

FILE COPY



# **CERTIFICATE OF INCORPORATION OF A PUBLIC LIMITED COMPANY**

Company No. 327000

The Registrar of Companies for Scotland hereby certifies that

The Governor and Company of the Bank of Scotland

a company originally incorporated by an Act of the Parliament of Scotland dated 17 July 1695, having applied for registration pursuant to the provisions of Chapter II of Part XXII of the Companies Act 1985, is this day incorporated under the Companies Act 1985 as a public company under the name

Bank of Scotland plc

and that the company is limited.

Given at Companies House, Edinburgh, the 17 September 2007



A handwritten signature in black ink, appearing to read 'Dorothy B. H.'.

Registrar of Companies



*Companies House*  
— for the record —



# HBOS Group Reorganisation Act 2006

CHAPTER 1

£6 00



# HBOS Group Reorganisation Act 2006

## CHAPTER i

### CONTENTS

#### PART 1

##### INTRODUCTORY

- 1 Citation
- 2 Interpretation

#### PART 2

##### REGULATION AND MANAGEMENT OF THE BANK

- 3 Commencement on registration of the Bank under the Companies Act 1985
- 4 Name of the Bank
- 5 Effect of registration and change of name
- 6 Powers and objects of the Bank
- 7 Management and administration of the Bank
- 8 Repeals

#### PART 3

##### TRANSFER OF UNDERTAKINGS

- 9 Appointed day
- 10 Vesting of undertakings in the Bank
- 11 Provision as to trust property and wills
- 12 Supplementary provisions as to transfer
- 13 Office holders
- 14 Accounting provisions
- 15 Distributable profits or reserves of the Bank
- 16 Pension scheme
- 17 Evidence of transfer
- 18 Dissolution of transferor companies
- 19 Evidence, documents

- 20 Application of Bankers' Books Evidence Act 1879
- 21 Savings in respect of transfers of property
- 22 Right to issue bank notes
- 23 Transfer of the Society

#### **PART 4**

##### MISCELLANEOUS

- 24 Application
- 25 Costs of Act

---

Schedule 1 — Business and objects of the Bank

Schedule 2 — Repeals

Part 1 — Bank of Scotland

Part 2 — Clerical, Medical and General Life Assurance Society



# HBOS Group Reorganisation Act 2006

## CHAPTER i

An Act to make new provision for the regulation and management of the Governor and Company of the Bank of Scotland upon its registration as a public company under the Companies Act 1985; to provide for the transfer of the undertakings of Capital Bank plc, Halifax plc and HBOS Treasury Services plc to the Governor and Company of the Bank of Scotland, to provide for the transfer of the assets of the Clerical, Medical and General Life Assurance Society to Clerical Medical Investment Group Limited, and for connected purposes.

[21st June 2006]

### WHEREAS—

- (1) By an Act of the Parliament of Scotland passed in the fifth year of the reign of His Majesty King William the Third dated 17 July 1695 entitled “An Act of Parliament for Erecting a Bank in Scotland” the Governor and Company of the Bank of Scotland (“the Bank”) was incorporated “for the carrying on and managing of a publick bank”.
- (2) Powers of increasing its capital stock were conferred on the Bank and further provisions for the management and administration of its affairs were made by the following Acts of Parliament 14 George III chapter 32, 24 George III session 2 chapter viii, 32 George III chapter 25, 34 George III chapter 19, 44 George III chapter xxiii, the Bank of Scotland Act 1873 (c xcix), the Bank of Scotland Act 1920 (c xxxi), the Bank of Scotland Order Confirmation Act 1954 (c lvi), and the Bank of Scotland Order Confirmation Act 1970 (c xxxiv), and the business and affairs of the Bank are regulated, managed, administered and carried on under and by virtue of those Acts (“the Bank of Scotland Acts 1695 to 1970”).
- (3) The Bank is now a wholly owned subsidiary of HBOS plc (“HBOS”), a public limited company incorporated in Scotland under the Companies Act 1985 (c 6).
- (4) Capital Bank plc (“Capital Bank”) is a public limited company incorporated in England under the Companies Act 1929 (c 23) that is a wholly owned subsidiary of the Bank which carries on and whose subsidiary companies carry on in the United Kingdom and elsewhere the businesses of banking and financial services and other related activities.

- (5) Halifax plc ("Halifax") is a public limited company incorporated in England under the Companies Act 1985 (c 6) that is a wholly owned subsidiary undertaking of HBOS and which carries on and whose subsidiaries carry on in the United Kingdom and elsewhere the businesses of banking and financial services and other related activities
- (6) HBOS Treasury Services plc ("Treasury Services") is a public limited company incorporated in England under the Companies Act 1985 that is a wholly owned subsidiary of the Bank which carries on in the United Kingdom and elsewhere the businesses of banking and financial services and other related activities
- (7) The Clerical, Medical and General Life Assurance Society ("the Society") was formed by a Deed of Settlement dated 14 February 1827 for the purposes of making or effecting assurances on lives and survivorships and other related activities
- (8) By the Clerical, Medical and General Life Assurance Acts 1850 (c ix) and 1887 (c x), provision was made with regard to the administration and finances of the Society, in place of the Deed of Settlement, which was repealed, by the Clerical, Medical and General Life Assurance Act 1961 (c xii), the persons assured became members of the Society, and by the Clerical, Medical and General Life Assurance Act 1974 (c xi), the Society was incorporated
- (9) By a scheme made on 31 December 1996 in accordance with Schedule 2C to the Insurance Companies Act 1982 (c 50), the long term business of the Society was transferred to Clerical Medical Investment Group Limited ("CMIG"), a subsidiary of HBOS Insurance & Investment Group Limited, which is a wholly owned subsidiary of HBOS, with the exception of certain assets of the Society that could not be transferred by such a scheme and are presently held by the Society on trust for CMIG
- (10) For the better conduct of the business of HBOS and its subsidiaries and in order to enable the Bank to carry on its business to the best advantage it is expedient—
  - (a) that the Bank be registered as a public company under Chapter 2 of Part 22 of the Companies Act 1985,
  - (b) to repeal, amend or replace various provisions of the Bank of Scotland Acts 1695 to 1970 regulating the Bank's affairs that have become in many respects outmoded having regard to present day requirements and practice, and to make further provision for the regulation and management of the Bank, and
  - (c) to provide for the fusion of the undertakings of the Bank, Capital Bank, Halifax and Treasury Services by the transfer to the Bank of the undertakings of Capital Bank, Halifax and Treasury Services
- (11) For the better conduct of the business of HBOS and its subsidiaries and in order to enable CMIG to carry on its business to the best advantage it is expedient to provide for the transfer to CMIG of the remaining assets of the Society and the dissolution of the Society
- (12) It is expedient that the Bank should be able to effect at the same time as the registration, the changes to the provisions concerning the regulation and management of the Bank, and the fusion of the undertakings

- (13) It is expedient that the fusion of the undertakings should be effected economically and without interference with the conduct and continuity of the businesses carried on by HBOS and its subsidiaries
- (14) It is expedient that the other provisions in this Act be enacted
- (15) The objects of this Act could not have been attained without the authority of Parliament.

