



£300,000,000

9³/₈ per cent. Subordinated Bonds 2021

The issue price of the £300,000,000 9³/₈ per cent. Subordinated Bonds 2021 (the "Bonds") is 99.198 per cent. of their principal amount, plus accrued interest (if any).

Interest on the Bonds will be payable annually in arrear on 15 May in each of the years 1997 to 2021 inclusive.

The Bonds will mature at par on 15 May 2021. The Bonds are subject to redemption, at the option of Halifax Building Society (the "Issuer"), in whole at any time at their principal amount, together with accrued interest, if the Issuer is to be required to pay additional amounts in respect of United Kingdom taxation or to account for tax to any United Kingdom taxing authority.

The Bonds will constitute unsecured obligations of the Issuer, subordinated (as provided under "Terms and Conditions of the Bonds – Status and Subordination"), in the event of a winding up of the Issuer, to the rights of Senior Creditors (as defined in "Terms and Conditions of the Bonds – Status and Subordination").

Application has been made to the London Stock Exchange Limited (the "London Stock Exchange") for the Bonds to be admitted to the Official List.

The Bonds will be represented initially by a temporary global Bond (the "Temporary Global Bond"), without interest coupons, which will be deposited with a common depositary for Cedel Bank, société anonyme ("Cedel Bank") and Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") on or about 15 May 1996.

The Temporary Global Bond will be exchangeable for a permanent global Bond (the "Permanent Global Bond") on or after a date which is expected to be 25 June 1996 upon certification as to non-U.S. beneficial ownership. Definitive Bonds will be available only in the limited circumstances set out in the Permanent Global Bond: see "Summary of Provisions Relating to the Bonds while represented by the Global Bonds" below.

SBC Warburg
A DIVISION OF SWISS BANK CORPORATION

Barclays de Zoete Wedd Limited

This document comprises listing particulars relating to the issue of the Bonds by the Issuer in accordance with the listing rules made by the London Stock Exchange under Section 142 of the Financial Services Act 1986 (the "FSA") for the purpose of giving information with regard to the issue by the Issuer of the Bonds. The Issuer accepts responsibility for the information contained in this document. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made to the London Stock Exchange for the Bonds to be admitted to the Official List and, in respect of such application, these listing particulars have been approved by the London Stock Exchange pursuant to Section 144(2) of the FSA and delivered for registration to the Registrar of Companies in accordance with Section 149 of the FSA.

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

This document does not constitute an offer of, or an invitation by or on behalf of, the Issuer or the Managers to subscribe for or purchase, any of the Bonds. The distribution of this document and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Issuer and the Managers to inform themselves about, and to observe, any such restrictions. A further description of certain restrictions on the offering and sale of the Bonds and on the distribution of this document is given under "Subscription and Sale" below.

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to U.S. persons.

References herein to "pounds", "sterling" and "£" are to the currency of the United Kingdom of Great Britain and Northern Ireland (the "United Kingdom").

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IN CONNECTION WITH THIS ISSUE, SWISS BANK CORPORATION, ACTING THROUGH ITS DIVISION SBC WARBURG, MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILISE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

The £300,000,000 9 $\frac{3}{4}$ % per cent. Subordinated Bonds 2021 (the "Bonds") of Halifax Building Society (the "Issuer") are constituted by a trust deed dated 15 May 1996 (the "Trust Deed") made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the Bonds (the "Bondholders"). The issue of the Bonds was authorised by resolutions of the Board of Directors of the Issuer passed on 19 July 1995 and of a duly appointed Committee thereof passed on 29 April 1996. The statements in these terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds and the interest coupons appertaining thereto (the "Coupons"). Copies of the Trust Deed are available for inspection at the registered office of the Trustee, being at the date hereof at Princes House, 95 Gresham Street, London EC2V 7LY and at the specified office(s) of each of the Paying Agents (the "Paying Agents") referred to below. The Bondholders and the holders of the Coupons (the "Couponholders") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed.

1. Form, Denomination and Transfer

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

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

2. Status and Subordination

(a) Status

The Bonds and the Coupons are unsecured, subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves and *pari passu* with its £250,000,000 11 per cent. Subordinated Bonds 2014, its £50,000,000 10 $\frac{1}{2}$ % per cent. Subordinated Bonds Due 1998, its £50,000,000 Subordinated Variable Rate Notes due 2001 and its £150,000,000 10 $\frac{1}{2}$ % Subordinated Bonds Due 2018 (together with any further issues which shall be consolidated and form a single series therewith).

(b) Set-Off

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

(c) Subordination

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

3. Interest

The Bonds bear interest from and including 15 May 1996 at the rate of 9 $\frac{3}{4}$ % per cent. per annum payable annually in arrear on 15 May (the "Interest Payment Date") in each of the years 1997 to 2021.

