being line management within the business which, through the implementation of the organisation's risk framework, identifies, assesses and manages risk.

- Second line of defence, comprising independent risk functions (Operational, Credit and Market & Liquidity) and related independent compliance functions. These functions challenge, monitor, guide and support the business in managing its risk exposure. The risk framework includes the four sub-committees of the Board Risk Committee which are responsible for recommending and monitoring the Group's adherence to policy. The independent risk functions are represented on each of these sub-committees. The Board Risk Committee Chairman is responsible for maintaining the independence of the second line of defence to ensure there are no obstacles to its independent challenge of first line operations.

- Third line of defence, provided by Internal Audit, is designed to provide independent assurance to the Board (through the Board Audit Committee) of the adequacy and effectiveness of control systems operating within the first and second lines in identifying and managing risk.

Future Outlook

The outlook for the Society remains healthy, although it remains vigilant to any uncertainties regarding the economy, new regulatory requirements to strengthen the resilience of the UK finance sector and changes in consumer behaviours, in particular consumers' desire to engage with the Society via a number of channels of their choice.

The Society is confident that it remains well placed to capitalise upon the opportunities that lie ahead as well as manage the risks that arise.

Taxation

United Kingdom

*The comments below, which are of a general nature and are based on the Issuer's understanding of current United Kingdom law and HM Revenue & Customs ("**HMRC**") practice (in each case as at the date of this Offering Circular), describe only the United Kingdom withholding tax treatment of payments of principal and interest in respect of the Notes. They do not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. The comments relate to the position of persons who are the absolute beneficial owners of their Notes and Coupons and may not apply to certain classes of persons (such as dealers or persons connected with the Issuer) to whom special rules may apply. Prospective Noteholders should be aware that the particular terms of issue of any series of Notes as specified in the relevant Final Terms may affect the tax treatment of that and other series of Notes. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position are strongly advised to consult their own professional advisers. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom. The comments assume that no security will be created for the benefit of the Notes and that there will be no substitution of Issuer.*

Payment of interest on the Notes

1. Payments of interest on the Senior Notes and the Subordinated Notes may be made without deduction of or withholding for or on account of United Kingdom income tax provided that the relevant notes are and continue to be listed on a "recognised stock exchange", as defined in section 1005 of the Income Tax Act 2007 ("**ITA 2007**"). The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Senior Notes and the Subordinated Notes are and remain so listed, interest on the Senior Notes and the Subordinated Notes respectively will be payable without deduction of or withholding for or on account of United Kingdom income tax.

2. Payments of interest on the Subordinated Notes may be made without deduction of or withholding for or on account of United Kingdom income tax, even if not listed, the Notes qualify or have qualified as a Tier 2 instrument under Article 63 of Commission Regulation (EU) No 575/2013 (**CRR**) and form, or have formed, a component of Tier 2 capital for the purposes of CRR, and there are no arrangements the main purpose or one of the main purposes of which is to obtain a tax advantage (within the meaning of section 1139 of the Corporation Tax Act 2010) for any person as a result of the application of the Taxation of Regulatory Capital Securities Regulations 2013 (SI 2013/3209) in respect of those Notes.

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

4. *Further United Kingdom Income Tax Issues*

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

However, interest with a United Kingdom source received without deduction of or withholding for or on account of United Kingdom income tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable). There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Noteholders.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The issuer is an foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to 1 January 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the issuer). However, if additional Notes (as described under "Terms and Conditions—Further Issues") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

The proposed financial transactions tax ("FTT")

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

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances.

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

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

Subscription and Sale

The Dealers have, in an amended and restated programme agreement dated 24 April 2015 (such programme agreement as further modified and/or supplemented and/or restated from time to time being the "**Programme Agreement**") agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "Terms and Conditions of the Notes". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from or not subject to, 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 Notes 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. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

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

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

Prohibition of sales to EEA Retail Investors

From 1 January 2018, unless the Final Terms in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"); and

(b) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

Prior to 1 January 2018, and from that date if the Final Terms in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

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

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

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

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

For the purposes of this provision:

- the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State;
- and the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

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

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

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

Japan

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

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

Applicable Final Terms

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

[**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Notes, from 1 January 2018, are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[Date] **SKIPTON BUILDING SOCIETY**

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the £2,000,000,000

Euro Medium Term Note Programme

PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 15 June 2017 [and the supplement[s] to it dated [*date*] and [*date*]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the "**Offering Circular**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. The Offering Circular has been published on the website of the London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated [*original date*] [and the supplement[s] to it dated [*date*] and [*date*]] which are incorporated by reference in the Offering Circular dated 15 June 2017. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular dated 15 June 2017 [and the supplement[s] to it dated [*date*] and [*date*]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the "**Offering Circular**"), including the Conditions incorporated by reference in the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. The Offering Circular has been published on the website of the Re London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