May it therefore please your Majesty that it may be enacted, and be it enacted, by the Queen's Most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:

## PART 1

### INTRODUCTORY

#### 1 Citation

- (1) This Act may be cited as the HBOS Group Reorganisation Act 2006
- (2) This Act and the Bank of Scotland Acts 1695 to 1970 may be cited together as the Bank of Scotland Acts 1695 to 2006.

#### 2 Interpretation

- (1) In this Act, except in Schedule 1 and where the subject or context otherwise requires—
  - “the 1985 Act” means the Companies Act 1985 (c 6),
  - “account” includes any contract or facility between a person and a transferor company by virtue of which money or any unit of account is, or may be, deposited or borrowed by any person,
  - “appointed day” means a day appointed for the purposes of Part 3 of this Act under section 9 (Appointed day),
  - “appointed undertaking” means such of the undertakings for which a day is appointed as the appointed day, and where a day is so appointed for only part of an undertaking means that part of the undertaking,
  - “the Bank” means the Governor and Company of the Bank of Scotland;
  - “the board of the Bank” means
    - (a) before the registration date, the governor and deputy governor of the Bank and the ordinary directors of the Bank for the time being as a body or their quorum, and
    - (b) on or after the registration date, the directors of the Bank as defined by the regulations,
  - “CMIG” means Clerical Medical Investment Group Limited,
  - “contract” includes any agreement, transaction, arrangement or understanding, whether or not conditional or in writing and whether or not governed by English or Scots law,
  - “convey” has the same meaning as in the Law of Property Act 1925 (c 20),

“customer” includes any person having an account or other dealing with a transferor company,

“document” means anything in any form in which information of any description is recorded,

“enactment” means any enactment in this Act or in any general or local Act or in any order, rule or regulation made under any Act,

“existing” means existing, outstanding or in force immediately before an appointed day,

“financial year” means—

(a) in relation to a transferor company or, in respect of the period commencing on the registration date, the Bank, a financial year determined in accordance with the provisions of section 223 of the 1985 Act, and

(b) in relation to the Bank in respect of the period before the registration date, any period in respect of which the regulations require the preparation of a profit and loss account,

“last financial year” means the last completed financial year of a transferor company or of the Bank, as the case may be, before an appointed day,

“liability” includes a duty and an obligation of any description (whether present or future, actual, contingent or prospective),

“the note issue enactments” means section 10 of the Bank Charter Act 1844 (c 32), sections 1, 3 to 12, 14 and 16 of the Bank Notes (Scotland) Act 1845 (c 38), section 11 of the Stamp Act 1854 (c 83) and section 9 of the Currency and Bank Notes Act 1928 (c 13),

“property” means property and assets of every description (whether present or future, actual or contingent), and includes property and assets held on trust or in a fiduciary capacity and security interests, rights, benefits and powers of every description,

“the registration date” has the meaning given in section 3 (commencement on registration of the Bank under the Companies Act 1985),

“the regulations” means the regulations for the management and administration of the Bank for the time being in force in accordance with—

(a) before the registration date, section 6 of, and the Second Schedule to, the Bank of Scotland Act 1920 (c xxxi), or

(b) on and after the registration date, section 7 (management and administration of the Bank) of this Act,

“seal” includes a common seal and also any official seal which may be kept pursuant to section 39 or 40 of the 1985 Act,

“security interest” includes a mortgage or charge (in each case whether legal or equitable), debenture, bill of exchange, promissory note, guarantee, lien, pledge (whether actual or constructive), hypothecation, assignment by way of security, indemnity, right of set off, counterclaim, flawed asset arrangement, commitment or other means of securing payment or discharge of a debt or liability,

“the Society” means the Clerical, Medical and General Life Assurance Society,

“transferor company” means Capital Bank plc, Halifax plc or HBOS Treasury Services plc and “transferor companies” means all of them,

“trustee” includes—

- (a) a trustee or custodian trustee of any trust, settlement, covenant, contract or will (whether originally so appointed or not and whether appointed under hand or seal or by order of any court),
- (b) an executor of the will, or administrator of the estate, of a deceased person,
- (c) a judicial trustee appointed by order of any court,
- (d) an attorney for another person, or
- (e) any person acting in a fiduciary capacity,

“undertaking” means the business and all property and liabilities of a transferor company of whatever nature, but does not include—

- (a) any seal or any documents relating to the constitution of that transferor company, or
- (b) those documents comprising registers, indices, or minute books usually required to be kept by that transferor company at its registered office pursuant to the provisions of the 1985 Act,

and “undertakings” means the undertakings of the transferor companies, and

“will” includes a codicil and any other testamentary writing

- (2) Any reference in this Act to property or liabilities of a transferor company is a reference to property or liabilities—
  - (a) wherever they are situated or arise,
  - (b) whether or not they are capable of being transferred or assigned by the transferor company, and
  - (c) whether the transferor company is entitled or subject to them under the law of any part of the United Kingdom or under the law of any country or territory outside the United Kingdom

## PART 2

### REGULATION AND MANAGEMENT OF THE BANK

#### **3 Commencement on registration of the Bank under the Companies Act 1985**

This Part shall come into force on the day on which the Bank is registered as a public company under Chapter 2 of Part 22 of the 1985 Act (“the registration date”)

#### **4 Name of the Bank**

- (1) Subject to subsection (2) below, from the registration date, the name of the Bank shall be Bank of Scotland plc
- (2) The Bank may change its name by special resolution in accordance with the 1985 Act

## **5 Effect of registration and change of name**

- (1) Neither—
  - (a) the registration of the Bank as a public company under Chapter 2 of Part 22 of the 1985 Act, nor
  - (b) a change in the name of the Bank under section 4 (name of the Bank)shall affect any rights or obligations of the Bank (including the Bank's rights under the note issue enactments) or render defective any legal proceedings by or against it
- (2) Any legal proceedings that might have been continued or commenced against the Bank by its former name may be continued or commenced against it by its new name

## **6 Powers and objects of the Bank**

- (1) The business and objects of the Bank as set out in Schedule 1 shall be deemed to be the statement of the objects of the Bank for the purposes of Chapter 1 of Part 1 of the 1985 Act (company formation)
- (2) The business and objects of the Bank as so deemed may be altered under section 4 of the 1985 Act (resolution to alter objects) as if they were part of a memorandum of a company under that Act

## **7 Management and administration of the Bank**

- (1) Subject to subsection (2) below the regulations of the Bank shall be the draft regulations approved on behalf of the board of the Bank on 26 November 2004, a certified copy of which—
  - (a) has been deposited in the office of the Clerk of the Parliaments, House of Lords and in the Private Bill Office of the House of Commons, and
  - (b) bears the title "Regulations of Bank of Scotland plc",as the board of the Bank may modify, alter, revoke or add to them from time to time before the registration date
- (2) The Bank may by special resolution in accordance with the 1985 Act alter the regulations, and any alteration so made shall be as valid as if originally contained in the regulations and be subject in like manner to alteration by such a special resolution from time to time