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

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

4. Redemption and Purchase

(a) Mandatory redemption

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

(b) Redemption for taxation reasons

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

(c) Purchases

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

(d) Cancellation

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

5. Payments

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

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

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

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

Notice of any such variation, termination or appointment and of any changes in the specified offices of the Paying Agents will be given by the Issuer to the Bondholders in accordance with Condition 15.

6. Taxation

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

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

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

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

7. Default

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

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

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

8. Enforcement of Rights

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

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

9. Prescription

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

10. Meetings of Bondholders, Modification and Waiver

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

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

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

11. Substitution

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

- (i) (in the case of the substitution of any company which is a Subsidiary of the Issuer or of such Successor in Business or of such holding company) that the obligations of such Subsidiary in respect of the Trust Deed, the Bonds and the Coupons shall be guaranteed by the Issuer or such Successor in Business or such holding company in such form as the Trustee may require; and
- (ii) that the obligations of such Successor in Business or Subsidiary of the Issuer or of any such Successor in Business or of such holding company and any such guarantee shall be subordinated on a basis considered by the Trustee to be equivalent to that in respect of the Issuer's obligations in respect of the Bonds and Coupons.

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

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

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

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

12. Further Issues

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

13. Replacement of Bonds and Coupons

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

14. Indemnification and Exercise of Functions

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

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

15. Notices

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

16. Governing Law

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

The following is a summary of the provisions to be contained in the Trust Deed constituting the Bonds and in the Global Bonds (as defined below) which will apply to, and in some cases modify, the Terms and Conditions of the Bonds while the Bonds are represented by the Temporary Global Bond or the Permanent Global Bond (together the "Global Bonds").

- (1) The Permanent Global Bond will be exchangeable (free of charge to the holder) for definitive Bonds (i) upon the happening of any of the events set out in Condition 7(a) or (c), (ii) if either Euroclear or Cedel Bank is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearance system satisfactory to the Trustee is available, or (iii) if the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear and/or Cedel Bank which would not be suffered were the Bonds in definitive form and a certificate to such effect is given to the Trustee. In any such event, the Issuer will issue definitive Bonds in bearer form, serially numbered, in the denominations of £10,000 and £100,000 each with interest coupons attached on issue (in exchange for the entire Permanent Global Bond) within 45 days of the occurrence of the relevant event in (i), (ii) or (iii) above.
- (2) No payment will be made on the Temporary Global Bond unless exchange for an interest in the Permanent Global Bond is improperly withheld or refused. Payments of principal and interest in respect of Bonds represented by a Global Bond will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of such Global Bond to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Bondholders for such purposes. A record of each payment made will be endorsed on the appropriate schedule to the relevant Global Bond by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Bonds. Payments of interest on the Temporary Global Bond will only be made upon certification as to non-U.S. beneficial ownership.
- (3) For so long as the Bonds are represented by a Global Bond and such Global Bond is held on behalf of Euroclear and/or Cedel Bank, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and/or Cedel Bank (as the case may be) for communication to the relative Accountholders (as defined below) rather than by publication as required by Condition 15. Any such notice shall be deemed to have been given to the Bondholders on the seventh day after the day on which such notice is delivered to Euroclear and/or Cedel Bank (as the case may be) as aforesaid.
- (4) For so long as any of the Bonds is represented by a Global Bond and such Global Bond is held on behalf of Euroclear and/or Cedel Bank, each person who is for the time being shown in the records of Euroclear or Cedel Bank as the holder of a particular principal amount of such Bonds (each an "Accountholder") (in which regard any certificate or other document issued by Euroclear or Cedel Bank as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Bonds for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Bondholders) other than with respect to the payment of principal and interest on such Bonds, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Bond in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Cedel Bank, as the case may be, for its share of each payment made to the bearer of the relevant Global Bond.
- (5) Claims against the Issuer in respect of principal (other than principal comprised in a withheld amount) and interest (other than interest comprised in, or accrued on, a withheld amount) on the Bonds represented by a Global Bond will be prescribed after 12 years (in the case of principal) and six years (in the case of interest) from the relevant date (as defined in Condition 6).
- (6) Cancellation of any Bond represented by a Global Bond and required by the Terms and Conditions of the Bonds to be cancelled following its purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Bond on the relevant schedule thereto.
- (7) In considering the interests of Bondholders while a Global Bond is held on behalf of 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 the relevant Global Bond and may consider such interests as if such Accountholders were the holders of the relevant Global Bond.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds, which are estimated to be approximately £295,689,000, will be applied for the general purposes of the Issuer.