1.	Issuer:		Skipton Building Society
2.	(a)	Series Number:	[ ]
	(b)	Tranche Number:	[ ]
	(c)	Date on which the Notes will be consolidated and form a single Series:	The Notes will be consolidated and form a single Series with [ ] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 24 below, which is expected to occur on

			or about [ ]][Not Applicable]
3.	Specified Currency or Currencies:		[ ]
4.	Aggregate Nominal Amount:		
	(a)	Series:	[ ]
	(b)	Tranche:	[ ]
5.	Issue Price:		[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [ ] (if applicable)]
6.	(a)	Specified Denominations:	[ ] [and integral multiples of [ ] in excess thereof up to and including [ ]. No Notes in definitive form will be issued with a denomination above [ ]]
	(b)	Calculation Amount	[ ]
7.	(a)	Issue Date:	[ ]
	(b)	Interest Commencement Date:	[/Issue Date/Not Applicable]
8.	Maturity Date:		[ ]
9.	Interest Basis:		[[ ] per cent. Fixed Rate] [Reset Notes] [[[ ] month LIBOR/EURIBOR] +/- [ ] per cent. Floating Rate] [Zero Coupon] (further particulars specified below)
10.	Redemption/Payment Basis:		Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [ ] per cent. of their nominal amount
11.	Change of Interest Basis:		[[ ] [Not Applicable]
12.	Put/Call Options:		[Investor Put] [Issuer Call] [Not Applicable] [(further particulars specified below)]
13.	(a)	Status of the Notes:	[Senior/Subordinated]
	(b)	[Date [Board] approval for issuance of Notes obtained:	[ ] [and [ ], respectively]]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	Fixed Rate Note Provisions:		[Applicable/Not Applicable]
	(a)	Rate(s) of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(b)	Interest Payment Date(s):	[ ] in each year up to and including the Maturity Date]
	(c)	Fixed Coupon Amount(s):	[ ] per Calculation Amount
	(d)	Broken Amount(s):	[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/or] [ ] [Not Applicable]
	(e)	Day Count Fraction:	[30/360] [Actual/Actual (ICMA)]

	(f)	Determination Date(s):	[[ ] in each year] [Not Applicable]
15.	Reset Note Provisions:		[Applicable/Not Applicable]
	(a)	Initial Rate of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date]
	(b)	First Margin:	[+/-][ ] per cent. per annum
	(c)	Subsequent Margin:	[[+/-][ ] per cent. per annum] [Not Applicable]
	(d)	Interest Payment Date(s):	[[ ] [and [ ]] in each year up to and including the Maturity Date
	(e)	Fixed Coupon Amount to (but excluding) the First Reset Date:	[ ] per Calculation Amount
	(f)	Broken Amount(s):	[[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
	(g)	Reset Reference Rate:	[Mid-Swaps/Reference Bond]
	(h)	First Reset Date:	[ ]
	(i)	Second Reset Date:	[ ]/[Not Applicable]
	(j)	Subsequent Reset Date(s):	[ ] [and [ ]] [Not Applicable]
	(k)	Relevant Screen Page:	[ ]
	(l)	Mid-Swap Rate:	[Single Mid-Swap Rate/Mean Mid-Swap Rate]
	(m)	Mid-Swap Maturity:	[ ]
	(n)	Reference Bond Reset Rate Time:	[ ]
	(o)	Fixed Leg Swap Duration:	[ ]
	(p)	Day Count Fraction:	[30/360] [Actual/Actual (ICMA)]
	(q)	Reset Determination Date(s):	[[ ] in each year][Not Applicable]
	(r)	Business Centre(s):	[ ]
	(s)	Calculation Agent:	[ ]
16.	Floating Rate Note Provisions:		[Applicable/Not Applicable]
	(a)	Specified Period(s)/Specified Interest Payment Dates:	[ ] [,subject to adjustment in accordance with the Business Day Convention set out in (b) below/not subject to adjustment, as the Business Day Convention in (b) is specified to be Not Applicable]
	(b)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention] [Not Applicable]
	(c)	Additional Business Centre(s):	[ ]
	(d)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]
	(e)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[ ]

(f)	Screen Rate Determination:		[Applicable/Not Applicable]
	♠	Reference Rate:	[ ] month [LIBOR/EURIBOR]
	♠	Interest Determination Date(s):	[ ]
	♠	Relevant Screen Page:	[ ]
(g)	ISDA Determination:		[Applicable/Not Applicable]
	♠	Floating Rate Option:	[ ]
	♠	Designated Maturity:	[ ]
	♠	Reset Date:	[ ]
(h)	Linear Interpolation:		[Not Applicable/Applicable – the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
(i)	Margin(s):		[+/-][ ] per cent. per annum [Applicable/Not Applicable]
(j)	Minimum Rate of Interest:		[ ] per cent. per annum [Applicable/Not Applicable]
(k)	Maximum Rate of Interest:		[ ] per cent. per annum [Applicable/Not Applicable]
(l)	Day Count Fraction:		[Actual/Actual (ISDA)] [Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [360/360][Bond Basis] [30E/360] [Eurobond Basis] */*[30E/360 (ISDA)]
17.	Zero Coupon Note Provisions:		[Applicable/Not Applicable]
(a)	Accrual Yield:		[ ] per cent. per annum
(b)	Reference Price:		[ ]
(c)	Day Count Fraction in relation to Early Redemption Amounts:		[360/360] [Actual/360] [Actual/365]