## **8 Repeals**

- (1) Subject to the following provisions of this section, the enactments set out in Part 1 of Schedule 2 to this Act shall be amended or repealed to the extent set out in that Schedule
- (2) The Bank shall retain all existing assets and rights vested in it and be subject to all liabilities to which it was subject immediately prior to the registration date, save in so far as such rights or liabilities are inconsistent with the provisions of this Part

- (3) Subject to sections 6 and 7 above, and subsection (4) below, the holders of the Bank's capital stock shall continue to have the same rights and be subject to all liabilities and obligations to which they were subject immediately prior to the registration date
- (4) The Bank's capital stock shall be reclassified as share capital of the respective amounts, classes and nominal amounts specified in the regulations

### **PART 3**

#### **TRANSFER OF UNDERTAKINGS**

##### **9 Appointed day**

- (1) The board of the Bank may appoint a day to be the appointed day for an undertaking for the purposes of this Part and may appoint different days as the appointed day for different parts of an undertaking
- (2) No day may be appointed under subsection (1) above that falls before the registration date
- (3) Before an appointed day, the Bank shall publish a notice in the London Gazette, the Edinburgh Gazette and the Belfast Gazette of the day, stating that it is an appointed day for the purposes of this Act and the appointed undertaking
- (4) The publication of a notice under subsection (3) above shall be conclusive evidence of that appointed day for the purposes of this Act, and a photocopy or other reproduction, certified by an authorised officer of the Bank, of a page or part of a page of the London Gazette, the Edinburgh Gazette or the Belfast Gazette containing the notice shall be conclusive evidence of publication of the notice.

##### **10 Vesting of undertakings in the Bank**

- (1) On an appointed day the appointed undertaking shall, by virtue of this Act and without further assurance, be transferred to the Bank to the intent that the Bank shall succeed to the relevant undertaking as if in all respects the Bank were the same person as the transferor company
- (2) Where the transfer of any property or liability comprised in an undertaking is governed by the law of any country or territory outside the United Kingdom, the transferor company shall, if the Bank so requires, take all necessary steps for securing that the transfer to and vesting in the Bank of the property or liability is fully effective under the law of that country or territory

## **11 Provision as to trust property and wills**

- (1) Any property transferred to the Bank by virtue of this Act which immediately before the appointed day was held by a transferor company, whether alone or jointly with any other person, as trustee, shall, on and from the appointed day, be held by the Bank alone or, as the case may be, jointly with such other person in the same capacity upon the trusts, and with and subject to the powers, provisions and liabilities, applicable thereto respectively
- (2) The following—
  - (a) any existing instrument or order of any court under or by virtue of which any property became or may become vested in a transferor company as trustee, and
  - (b) any provision therein, or any existing contract for the payment to, or retention by, a transferor company of remuneration for its services in any such capacity,shall, subject to subsection (4) below, on and from the appointed day, be construed and have effect, so far as the context permits, as if for any reference therein to the transferor company, other than a reference (however worded and whether express or implied) to the terms and conditions of, or to a rate, charge, tariff or scale of fees of, the transferor company, there were substituted a reference to the Bank
- (3) The following—
  - (a) any will made before an appointed day which has not been proved in any part of the United Kingdom before the appointed day, and
  - (b) any will made on or after an appointed day, being a will which appoints a transferor company to be a trustee or recipient of any property as trustee,shall, subject to subsection (4) below, be construed and have effect as if for any reference therein to the transferor company as such trustee or recipient or otherwise in connection with such appointment, not being a reference (however worded and whether express or implied) to terms and conditions of, or to a rate, charge, tariff or scale of fees of, the transferor company, there were substituted a reference to the Bank
- (4) Any right which was exercisable by the transferor company to alter the terms and conditions or the rate, charge, tariff or scale of fees of that transferor company shall on and after the appointed day be exercisable by the Bank
- (5) No testamentary gift shall be adeemed by reason only of the operation of any of the provisions of this Act

## **12 Supplementary provisions as to transfer**

- (1) Without prejudice to the generality of the foregoing provisions of this Act but subject to any provision of this Act to the contrary, the following provisions shall have effect in relation to the appointed undertaking
- (2) Every existing contract relating to the appointed undertaking to which a transferor company is a party shall be construed and have effect on and from the appointed day—
  - (a) as if the Bank had been a party thereto instead of the transferor company,

- (b) as if, subject to subsection (5) below, for any reference (however worded and whether express or implied) to the transferor company there were substituted a reference to the Bank,
  - (c) as if any reference (however worded and whether express or implied) to the directors, officers, representatives or employees or to any director, officer, representative or employee of the transferor company were a reference (as the case may require)—
    - (i) to the directors, officers, representatives or employees of the Bank, or
    - (ii) to such director, officer, representative or employee of the Bank as the Bank may nominate for that purpose, or
    - (iii) in default of nomination, to the director, officer, representative or employee of the Bank who corresponds as nearly as may be to the first mentioned director, officer, representative or employee, and
  - (d) (where the contract relates to property or liabilities which are for the time being only partly transferred to the Bank by virtue of this Act) as if the contract, to the extent to which it is enforceable by and against the transferor company, constituted two separate contracts—
    - (i) one of which is enforceable by and against the Bank only as regards the part of the property or, as the case may be, liabilities so transferred to it, and
    - (ii) the other of which is enforceable by and against the transferor company only as regards the part of the property or, as the case may be, liabilities not so transferred to the Bank
- (3) Paragraphs (b) and (c) of subsection (2) above shall, on and from the appointed day, apply to any enactment other than the provisions of this Act and to any provision of any existing contract to which the transferor company was not a party as they apply to a contract to which subsection (2) above applies
- (4) Paragraphs (a), (b) and (c) of subsection (2) above shall, on and from the appointed day, apply to any provision of any other existing document (not being a contract or a will) as they apply to a contract to which subsection (2) above applies
- (5) Paragraph (b) of subsection (2) above shall not apply to the name or title of any rate, charge, tariff, scale of fees, terms or conditions of a transferor company which includes the initials, the name or part of the name of that transferor company but, on or after the appointed day, the Bank may change the name or title
- (6) An offer or invitation to treat made to or by a transferor company before the appointed day shall be construed and have effect on and after the appointed day in relation to the appointed undertaking as an offer or invitation to treat, as the case may be, made to or by the Bank