SOURCE OF FUNDS AND CAPITALISATION

The following table is a summary on a consolidated basis of the source of funds of the Issuer, its subordinated indebtedness adjusted to reflect the issue of the Bonds, its subscribed capital and general reserves as at 31 January 1996.

| | As at 31 January 1996 (Audited, adjusted) (in millions of £) |
|--|--|
| Retail Funds and Deposits | |
| Shares (<i>Note 1</i>) | 67,103 |
| Deposits | 5,608 |
| Accrued interest | 2,203 |
| Total Retail Funds and Deposits | 74,914 |
| Non-retail Funds and Deposits | |
| Amounts owed to credit institutions | 601 |
| Certificates of deposit | 3,371 |
| Negotiable bonds | 24 |
| Fixed and floating rate notes (<i>Note 3</i>) | 7,166 |
| Other deposits and loans | 3,549 |
| Shares (<i>Note 1</i>) | 278 |
| Accrued interest | 270 |
| Total Non-retail Funds and Deposits (<i>Note 2</i>) | 15,259 |
| Subordinated Indebtedness | |
| 10½ per cent. Subordinated Bonds 1998 | 50 |
| Subordinated Variable Rate Notes 2001 | 50 |
| 11 per cent. Subordinated Bonds 2014 | 250 |
| 10½ per cent. Subordinated Bonds 2018 | 150 |
| 9¼ per cent. Subordinated Bonds 2021 (<i>now being issued</i>) | 300 |
| Total Subordinated Indebtedness | 800 |
| Subscribed Capital | |
| 12 per cent. Permanent Interest Bearing Shares | 100 |
| 8¾ per cent. Permanent Interest Bearing Shares | 100 |
| 13 ⅙ per cent. Permanent Interest Bearing Shares | 75 |
| Total Subscribed Capital | 275 |
| General Reserves | 6,234 |

Notes:

- (1) Ordinary share accounts normally permit a withdrawal of funds on demand; other share accounts, if they are not for a fixed term, usually require either periods of notice of up to three months or the retention of a minimum balance, if penalties for early withdrawal are to be avoided. The Rules of the Issuer provide, where necessary for the lawful or prudent conduct of the Society's business, that the Board may at any time and from time to time and without notice limit the amount of shareholders' funds that may be withdrawn from the Issuer. If the Issuer were to go into liquidation, the claims of depositors and other unsubordinated creditors would have to be met in full before any moneys were paid out in respect of any share account (subject to any applicable statutory exceptions).
- (2) Amounts of indebtedness denominated in currencies other than sterling are represented in the above table by sterling equivalent amounts calculated using the appropriate spot rates prevailing on the date as at which the capitalisation table is prepared.
- (3) Since 31 January 1996 the Issuer has issued fixed and floating rate notes in an amount of £5,000,000 and has redeemed fixed and floating rate notes in an amount of £842,518,900.
- (4) Save as disclosed above there have been no material changes in the Issuer's non-retail funds and deposits or subordinated indebtedness, nor in its retail funds and deposits or subscribed capital (including no changes in the outstanding amount of the Permanent Interest Bearing Shares) since 31 January 1996.

Purpose

Halifax Building Society (the "Society") is a building society whose principal purpose is to raise, primarily by the subscriptions of its members, a stock or fund for making to them advances secured on land for their residential use. The Society and its subsidiaries comprise a personal finance group (the "Group") which, in addition to housing finance and personal savings, provides a range of personal banking, insurance and property services throughout the United Kingdom.

History

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

On 1st August 1995, Leeds Permanent Building Society (the "Leeds") transferred its engagements to the Society under Section 94 of the Building Societies Act 1986 (the "Act"). The merged society has retained the name Halifax Building Society and has combined total assets of around £99 billion. It continues to focus on savings, mortgages and insurance products and is a leading participant in the personal financial services sector in the United Kingdom.

Constitution and Regulatory Environment

The Society is an authorised building society under the Act and, as such, it is a mutual organisation. Its members comprise holders of investment shares in, and borrowers whose loans are secured by mortgage to, the Society. Depositors with, and lenders to, the Society (including holders of the Notes) are not members and, accordingly, have no voting rights.

The Act includes provisions enabling a building society, subject to its members' approval and to the subsequent confirmation of the Building Societies Commission, to merge with one or more building societies and to transfer its business to a public company limited by shares. The Society's plans in this regard are discussed on page 11. One of the grounds on which the Building Societies Commission will refuse to confirm a transfer of business is if the successor company will not become an authorised institution for the purposes of the Banking Act 1987.

Recent and Proposed Legislation

Upon completion of a review of the Act, the Government announced that it intended to remove most of the statutory restrictions on societies' powers through the introduction of a permissive powers regime. At the same time, it proposed a package of measures to enhance the accountability of societies' boards to the members and emphasised the importance of maintaining a sound prudential framework.