PROVISIONS RELATING TO REDEMPTION

18.	Notice periods for Condition 7(b) (*Redemption and Purchase - Redemption for Tax Reasons*):		Minimum period: [30] days Maximum period: [60] days
19.	Issuer Call:		[Applicable/Not Applicable]
(a)	Optional Redemption Date(s):		[ ]
(b)	Optional Redemption Amount:		[ ] per Calculation Amount
(c)	If redeemable in part:		
	(i)	Minimum Redemption Amount:	[ ]
	(ii)	Maximum Redemption Amount:	[ ]
(d)	Notice periods:		Minimum period: [15] days

		Maximum period: [30] days
20.	Regulatory Event (Subordinated Notes only):	[Full Exclusion / Full or Partial Exclusion / Not Applicable]
21.	Investor Put:	[Applicable/Not Applicable]
	(a) Optional Redemption Date(s):	[ ]
	(b) Optional Redemption:	[ ] per Calculation Amount
	(c) Notice period:	Minimum period: [15] days Maximum period: [30] days
22.	Final Redemption Amount:	[ ] per Calculation Amount
23.	Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default:	[ ] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24.	(a) Form of Notes:	[Bearer Notes /Registered Notes] [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [ ] days' notice] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Global Certificate registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]]
	(b) New Global Note:	[Yes] [No]
25.	Additional Financial Centre(s):	[Not Applicable/]
26.	Talons for future Coupons to be attached to Definitive Notes:	[Yes. As the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No.]

THIRD PARTY INFORMATION

[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: .....

Duly authorised

PART B — OTHER INFORMATION

1. LISTING

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

2. RATINGS

Ratings:	The Notes to be issued [[have been]/[are expected to be]/[have not been]] rated]/[The following ratings reflect the ratings assigned to Notes of this type issued under the Programme generally]: [Moody's Investor Services Limited: [ ]] [Fitch Ratings Limited: [ ]]

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

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with and may perform other services for, the Issuer and its affiliates in the ordinary course of business.]

4. YIELD

Indication of yield:	[ ] The yield is calculated at the Issue Date on the basis of the Issue Price [for the period from the Issue Date until the First Reset Date]. It is not an indication of future yield.

5. HISTORIC INTEREST RATES

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

6. OPERATIONAL INFORMATION

(i)	ISIN:	[ ]
(ii)	Common Code:	[ ]
(iii)	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/[ ]]

(iv)	Names and addresses of additional [ ] Paying Agent(s) (if any):	
(v)	Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,] and does not necessarily mean that the Notes will be recognized as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] / [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

7. DISTRIBUTION

(i)	U.S. Selling Restrictions:	[TEFRA D/TEFRA C/TEFRA not applicable]
(ii)	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable]

General Information

Authorisation

The update of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of the Issuer dated 29 April 2014 and of the Board Risk Committee dated 24 October 2016 and 30 May 2017.

Listing

Application has been made to the U.K. Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market. The listing of each Tranche of Notes on the Official List will be expressed as a percentage of their principal amount (excluding accrued interest). It is expected that any tranche of Senior Notes or Subordinated Notes intended to be admitted to the Official List and to trading on the London Stock Exchange's Regulated Market will be so admitted to listing and trading separately, as and when issued, subject to the issue of the relevant Notes.

Documents Available

For the period of 12 months following the date of this Offering Circular, copies of the following documents will, when published, be available for inspection from the principal office of the Issuer and from the specified office of the Paying Agent for the time being in London.

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

(ii) the consolidated audited financial statements of the Issuer in respect of the financial years ended 31 December 2016 and 2015, in each case together with the audit reports prepared in connection therewith (the Issuer currently prepares audited consolidated accounts on an annual basis);

(iii) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements (if any) of the Issuer, in each case together with any audit or review reports prepared in connection therewith (the Issuer currently prepares unaudited consolidated interim accounts on a semi-annual basis);

(iv) the Agency Agreement, the Trust Deed (which contains the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons) and the Issuer ICSDs Agreement;

(v) a copy of this Offering Circular;

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

(vii) in the case of each issue of Notes admitted to trading on the London Stock Exchange's Regulated Market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

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

Conditions for determining price

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

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer's Group since 31 December 2016 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2016.

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer and/or the Group.

Auditors

KPMG LLP, Chartered Accountants, have audited and rendered unqualified audit reports on the accounts of the Issuer for each of the two financial years ended 31 December 2015 and 31 December 2016. The auditors of the Issuer have no material interest in the Issuer.

The Trust Deed provides that any certificate or report of the auditors of the Issuer or any other expert called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts stated therein notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the auditors of the Issuer or such other expert in respect thereof contains a monetary or other limit on the liability of the auditors of the Issuer or such other person in respect thereof and notwithstanding that the scope and/or basis of such certificate or report may be limited by any engagement or similar letter or by the terms of the certificate or report itself.

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

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TRUSTEE

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One Canada Square
London E14 5AL

PRINCIPAL PAYING AGENT AND TRANSFER AGENT

The Bank of New York Mellon, London Branch
One Canada Square
London E14 5AL

REGISTRAR

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