- (7) Any account between the transferor company and a customer in relation to the appointed undertaking shall, on the appointed day, become an account between the Bank and the customer subject to the same conditions and incidents as before, and such account shall be deemed for all purposes to be a single continuing account  
But nothing in this subsection shall affect any right of the transferor company or the Bank or of the customer to vary the conditions or incidents subject to which any account is kept
- (8) For the purpose of construing and giving effect to any contract which—  
(a) has effect or continues to have effect on, or on and after, an appointed day, and  
(b) makes reference to a rate, charge, tariff or scale of fees or to terms or conditions published, determined or ascertained from time to time by a transferor company,  
the Bank shall have the same rights under that contract as the transferor company had to publish, determine, ascertain, vary or amend rates, charges, tariffs, scales of fees, terms or conditions, and any such rates, charges, tariffs, scales of fees, terms or conditions published, determined, ascertained, varied or amended by the Bank shall apply in place of those which could have been published, determined, ascertained, varied or amended by the transferor company
- (9) Any existing instruction, order, direction, mandate, power of attorney, authority, undertaking or consent given to or by a transferor company in relation to an appointed undertaking (whether in writing or not and whether or not in relation to an account) shall have effect on and from the appointed day as if given to or, as the case may be, by the Bank
- (10) Any negotiable instrument, cheque, warrant, draft, letter of credit or order for payment of money, in relation to an appointed undertaking, drawn on or by, or given to, or accepted or endorsed by, the transferor company, or payable at any place of business of the transferor company, whether so drawn, given, accepted, endorsed or payable before, on or after the appointed day, shall have the same effect on and from that day—  
(a) as if it had been drawn on or by, or given to, or accepted or endorsed by, the Bank, and  
(b) if relevant, as if the place of business at which it is payable were a place of business of the Bank
- (11) Any document, claim or demand addressed on or before or after the appointed day to a transferor company pursuant to an existing contract which relates to the appointed undertaking shall be deemed to have been addressed to the Bank
- (12) The custody of any document or record, goods or other thing held by a transferor company as bailee relating to an appointed undertaking shall pass to the Bank on the appointed day, and the rights and obligations of the transferor company under any contract of bailment relating to any such document or record, goods or thing shall on that day become rights and obligations of the Bank

- (13) Any security interest held immediately before the appointed day in relation to an appointed undertaking by the transferor company, or by a nominee or agent of or trustee for that transferor company, as security for the payment or discharge of any debt or liability shall, on and from that day—
- (a) be held by the Bank or, as the case may require, by that nominee, agent or trustee for the Bank, and
  - (b) be available to the Bank, (whether for its own benefit or, as the case may be, for the benefit of any other person) as security for the payment or discharge of that debt or liability of the appointed undertaking
- (14) In relation to any security interest transferred to the Bank by or under this Act and any liabilities thereby secured, the Bank shall be entitled to the same rights and priorities and be subject to the same obligations and incidents to which the transferor company would have been entitled and subject if it had continued to hold the security interest
- (15) Without prejudice to the generality of subsection (14) above, in any case where any existing liability subsists between a transferor company and the Bank, in respect of which—
- (a) that transferor company or the Bank, or
  - (b) a nominee or agent of or trustee for that transferor company or the Bank,
- holds a security interest or a counterclaim in respect of which there is a security interest, that liability and, where appropriate, the counterclaim shall, for the purpose of enforcing or realising that security interest, be deemed to continue in effect notwithstanding the transfer to the Bank
- (16) Any security interest referred to in subsections (13) to (15) above which extends to future advances or liabilities shall, on and from the appointed day, be available to the Bank (whether for its own benefit or, as the case may be, for the benefit of any other person) as security for the payment or discharge of future advances and future liabilities to the same extent and in the same manner in all respects as it extends immediately before that day to future advances or liabilities
- (17) Where by virtue of this Act any property or liability of a transferor company becomes property or a liability of the Bank, the Bank and all other persons shall, on and from the appointed day, have the same rights, powers and remedies (and in particular the same rights and powers as to taking or resisting legal proceedings or making or resisting applications to any authority) for ascertaining, perfecting or enforcing that property or liability as if it had at all times been property or a liability of the Bank
- (18) Any right of action and any remedy available in consequence thereof—
- (a) which accrues, arises or becomes enforceable or available before an appointed day by or against the transferor company and which relates to the appointed undertaking; or
  - (b) which would, but for this Act, accrue, arise or become enforceable or available by or against a transferor company, on or after the appointed day and which relates to the appointed undertaking,
- may, subject to the provisions relating to the appointed undertaking in this Act, be enforced or availed of to the same extent by or against the Bank on or after the appointed day

- (19) Any legal proceedings, applications to any authority or other proceedings for the resolution of a dispute pending or current immediately before an appointed day by or against the transferor company and which relate to the appointed undertaking may be continued by or against the Bank
- (20) Any judgment, order or award obtained by or against a transferor company which relates to the appointed undertaking and which is not fully satisfied before the appointed day shall, on that day, to the extent to which it is enforceable by or against that transferor company, become enforceable by or against the Bank.
- (21) On an appointed day the Bank—
  - (a) shall succeed to all the rights, liabilities and obligations of the transferor company in respect of data which is comprised in the appointed undertaking and which is subject to the Data Protection Act 1998 (c 29),
  - (b) shall become the data controller of any data which is comprised in the appointed undertaking and which is subject to the Data Protection Act 1998 in place of the transferor company, and shall be deemed to have been the data controller of all such data at all material times when data was processed,
  - (c) shall be under the same duty by virtue of any law as the transferor company was under to respect the confidentiality and privacy of any person and shall be bound by any specific notice given or request made by the data subject which was binding on the transferor company and which required the transferor not to use data for marketing purposes
- (22) In any consent given by a data subject in respect of such data as is mentioned in subsection (21)(a) above, any reference to the transferor company (or to any subsidiary or holding company of the transferor company or any subsidiary of such a holding company) shall be deemed to include a reference to the Bank and any subsidiary or holding company of the Bank and any subsidiary of such a holding company
- (23) In subsection (22) above, “holding company” and “subsidiary” shall have the meanings set out in sections 736 and 736A of the 1985 Act

### 13 Office-holders

No director, secretary or auditor of a transferor company shall by virtue only of this Act become a director, secretary or, as the case may be, auditor of the Bank

### 14 Accounting provisions

- (1) In this section—
  - “the 1991 Regulations” means the Bank Accounts Directive (Miscellaneous Banks) Regulations 1991 (S I 1991 No 2704),
  - “accounts” means all accounting records, any other accounts, statements of account, financial statements or directors’ reports required to be prepared by, and in accordance with, the provisions of the 1985 Act or the 1991 Regulations,

“individual accounts” means the accounts of an individual company prepared in accordance with—

- (a) section 226 of and Schedule 4 to the 1985 Act,
- (b) section 255 of and Part I of Schedule 9 to that Act, or
- (c) the 1991 Regulations, and

“shareholder funds” means the called up share capital and the reserves of the transferor company