To date the Government has announced three significant extensions to societies' powers, to allow them to raise up to 50 per cent. of their funds in the wholesale markets; to allow them to make business loans not secured on land; and to allow them to own a general insurance company writing personal lines business. The first two measures are already in force and the third will come into force on 1 July 1996.

The Government has published a Bill in draft form for wider public consultation to which responses are required by HM Treasury no later than 14 June 1996.

Principal Establishment

The principal place of business of the Society is Trinity Road, Halifax HX1 2RG.

Introduction

It is the intention of the directors of the Society that proposals will be put to members of the Society for its conversion to a public limited company, which will be authorised under the Banking Act 1987 and whose shares will be listed on the London Stock Exchange. The conversion will be effected by way of a transfer of the Society's business to a successor company.

The exact timetable for conversion will depend on a number of factors including the satisfaction of certain legal and regulatory processes as well as prevailing market conditions. It is planned, however, that a Special General Meeting will be called in the first quarter of 1997 at which members will be invited to vote upon the proposal to convert.

The conversion will be subject to a number of conditions. In addition to the separate approvals of the investing and borrowing members of the Society, confirmation will be required from the Bank of England that the successor company will be authorised as a bank, as well as confirmation of the conversion by the Building Societies Commission.

Subject to all necessary approvals being obtained conversion is likely to take place before the summer of 1997.

Priority Liquidation Distribution Rights

Upon conversion, all of the liabilities of the Society in respect of shares held by qualifying investing members (other than holders of permanent interest bearing shares) will be in respect of deposits with the successor company ranking *pari passu* with all other present and future unsecured and unsubordinated obligations of the successor company. Qualifying investing members who are eligible to vote on the transfer resolution will have entitlements to receive, in the event of the subsequent liquidation of such successor company, a priority liquidation distribution calculated in accordance with the provisions of the Act and subordinate legislation, which entitlements are required to be secured on the property or undertaking of the successor company. The amount of each entitlement will be determined by multiplying the adjusted reserves of the Society shortly before conversion by a fraction, of which the numerator is the amount of the relevant member's qualifying investment with the successor company at the time of any winding up and the denominator is the aggregate amount invested by qualifying investing members in shares on the day immediately preceding the date of conversion. For the purposes of such determination the amount of a member's qualifying investment is reduced by the amount such member withdraws from his relevant accounts (and does not increase should further funds be paid into such accounts). Accordingly, the aggregate amount of the priority liquidation distribution payable by the successor company in the event of its winding up will decrease over time as qualifying investing members withdraw amounts from their relevant accounts.

Share Distribution

It is intended that qualifying investing and borrowing members, as well as qualifying employees and pensioners, of the Society will receive a distribution of shares for no payment ("free shares") on its conversion. Such persons will be entitled to a fixed number of free shares (the "basic distribution"). In addition, certain investing members will be entitled to extra free shares the number of which will be calculated by reference to the lower total balance maintained in their share accounts and/or PIBS on two reference dates. The first reference date is 25 November 1994 and the second reference date will be the date of the Special General Meeting referred to above.

The intention to distribute free shares is dependent on there being no material change in economic or market conditions, or in the law or regulations affecting the conversion of building societies or the flotation of their successor companies.

If the Society needs to raise additional equity capital at the time of conversion for regulatory or business purposes, it is intended that such additional equity capital should be raised by means of an offer to those persons who qualify for the basic distribution of free shares as described above.

Lending

Regulations made under the Act require that at least 75 per cent. of a building society's total commercial assets (as defined in the Act) be held in the form of advances to individuals secured by mortgage on land which is for their residential use. As at 31 January 1996, advances made by the Group, secured on residential property, represented 96.7 per cent. of its total commercial assets.

During the year to 31 January 1996, the Group's gross lending against residential and commercial mortgages was £10.0 billion and net lending amounted to £2.9 billion, an estimated 19 per cent. share of the United Kingdom mortgage lending market. These figures include mortgage balances transferred following the purchase of BNP Mortgages (Holdings) Ltd. With approximately £78.4 billion advanced on mortgage to some 2,487,000 borrowers, as at 31 January 1996, the Society maintains a larger share of the U.K. home mortgage finance market than any other lender.

Of the Society's borrowers at 31 January 1996, there were 18,883 mortgages where payments were 12 or more months in arrears. The total amount of these arrears was £176.1 million, or 0.22 per cent. of mortgage balances. Provisions for losses, including suspended interest on loans and advances relating to residential and commercial mortgages and unsecured lending, totalled £571 million at 31 January 1996.