- (2) For the purposes of the accounts of the transferor company and the Bank, the transfer of an appointed undertaking to the Bank shall be taken to have been effected immediately after the last financial year of the transferor company and to have been a vesting in the Bank of all the property, rights and liabilities in the appointed undertaking to which the transferor company was entitled or subject immediately before the end of that year
- (3) The amount to be attributed to any asset and any liability which is taken by virtue of subsection (2) above to have been vested in the Bank immediately after the last financial year of the transferor company shall be the amount attributed to the asset or liability for the purposes of the accounts of the transferor company for its last financial year.
- (4) The amount to be included in the accounts of the Bank in respect of any item shall be determined as if anything done by the transferor company after its last financial year (whether by way of acquiring, revaluing or disposing of any asset or incurring, revaluing or discharging any liability, earning any profit or suffering any loss, or by carrying any amount to any provision or reserve, or otherwise) had been done by the Bank
- (5) Without prejudice to the operation of this Act, the transfer to the Bank of the appointed undertaking shall be deemed not to give rise to any transaction required by section 221 of the 1985 Act to be entered in the accounts of the Bank or the transferor company
- (6) In respect of every item (excluding shareholder funds) shown in the balance sheet or profit and loss account of the Bank forming part of its individual accounts for its financial year in which an appointed day occurs, the corresponding amount for the last financial year of the Bank required to be shown in that balance sheet or profit and loss account by—
  - (a) section 226 of and Schedule 4 to the 1985 Act,
  - (b) section 255 of and Part I of Schedule 9 to that Act, or
  - (c) the 1991 Regulations,shall include any amount corresponding to that item shown by the transferor company in its balance sheet or profit and loss account forming part of its individual accounts for its last financial year

## **15 Distributable profits or reserves of the Bank**

Without prejudice to the provision of section 14 (accounting provisions) of this Act, for the purpose of ascertaining on an appointed day what profits or reserves, if any, are capable of lawful distribution by the Bank, any profits or reserves of a transferor company relating to the appointed undertaking which were capable of lawful distribution by that transferor company at the end of its last financial year shall be deemed to have become capable of lawful distribution by the Bank immediately after that last financial year

## **16 Pension scheme**

- (1) In this section “pension scheme” has the same meaning as in section 150 of the Finance Act 2004 (c 12)
- (2) No pension scheme under which the Bank or a transferor company is the sole employer, the principal employer or a participating employer shall by reason only of the operation of any of the provisions of this Act be terminated or wound up, in whole or in part
- (3) In respect of an officer or employee of a transferor company or the Bank, no right to participate in or to qualify himself or any of his dependants to receive benefits under, and no pensionable service for the purposes of, a pension scheme—
  - (a) under which the transferor company or the Bank is the sole employer, the principal employer or a participating employer, and
  - (b) of which the officer or employee is a member immediately before the appointed day,

shall be terminated, interrupted or otherwise affected by reason only of the operation of any of the provisions of this Act

- (4) The trust deeds, rules and other documents and instruments constituting, governing or otherwise relating to any pension scheme to which the provisions of this section apply shall have effect subject to and in accordance with the provisions of this section

## **17 Evidence of transfer**

- (1) The production of a Queen’s Printer’s copy of this Act or a photocopy thereof and such evidence of publication of notice of an appointed day as is specified in subsection (4) of section 9 (appointed day) of this Act shall, for all purposes, be conclusive evidence of the transfer to, and vesting in, the Bank of the relevant undertaking or relevant part of an undertaking, in accordance with the provisions of this Act
- (2) Without prejudice to the generality of subsection (1) above, any such copy of this Act shall, in relation to any registered securities within the meaning of the Stock Transfer Act 1963 (c 18) transferred to the Bank by virtue of this Act, operate for all the purposes of the said Act of 1963 as a duly executed stock transfer in respect of the transfer of such securities from a transferor company to the Bank

- (3) Without prejudice to the generality of subsection (1) above—
- (a) any document made or executed on or after an appointed day whereby the Bank, whether alone or jointly with another person—
    - (i) conveys or transfers, or purports to convey or transfer, to any person (whether for consideration or not), or
    - (ii) applies to be registered as the holder or proprietor of, any property held by a transferor company immediately before the appointed day, whether alone or jointly with another person, shall be sufficient evidence that the interest of the transferor company has been transferred to the Bank, alone or jointly, under this Act, and
  - (b) where there is any other transaction by the Bank on or after the appointed day in connection with, or in relation to, any property or liability which is property or a liability of a transferor company immediately before the appointed day, it shall be deemed in favour of—
    - (i) any other party to the transaction, or
    - (ii) any person claiming through or under him,that the Bank has full power and authority for that transaction as if the property or liability had been transferred to it under this Act
- (4) Without prejudice to the generality of subsection (1) above—
- (a) any document made or executed on or after an appointed day whereby the transferor company, whether alone or jointly with any other person—
    - (i) conveys or transfers, or purports to convey or transfer, to any person (whether for consideration or not), or
    - (ii) applies to be registered as the holder or proprietor of, any property held by it immediately before the appointed day, whether alone or jointly with another person, shall be as effective as if that property had been conveyed, transferred or registered by the Bank, and
  - (b) where there is any other transaction by a transferor company on or after the appointed day in connection with, or in relation to, any property or liability which is property or a liability of the transferor company immediately before the appointed day, that transaction shall be as effective as if it had been a transaction by the Bank.
- (5) The following—
- (a) a certificate given by or on behalf of the Bank at any time before the dissolution of a transferor company and whether given before, on or after the appointed day, and
  - (b) a certificate given by or on behalf of the Bank after the dissolution of that transferor company
- that any property or liability of the transferor company specified in the certificate will be or has been transferred, as the case may be, to the Bank under this Act shall be conclusive evidence for all purposes of the fact so certified
- (6) Nothing in this section affects the liability of a transferor company or the Bank to the other of them in respect of anything done, or purported to have been done, by either of them in connection with, or in relation to, any property or liabilities

## **18 Dissolution of transferor companies**

- (1) A transferor company shall by virtue of this Act be dissolved on the day on which, in pursuance of a request made by or on behalf of the Bank at any time after the whole of that company's undertaking has been transferred to the Bank by virtue of this Act or otherwise, the registrar of companies strikes that transferor company off the register
- (2) Notwithstanding section 654 of the 1985 Act (property of dissolved company to be bona vacantia), on the day on which a transferor company is struck off the register under subsection (1) above all seals and documents of or relating to the company not transferred to the Bank by virtue of the foregoing provisions of this Act shall, by virtue of this section, be transferred to the Bank and, where they are required to be kept at a place in England, shall be kept by the Bank at such a place

## **19 Evidence: documents**

All documents which would before the appointed day, have been evidence in respect of any matter for or against a transferor company shall be admissible in evidence in respect of the same matter for or against the Bank

## **20 Application of Bankers' Books Evidence Act 1879**

- (1) In this section "books" shall be construed in accordance with section 9(2) of the Bankers' Books Evidence Act 1879 (c 11)
- (2) On and from an appointed day, the said Act of 1879 shall apply to the books of a transferor company transferred to the Bank by virtue of this Act, and to entries made in those books before the appointed day, as if such books were books of the Bank
- (3) For the purposes of section 4 of the said Act of 1879, books so transferred to the Bank shall be deemed to have been the ordinary books of the Bank at the time of the making of any entry therein which purports to have been made before the appointed day, and any such entry shall be deemed to have been made in the usual and ordinary course of business