Liquid Assets

Because of the composition and character of its assets and liabilities, it is necessary for a building society to hold a significant proportion of its assets in a readily realisable form. As well as being a practical necessity for the conduct of a building society's business, the Act provides that a building society has a legal duty to ensure that, of its total assets, it keeps such a proportion of them having such a composition as will at all times enable the society to meet its liabilities as they arise. The types and maturity ranges of listed and unlisted securities in which building societies may invest are specified in regulations made under the Act.

The Act further provides that, whilst a building society may keep liquid assets beyond those required to meet its liabilities on a day-to-day basis, the aggregate amount shall not exceed 33 $\frac{1}{3}$ per cent. of its total assets. The imposition of such a limit prevents a building society from diverting an excessive amount of its assets away from its normal commercial activities.

As at 31 January 1996, the Group's liquid assets, including accrued interest, totalled £17.6 billion or 17.8 per cent. of its total assets.

Funding

Retail funds and deposits are the Group's major source of funding and totalled £74.9 billion at 31 January 1996, which represented 75.9 per cent. of total liabilities and reserves. As at the same date, non-retail funds and deposits of the Group (comprising principally time deposits, certificates of deposit, commercial paper, medium term notes, bond issues and subordinated liabilities in so far as they do not qualify as capital) amounted to £15.0 billion, excluding accrued interest, or 17.1 per cent. of shares, deposits and loans. (The Act does not permit a building society to raise non-retail funds and deposits in excess of 50 per cent. of its total shares, deposits and loans.)

Personal Banking Services

The Society provides a range of personal banking services including current account, personal loan, credit card, travellers cheques and foreign currency. The launch of Halifax Direct will provide additional support in the form of a 24 hour telephone banking service.

General Insurance

In January 1996, the Society announced the launch of Halifax General Services Ltd., a new company which will develop and market the Group's own personal lines insurance products with Royal Insurance providing the underwriting. Halifax Direct will be used as a natural conduit for the sale and support of these insurance products.

Financial Services

Halifax Financial Services was formed in January 1995 and offers customers a range of life, pensions, unit trusts and personal equity plan (PEP) products.

Estate Agency

Halifax Estate Agencies Ltd. ("HEAL") is the second largest residential agency network in the United Kingdom. Despite the difficulties of operating in a stagnant housing market, HEAL nevertheless made a contribution to Group performance through the introduction of new mortgage lending business and the sale of Halifax Financial Services products.

Offshore and Overseas Operations

The Group's Spanish subsidiary, Banco Halifax Hispania S.A., commenced business in 1993. Having successfully launched a range of savings products, it has now started residential mortgage lending to private individuals. In 1995, it opened a second branch in Madrid and added a Visa debit card and Automated Teller Machine ("ATM") facilities to its range of services.

Halifax International (Jersey) Ltd. offers a range of offshore sterling investment accounts from its base in St. Helier. The merger with the Leeds brought with it a company based in the Isle of Man, now Halifax International (Isle of Man) Ltd., which offers services similar to the Jersey operation but with a higher proportion of local business and currency account facilities.

Sources of Income and Results for the year ended 31 January 1996

Whilst there were signs of recovery in the housing market towards the end of 1995, new mortgage demand remained low over the year. Some activity was generated as borrowers remortgaged to take advantage of discounted and low fixed rate mortgages offered by lenders in an attempt to retain market share. In February 1995, the Society acquired the centralised mortgage lender, BNP Mortgages (Holdings) Ltd.

By contrast, the Society experienced a strong inflow of retail receipts. Many depositors have chosen to maintain balances to optimise the benefits of the proposed share distribution which would accompany conversion of the Society to limited company status.

Against this background, the Group produced pre-tax profits of £1,101 million (1994/95 £975 million) after exceptional merger and integration costs of £113 million. Net interest margins widened which indicates that the Group's competitive edge is based upon factors other than pricing, but the cost/income ratio, excluding the exceptional merger and integration costs, rose to 42.3 per cent. Despite a modest operating performance in difficult conditions, the Group further demonstrated its underlying strength by increasing its gross capital ratio to 7.99 per cent. and its solvency ratio, which follows the international standard for measuring bank capital adequacy, to 15.0 per cent.

Recent Developments

The Group has announced that it has decided to adopt 31 December as its year end. Accordingly, the next report and accounts to be published will be in respect of the period ending 31 December 1996.

On 25 March 1996, the Group announced the proposed acquisition of Clerical Medical Investment Group ("Clerical Medical"). Clerical Medical provides a broad range of personal financial services including life assurance, pensions, unit trusts and fund management. Subject to the approval of the members of Clerical Medical and to certain regulatory and other approvals, completion is expected on 31 December 1996.

On 19 April 1996, the Group announced that it had purchased Banque Paribas' U.K. residential mortgage business, Bracehold Limited, consisting of £340 million of mortgage assets.

CONSOLIDATED FINANCIAL HIGHLIGHTS

Five year comparison

| | Year ended 31st January 1996 | | | | |
|-------------------------------|------------------------------|-----------|-----------|-----------|-----------|
| | 1992 | 1993 | 1994 | 1995 | 1996 |
| Mortgages | | | | | |
| Amount advanced (£m) | 9,063 | 8,299 | 8,598 | 9,585 | 10,019 |
| Net amount advanced (£m) | 3,923 | 3,295 | 3,202 | 3,607 | 2,895 |
| Mortgage balances (£m) | 48,568 | 51,792 | 54,931 | 58,577 | 78,433 |
| Number of borrowers | 1,786,000 | 1,817,000 | 1,860,000 | 1,910,000 | 2,487,000 |
| Investments (£m) | | | | | |
| Net retail receipts | 4,595 | 2,887 | 1,122 | 2,156 | 5,797 |
| Investment balances | 47,549 | 50,436 | 51,558 | 53,713 | 74,913 |
| Financial Trends (£m) | | | | | |
| Profit before tax | 628 | 680 | 866 | 975 | 1,101 |
| Profit after tax | 417 | 458 | 574 | 651 | 723 |
| General reserves | 2,620 | 3,078 | 3,649 | 4,301 | 6,234 |
| Total assets | 58,743 | 63,122 | 67,157 | 72,151 | 98,655 |
| Liquid assets | 9,111 | 10,043 | 11,144 | 12,313 | 17,563 |
| Non-retail funds | 7,252 | 8,543 | 10,641 | 12,741 | 15,259 |
| Performance Ratios (%) | | | | | |
| Return on mean assets | 0.74 | 0.75 | 0.88 | 0.93 | 0.85 |
| Return on mean reserves | 17.30 | 16.10 | 17.10 | 16.37 | 13.72 |
| Gross capital | 5.65 | 6.36 | 7.11 | 7.60 | 7.99 |
| Solvency | 11.23 | 12.21 | 13.8 | 14.45 | 15.00 |
| Cost/Income | 43.60 | 39.70 | 39.60 | 41.30 | 42.30 |

Source: Annual Report & Accounts

Figures for the period from 1 August 1995 take account of the merger with the Leeds.

BOARD OF DIRECTORS

The Directors of the Society, their responsibilities within the Society and their principal outside activities are as follows:

| Name | Responsibilities | Principal Outside Activity |
|-------------------------------------|---------------------------------------|---|
| H J Foulds FCIB CIMgt | Chairman | Member of the Board of Banking Supervision, Bank of England and Non-Executive Director of Mercury Asset Management Group plc. |
| Sir Timothy Kitson | Vice-Chairman | Chairman of Fishers International plc and London Clubs International plc. |
| J L Wood MA | Vice-Chairman | Non-Executive Director of Bibby Line Group Ltd and formerly Chairman of McCorquodale plc and Hargreaves Group plc. |
| J M Blackburn FCIB CIMgt FRSA | Group Chief Executive | |
| R F Boyes FCMA MInstD FRSA | Group Finance Director | |
| R J Chapman MA FCA CIMgt | Director | Formerly Senior Partner of Arthur Anderson, Chartered Accountants. Non-Executive Director of Eurotunnel plc. |
| A L Coleby MA | Director | Director of Anglo Irish Bank Corporation plc and formerly an Executive Director of the Bank of England. |
| N L Colne CBE | Director | Executive Director of Marks and Spencer plc. |
| D E Cook TD MA FSS FTI CIMgt | Director | Non-Executive Director of several large plc's including Charter plc, Powell Duffryn plc and Kwik Save plc. |
| D G R Ferguson MA FIA Dip Ag Sci | Director | Senior Partner of Bacon and Woodrow, actuaries and consultants. |
| G J Folwell CPFA FCT IRRV | Building Society Managing Director | |
| P S Gummer MA | Director | Chairman of Shandwick plc |
| R N Hodge BEng FIPM | Director | Chairman of Enron Europe Ltd and a Director of several other companies. |
| J A Kay MA | Director | Chairman of London Economics Ltd and Professor of Economics at the London Business School. |

| | | |
|------------------------|--|--|
| J A Lee B Soc Sci | Personnel & Head Office Director | |
| P M Leith OBE FRSA | Director | Chairman of Leith's Ltd, caterers, and a Director of Whitbread plc. |
| J R Miller BSc MSc MBA | Business Strategy & Operations Director | |
| P G Rogerson FCA FCT | Director | Executive Director of British Gas plc. |
| D R Taylor CPFA* | Managing Director of Halifax Estate Agencies Ltd. | |
| I A Ziff OBE LLD | Director | Chairman of Stylo plc and Town Centre Securities plc. |

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

* Mr D R Taylor has announced that he will retire at the end of the Annual General Meeting which will take place on 20 May 1996.