## **21 Savings in respect of transfers of property**

- (1) The transfer of any property or liability by virtue of this Act shall not—
  - (a) constitute a purchase or creation of an interest in land for the purposes of section 30 (2) of the Landlord and Tenant Act 1954 (c 56) or constitute a relevant disposal within the meaning of section 4 of the Landlord and Tenant Act 1987 (c 31) for the purposes of that Act, or
  - (b) constitute an assignment, transfer, devolution, alienation, parting with possession or other disposition of or dealing with property or of an interest in property for the purposes of any provision in any instrument, contract or order of any court concerning that property or that interest, or
  - (c) give rise to any forfeiture, or
  - (d) invalidate or discharge any contract, security interest or other thing, or
  - (e) require further registration in respect of any security interest, or

- (f) cause or enable the benefit of any contract, permission, licence or privilege enjoyed by the transferor company or the Bank to be lost or surrendered or otherwise affected, or require the disposal by the transferor company or the Bank of any interest, otherwise than as provided for in this Act, or
  - (g) relieve any person under an obligation to the transferor company of a corresponding obligation to the Bank, or
  - (h) constitute a breach of, or default under, or require any obligation to be performed sooner or later than would have otherwise have been the case under, any contract or instrument to which the Bank or the transferor company is a party or by which it is bound, or
  - (i) allow any party to any contract to which the Bank or the transferor company is a party to terminate that contract when he would not otherwise have been able to terminate it, or
  - (j) operate so as to merge any leasehold interest in the reversion expectant on it, or
  - (k) entitle any party to any contract to which the Bank or the transferor company is a party to vary the terms of that contract when he would not otherwise have been able to vary those terms or confer a right of benefit on him which he would not otherwise have had, or
  - (l) confer any greater or lesser rights or benefits, or impose any greater or lesser obligations, on any party to any contract to which the transferor company or the Bank is a party when any such greater or lesser rights, benefits or obligations would not otherwise have been conferred or imposed
- (2) Paragraphs (c) to (l) of subsection (1) above shall apply to subsidiaries of the transferor company and subsidiaries of the Bank as they apply to the transferor company and the Bank respectively

## 22 Right to issue bank notes

The transfer to the Bank of an appointed undertaking by virtue of this Act shall have no effect on the Bank's rights under the note issue enactments

## 23 Transfer of the Society

- (1) The directors of CMIG may appoint a day to be the appointed day for the undertaking of the Society for the purposes of this Part
- (2) Where a day is appointed under subsection (1) above the provisions of this Part set out in subsection (3) shall apply as if—
  - (a) the day had been appointed under section 9 (appointed day) above,
  - (b) references in the provisions to the appointed undertaking were references to the undertaking of the Society,
  - (c) references in the provisions to the transferor company or transferor companies were references to the Society, and
  - (d) references in the provisions to the Bank were references to CMIG

- (3) The provisions referred to in subsection (2) are—  
Section 9(3) and (4),  
Sections 10 and 11,  
Section 12(1) to (6) and (8) to (23),  
Section 13,  
Sections 14 and 15 (save that references to the financial year of the Bank shall be treated as references to a financial year determined in accordance with the provisions of section 223 of the 1985 Act), and  
Sections 16 to 19 and 21
- (4) On the day appointed under subsection (1) above—  
(a) the Society shall be dissolved, and  
(b) the enactments set out in Part 2 of Schedule 2 shall be repealed

#### PART 4

#### MISCELLANEOUS

### 24 Application

- (1) In this Act as it applies to Scotland—  
“assignment” includes an assignation;  
“bailee” includes a custodian, custodian or a holder on deposit or pledgee and  
“contract of bailment” includes any other contract regulating the deposit, custody, loan or hire of things,  
“convey” includes the transfer of any interest in property and the execution and delivery of any disposition, deed or other instrument or document by which any property, or any estate, interest, security or other right in or over property, is constituted, completed, disposed, assigned, transmitted or discharged;  
“debenture” includes a floating charge or any instrument containing a floating charge,  
“forfeiture” includes irritancy,  
“guarantee” includes a caution, whether proper or improper,  
“judgment” includes a decree and an extract of a document registered in the Books of Council and Session which is enforceable as a writ of execution,  
“judicial trustee” includes a judicial factor,  
“land” includes heritable and leasehold property,  
“mortgage” includes a standard security, an assignation or disposition *ex facie* absolute and any contract qualifying the same, a bond and disposition or assignation in security, a cash credit bond and disposition or assignation in security, an assignation in security and any real right or burden of whatever kind in the nature of a security interest whether or not constituted in respect of a heritable property,  
“reversion” means the interest of the landlord in land subject to a lease or the interest of the lessee of land who is the landlord under a sublease,

“security interest” includes an irrevocable mandate, a bond, right of retention and a right of compensation, and

“will” includes a trust disposition and settlement and any instrument taking effect on the death of any person whereby any part of his estate is disposed of, or under which a succession thereto arises.

(2) In the application of this Act to Scotland—

- (a) all security interests expressed to be in favour of a transferor company transferred to the Bank by virtue of this Act shall, on and from the appointed day, have the same effect in favour of the Bank up to the maximum amounts secured thereby respectively in all respects as if they had been originally granted in favour of the Bank for such maximum amounts,
- (b) to enable the Bank to complete a title, if thought fit, to any property transferred to, and vested in, it by virtue of this Act, by notice of title or otherwise, or to deduce title, this Act shall be deemed to be, and may be used as, a general disposition, conveyance or, as the case may be, assignation of such property in favour of the Bank,
- (c) the reference in subsection (3) of section 11 (provisions as to trust property and wills) to any will which has not been proved shall be construed as a reference to any will in respect of which the executor has not been confirmed

(3) In the application of this Act to Northern Ireland—

- (a) for the reference in subsection (1) of section 2 (interpretation) of this Act to the Law of Property Act 1925 (c 20) there shall be substituted reference to the Conveyancing Act 1881 (c 41),
- (b) the references in subsection (2) of section 17 (Evidence of transfer) of this Act to the Stock Transfer Act 1963 (c 18) shall include reference to the Stock Transfer Act (Northern Ireland) 1963 (c 24 N I),
- (c) for paragraph (a) of section 21(1) (savings in respect of transfers of property) of this Act there shall be substituted the following —
  - “(a) constitute a purchase or creation of an estate for the purposes of section 10(3) of the Business Tenancies (Northern Ireland) Order 1996 (S I 1996/725 (N I 5)), or”

## 25 Costs of Act

All costs, charges and expenses preliminary to, and of and incidental to, the preparing for, obtaining and passing of this Act, or otherwise in relation to it, shall be paid by such of the Bank and CMIG in such proportions as the directors of the Bank and the directors of CMIG shall agree

## SCHEDULES

## SCHEDULE 1

Section 6

## BUSINESS AND OBJECTS OF THE BANK

*Objects of the Bank*

- 1 Without prejudice to the power of the Bank to carry on and manage a public bank (as that term may be from time to time understood or interpreted), the Bank's objects are—
  - (1) To carry on the business of banking and the provision of financial services in all their forms
  - (2) This includes financial transactions and any other business carried on in any part of the world by—
    - (a) banks,
    - (b) financial houses,
    - (c) financial intermediaries,
    - (d) financial advisers,
    - (e) guarantee companies,
    - (f) financial managers and consultants,
    - (g) financial services companies,
    - (h) merchant banks;
    - (i) investment banks,
    - (j) issuing houses and investment and trust companies,
    - (k) dealers in securities, or
    - (l) other similar businesses
  - (3) Sub paragraph (2) above includes,
    - (a) borrowing, raising and taking in money in any way, on any terms and in any currencies, and to employ and use that money,
    - (b) depositing, lending or advancing money, securities or other property (with or without taking security) and generally making or negotiating loans and advances of every kind and providing liquidity support or other financial assistance or facilities on any terms and in any currencies,
    - (c) issuing, subscribing for, guaranteeing that any person will subscribe for, underwriting, buying, selling, discounting, holding, guaranteeing, transferring and dealing with or trading in the following, relating to any person—
      - (i) obligations,
      - (ii) instruments (whether transferable or negotiable or not),
      - (iii) securities (whether transferable or negotiable or not),
      - (iv) bills and drafts, or
      - (v) derivative instruments of whatever nature,
    - (d) granting, issuing, negotiating and in any manner dealing with, or in,

- travellers' cheques, letters of credit, circular notes, money orders and other negotiable instruments,
- (e) dealing in any kind of commodities or other physical things,
  - (f) receiving cash, securities, documents and any kind of valuables on current account or deposit, or for safe keeping, or in any other way,
  - (g) collecting and transmitting money and securities and acting as agents for the receipt or payment of money or for the delivery of securities and documents, and providing clearing and money transmission services,
  - (h) carrying on business as providers of leasing, contract hire, hire purchase, conditional or credit sale, instalment finance, personal contract purchase or deferred payment facilities and any other credit facilities,
  - (i) managing property,
  - (j) buying, selling, purchasing and repurchasing and dealing in bullion, foreign exchange, currency, futures, options, bills, precious and other metals and commodities,
  - (k) acting as agent, broker or provider of any kind of life assurance, industrial assurance, general insurance, re insurance or other kinds of non life insurance, and
  - (l) undertaking or acting as agents, consultants or advisers in relation to, or in connection with, the management of property or insurance, all aspects of taxation and pension matters and the management and investment of money and generally to transact agency, consultancy and advisory business
- (4) To issue notes of all denominations or amounts payable to bearer subject to compliance with any legal requirements which may from time to time be applicable thereto and to perform any obligations arising from such issue
- (5) To enter into any—
- (a) guarantee,
  - (b) bond,
  - (c) recognisance,
  - (d) cautionary obligation,
  - (e) contract of indemnity or suretyship, or
- otherwise give security or become responsible for the performance or discharge of any obligation or duties by any person
- (6) Without prejudice to the generality of sub paragraph (5) above, to—
- (a) guarantee, support or secure, whether—
    - (i) by personal undertaking or covenant, or
    - (ii) by mortgaging or charging all or any part of the undertaking, property and assets, present or future, and uncalled capital of the Bank, or
    - (iii) by both such methods,
- the performance of the obligations of, and the payment of monies secured by, or payable under or in respect of the securities of, any person,

- (b) give and take counter guarantees and indemnities, and
  - (c) give and receive security for the implementation of any obligation
- (7) To undertake the insurance, re-insurance and counter insurance of all kinds of risks and generally to carry on the business of an insurance and guarantee company in all its aspects
- (8) Generally to carry on all or any of the business of a holding company and to—
  - (a) co-ordinate and regulate all or any part of the businesses and operations of any and all companies, firms and businesses controlled directly or indirectly for the time being by the Bank or in which the Bank is interested for the time being, whether as a shareholder or otherwise and whether directly or indirectly, and
  - (b) acquire and hold, either in the name of the Bank or in that of any nominee or trustee—
    - (i) shares,
    - (ii) stocks;
    - (iii) debentures,
    - (iv) debenture stock,
    - (v) bonds,
    - (vi) notes,
    - (vii) obligations; and
    - (viii) securities,issued or guaranteed by any company, corporation or undertaking wherever incorporated or carrying on business, and
  - (c) co ordinate the policy management and administration of any companies, corporations or undertakings in which the Bank is a member or participant or which are controlled by or associated with the Bank in any manner
- (9) To carry on business as an investment holding company and to acquire, invest in and hold by way of investment—
  - (a) shares,
  - (b) stocks,
  - (c) debentures,
  - (d) debenture stock,
  - (e) bonds,
  - (f) bills;
  - (g) notes,
  - (h) obligations,
  - (i) certificates of deposit,
  - (j) mortgages,
  - (k) policies of assurance, and
  - (l) securities of all kinds,created, issued or guaranteed by any person mentioned in sub-paragraph (10) below

- (10) The persons referred to in sub paragraph (9) above are—
- (a) any company, association or partnership, whether with limited or unlimited liability, constituted or carrying on business in any part of the world,
  - (b) any individual,
  - (c) any government, sovereign, ruler, commissioners, public body or authority, supreme, municipal, local or otherwise, in any part of the world, or
  - (d) units of and participants in any trust, scheme, mutual fund or collective investments scheme in any part of the world
- (11) To do any of the following things (alone or with others)—
- (a) act as a trustee (including a custodian trustee or trust corporation),
  - (b) act as the personal representative of anyone's estate,
  - (c) act as the trustee of any securities,
  - (d) act as receiver or treasurer or as a trustee for a receiver or treasurer,
  - (e) act as an attorney,
  - (f) act as an administrator,
  - (g) act as a manager or trustee of any unit trust, investment trust or other form of investment,
  - (h) issue and carry on any business relating to any type of—
    - (i) charge card,
    - (ii) credit card;
    - (iii) debit card,
    - (iv) payment card, or
    - (v) any other type of card, token, voucher, or similar document issued by or for any bank,
  - (i) finance or assist in financing the acquisition, construction, development, sale, hire, or lease of any property or infrastructure and the provision of services in connection therewith, whether by way of any of the following, or otherwise—
    - (i) personal loan,
    - (ii) hire purchase,
    - (iii) instalment finance,
    - (iv) conditional or credit sale, and
    - (v) deferred payment,
  - (j) buy or sell securities (including derivative products) for the account of the Bank or for any other person and to provide any services which may be ancillary to this business,
  - (k) acquire by assignation, assignment or otherwise debts owing to any person and to collect such debts,
  - (l) act as—
    - (i) forwarding agents,
    - (ii) travel and shipping agents,
    - (iii) commission agents,
    - (iv) surveyors,
    - (v) architects,
    - (vi) valuers,