The comments below are of a general nature and are based on the Issuer's understanding of current United Kingdom law and practice. The comments relate to the position of persons (other than dealers and other persons in whose hands a profit on disposal of the Bonds would be treated as income for tax purposes) who are the absolute beneficial owners of their Bonds and entitled to the interest thereon. These comments do not necessarily apply where the interest is for tax purposes deemed to be the income of any other person.

1. So long as the Bonds remain in bearer form and continue to be listed on a recognised stock exchange within the meaning of Section 841 of the Income and Corporation Taxes Act 1988 (the London Stock Exchange is currently so recognised), payments of interest may be made without withholding or deduction for or on account of United Kingdom tax where:

- (a) the payment is made by or through a person outside the United Kingdom; or
- (b) the payment is made by or through a person in the United Kingdom and:
 - (i) the beneficial owner of the Bonds and the related Coupons is not resident in the United Kingdom; or
 - (ii) the Bonds are held in a recognised clearing system,

and if required by regulations, a declaration to that effect in the form required by law has been given to the person by or through whom the payment is made, or the Inland Revenue has issued a notice to the person by whom or through whom the payment is made.

In all other cases, interest will be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary by the Inland Revenue pursuant to the provisions of any appropriate double taxation treaty.

2. Where a United Kingdom collecting agent, either:-

- (a) acts as custodian of the Bonds and receives interest on the Bonds or directs that interest on the Bonds be paid to another person or consents to such payment; or
- (b) collects or secures payment of or receives interest on the Bonds for a Bondholder or a Couponholder (except by means of clearing a cheque or arranging for the clearing of a cheque),

the collecting agent will be required to withhold on account of United Kingdom income tax at the lower rate unless:

- (i) the relevant Bonds are held in a "recognised clearing system" and the collecting agent either (x) pays or accounts for the interest directly or indirectly to the "recognised clearing system" and, if required by regulations, a declaration in a form required by law has been given by the recognised clearing system or its depository, or (y) is acting as depository in respect of the relevant Bonds; or
- (ii) the person beneficially entitled to the interest is either not resident in the United Kingdom and beneficially owns the relevant Bonds or is specified by regulations; or
- (iii) the interest arises to trustees not resident in the United Kingdom of certain discretionary or accumulation trusts (where, *inter alia*, none of the beneficiaries of the trust is resident in the United Kingdom); or
- (iv) the person beneficially entitled to the interest is eligible for certain relief from tax in respect of the interest; or
- (v) the interest falls to be treated as the income of, or of the government of, a sovereign power or of an international organisation.

In the case of each of the above exceptions, conditions imposed by further regulations may have to be satisfied for the relevant exception to be available.

3. The interest has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction, the interest will not be assessed to United Kingdom tax in the hands of holders of the Bonds who are not resident in the United Kingdom, except where such persons carry 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 Bonds are attributable. There are certain exemptions for interest received by certain categories of agent.

4. Holders of the Bonds should note that the provisions relating to additional amounts set out in Condition 6 of the Bonds above would not apply if the Inland Revenue sought to assess the person entitled to the relevant interest directly to United Kingdom tax on that interest. However, exemption from or reduction of such United Kingdom tax liability might be available under an appropriate double taxation treaty.

5. Prospective Bondholders within the charge to United Kingdom corporation tax will not be subject to tax in accordance with paragraphs 6 and 7 below, but instead will be subject to tax as income on all profits and gains arising from and fluctuations in the value of the Bonds broadly in accordance with their statutory accounting treatment. Such Bondholders will generally be charged in each accounting period by reference to interest accrued and to any profit (or loss) (calculated in accordance with such Bondholders' authorised accounting method) arising in that period.

6. The Bonds will constitute "qualifying corporate bonds" within Section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, gains and losses arising on disposals of Bonds will not be chargeable gains or allowable losses for the purposes of the taxation of capital gains.

7. For investors outside the new regime outlined in paragraph 5, a transfer by a Bondholder (or redemption, where the Bondholder is not the original subscriber) of Bonds may give rise to a charge to United Kingdom income taxation in respect of interest accrued since the preceding Interest Payment Date if the transferor is resident or ordinarily resident in the United Kingdom or if he carries on a trade in the United Kingdom through a branch or agency to which the Bonds are attributable.

8. No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of a Bond or on its transfer by delivery.

In view of the uncertainties surrounding the way in which the Finance Act 1996 will be implemented, holders of the Bonds who are in any doubt as to their personal tax position or who may be subject to tax in any other jurisdiction should consult their professional advisers.

Swiss Bank Corporation and Barclays de Zoete Wedd Limited (together, the "Managers") have, under a subscription agreement dated 9 May 1996 (the "Subscription Agreement"), jointly and severally agreed with the Issuer to subscribe for the Bonds at the issue price of 99.198 per cent. of the principal amount thereof. The Issuer will pay to the Managers a combined management, underwriting and selling commission of 0.625 per cent. of the principal amount of the Bonds and an amount in lieu of reimbursement of certain expenses of the Managers. The Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment for the Bonds to the Issuer.

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

The Bonds are in bearer form, are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Bonds during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Bonds within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

The Bonds will have on their face a statement to the effect that any United States person who holds such Bonds 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.

Each Manager has further represented and agreed that:

- (a) it has not offered or sold and will not offer or sell any Bonds to persons in the United Kingdom prior to admission of the Bonds to listing in accordance with Part IV of the FSA except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the FSA;
- (b) it has complied and will comply with all applicable provisions of the FSA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and
- (c) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Bonds, other than any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the FSA, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1995 or is a person to whom such document may otherwise lawfully be issued or passed on.

Except in connection with the listing of the Bonds on the London Stock Exchange, no action has been or will be taken by the Issuer or any of the Managers outside Great Britain that would, or is intended to, permit a public offer of the Bonds in any country or jurisdiction where action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Bonds in, and neither this Offering Circular (whether in proof or final form) nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from or published in, any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

1. The listing of the Bonds on the London Stock Exchange will be expressed as a percentage of their principal amount (excluding accrued interest). Transactions will normally be effected for settlement in sterling and for delivery on the third working day after the date of the transaction. It is anticipated that such listing will be granted on 10 May 1996, subject only to the issue of the Temporary Global Bond. Prior to official listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules.
2. The Issuer will enter into an agreement (the "Paying Agency Agreement") on or about 15 May 1996 with the Principal Paying Agent, the Paying Agents and the Trustee pursuant to which the Paying Agents will agree to make payments in respect of the Bonds on behalf of the Issuer.
3. Under current regulatory requirements, in order that the net proceeds of the Bonds may be treated by the Building Societies Commission as capital for the purposes of Section 45 of the Act, no repayment of the Bonds for taxation reasons and no purchase of the Bonds may be made without the consent (while the Issuer is a building society) of the Building Societies Commission or (if the Issuer becomes an authorised institution under the Banking Act 1987) the Bank of England.
4. In the event of the transfer of the Issuer's business to a successor in accordance with Section 97 of the Act, Bondholders' and Couponholders' claims will rank in priority to the holders of the share capital of the successor in the event of the winding up of the successor.
5. The Bonds have been accepted for clearance in Euroclear and Cedel Bank. The Common Code reference number is 6612091 and the International Security Identification Number for the Bonds is XS0066120915.
6. The Issuer is incorporated in England.
7. Save for the proposed acquisition of Clerical Medical (referred to on page 13), there has been no significant change in the financial or trading position of the Group and no material adverse change in the prospects of the Group since 31 January 1996.
8. Neither the Issuer nor any member of the Group is involved in any legal or arbitration proceedings which may have, or have had during the past 12 months, a significant effect on the Group's financial position, nor is the Issuer aware that such proceedings are pending or threatened.
9. The accounts of the Issuer and the Group for the three years ended 31 January 1996 have been audited by KPMG, Chartered Accountants and Registered Auditors, in accordance with Auditing Standards and have been reported upon without qualification.
10. Copies of the following documents may be inspected at the offices of Allen & Overy, One New Change, London EC4M 9QQ during usual business hours on any weekday (Saturdays and public holidays excepted) during the period of 14 days from the date of this document:
 - (i) the Memorandum and Rules of the Issuer;
 - (ii) the audited accounts of the Issuer and the Group for each of the years ended 31 January 1995 and 1996;
 - (iii) the Subscription Agreement; and
 - (iv) drafts (subject to modification) of the Trust Deed (incorporating the form of the Temporary Global Bond, the Permanent Global Bond, the Bonds and the Coupons appertaining thereto) and the Paying Agency Agreement.

PRINCIPAL OFFICE OF THE ISSUER

Trinity Road,
Halifax,
West Yorkshire HX1 2RG

TRUSTEE

The Law Debenture Trust Corporation p.l.c
Princes House,
95 Gresham Street,
London EC2V 7LY

PRINCIPAL PAYING AGENT

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

PAYING AGENTS

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

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

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To the Managers and the Trustee

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59-67 Gresham Street,
London EC2V 7JA

To the Issuer

Allen & Overy
One New Change,
London EC4M 9QQ

AUDITORS

KPMG
Chartered Accountants and Registered Auditors
1 The Embankment,
Neville Street,
Leeds,
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