- (vii) auditors,
  - (viii) property consultants and managers,
  - (ix) land and estate agents; and
  - (x) loss adjusters, and
- generally undertake and carry on every kind of professional and agency business in all its forms,
- (m) carry on the business of providing any of the following services for, or in relation to, any person, property or business—
    - (i) secretarial services,
    - (ii) managerial services,
    - (iii) consultancy services,
    - (iv) accountancy services;
    - (v) statistical services,
    - (vi) legal services, and
    - (vii) any executive, supervisory or advisory services,
  - (n) carry on the business of selling, installing, operating, renting and providing—
    - (i) data processing, storage and retrieval equipment and systems,
    - (ii) computers,
    - (iii) computer bureau services, and
    - (iv) communication systems of every kind,
  - (o) act as agent, broker or provider of pensions or pensions advice, or as the manager, trustee or administrator of pension schemes or their assets;
  - (p) seek for and secure, and use and develop, any openings for the employment of capital,
  - (q) keep any register, record or account relating to any securities or funds, and
  - (r) carry out any duties relating to securities or funds, including registering transfers and issuing certificates
- (12) To take any action (including accepting any obligation) which may—
    - (a) uphold, or support, the credit of the Bank,
    - (b) obtain, maintain or restore public confidence; or
    - (c) avoid or minimise financial disturbances which are affecting, or may affect, the Bank's business, either directly or indirectly
  - (13) To acquire any property, business, assets, liabilities or rights which appear to be necessary or convenient for the Bank's purposes, or which contribute towards the Bank's interests
  - (14) To sell, secure (by mortgage, charge, lien, or other form of security), develop, lease, improve and operate or use any property, business, assets or rights belonging to the Bank or in which the Bank may be interested
  - (15) To accept any securities, or other obligations, of any person in consideration for—
    - (a) any property which has been, or may be, let, sold, or disposed of, or

- (b) any services which have been, or may be provided, and to hold and retain or sell, charge, mortgage and deal with any such securities or other obligations so received
- (16) To enter into any partnership or any arrangement to share profits, merge, enter into a joint venture, amalgamate or co operate with any person who carries on, or proposes to carry on, any business within the Bank's objects and to acquire and hold any securities of such person
- (17) To form, or promote, or be involved in forming or promoting any company whose objects—
  - (a) include carrying on any business which the Bank is authorised to carry on,
  - (b) include acquiring, or taking over, any of the Bank's assets or liabilities, or
  - (c) may in any way advance the objects or interests of the Bank, either directly or indirectly
- (18) To acquire and hold the securities of any company referred to in sub paragraph (17) above or of any other person and to guarantee any payment on any securities issued by any such company or any other obligation of any such company
- (19) To acquire in any way, hold and sell any securities of any person whose objects are, either wholly or partly, similar to the Bank's or which appear to the directors of the Bank to be necessary or convenient to promote or advance the Bank's interests
- (20) The securities referred to in sub paragraph (19) can be—
  - (a) acquired either by the Bank alone or together with any other person, and
  - (b) held in the Bank's name or in the name of a nominee
- (21) To exercise and enforce all rights and powers given by, or connected with, the ownership of any of the securities referred to in sub-paragraph (18), including any powers of veto or control which the Bank has by holding those securities
- (22) To carry on any business or activity which is within the Bank's objects or powers by or through subsidiaries, or companies which are controlled, either directly or indirectly, by the Bank and to co ordinate the administration of any of these companies and provide all kinds of services and facilities for any or all of them
- (23) To apply for, and promote, any charter, statute, regulation, licence or concession, and to ask for any action or authorisation from any person anywhere in the world who has legislative or regulatory powers, in order to—
  - (a) extend or change the Bank's objects and powers,
  - (b) alter the Bank's constitution,
  - (c) enable the Bank to carry out its objects or to carry them out better, or
  - (d) for any other purpose which may seem to the directors of the Bank to be expedient

- (24) For the purposes of sub paragraphs (25) to (34) below—  
“the beneficiaries” means past or present directors, officers, employees, agents or consultants or other connected persons (including their dependants and people connected with them) of any of the qualifying bodies, and  
“the qualifying bodies” means—
- (a) the Bank or any holding company of the Bank;
  - (b) any body, whether or not incorporated, in which the Bank or any holding company of the Bank has or had any kind of direct or indirect interest,
  - (c) any body, whether or not incorporated, in which any subsidiary of the Bank has or had any kind of direct or indirect interest, including any building society which has merged with a subsidiary of the Bank,
  - (d) any body, whether or not incorporated, which is allied to or associated with the Bank or any holding company of the Bank,
  - (e) any subsidiary of any company or other body referred to in this paragraph, and
  - (f) any body, whether or not incorporated, acquired by the Bank or by any subsidiary of the Bank (including any building society, the business of which is transferred to the Bank or any subsidiary of the Bank under section 97 of the Building Societies Act 1986 (c. 53))
- (25) To award or grant—
- (a) pensions;
  - (b) allowances,
  - (c) gratuities,
  - (d) bonuses,
  - (e) superannuation, or
  - (f) death, disablement, sickness or other benefit funds,
- to the beneficiaries
- (26) To set up and maintain, or be involved in any other way with setting up and maintaining, trusts, funds, or schemes (whether contributory or non contributory) intended to provide pensions, or other benefits, for any of the beneficiaries
- (27) To set up, maintain and contribute to—
- (a) any scheme or arrangement for encouraging or facilitating the holding of shares or other securities in the Bank or any company associated with it by, or for the benefit of, any of the beneficiaries, or
  - (b) any scheme for sharing profits with the beneficiaries, and
- (as far as permitted by law) to lend money to the beneficiaries with a view to enabling them to acquire shares or other securities in or of the Bank or any other company associated with it
- (28) To form, support, donate, or subscribe to, any charitable funds or institutions, or any benevolent schemes or projects of public or general interest, where the directors of the Bank consider that the Bank's support may be likely to benefit the Bank, its shareholders, or any of the beneficiaries, directly or indirectly

- (29) To set up and maintain any club or other establishment, or any scheme which is intended to advance the interests of the Bank or of any of the beneficiaries
- (30) To take out and renew insurance for, or for the benefit of, any of the beneficiaries
- (31) The insurance referred to in sub paragraph (30) above can include insurance against any liability which any of the beneficiaries have—
  - (a) as a result of anything they do, or do not do, in carrying out or trying to carry out their duties, or using or trying to use their powers in relation to the Bank, or any of the qualifying bodies, or
  - (b) in any other way in connection with their duties, powers or posts in relation to the Bank or any of the qualifying bodies
- (32) To take out and renew insurance for, or for the benefit of, any trustees of any pension fund which the Bank's employees, or employees of any of the qualifying bodies, are interested in
- (33) The insurance mentioned in sub paragraph (32) above can include insurance against any liability referred to in sub paragraph (31) above in relation to their duties as trustees of any such pension funds
- (34) To indemnify, or exempt any of the beneficiaries or the people referred to in sub paragraph (32) above in any other way against, or from, any liability referred to in paragraphs (31) and (33) respectively so far as the law allows
- (35) To pay and discharge all or any expenses, costs and disbursements, to pay commissions and to remunerate any person for services rendered or to be rendered, in connection with the formation, promotion and flotation of the Bank and the underwriting or placing or issue at any time of any securities of the Bank or of any other person
- (36) To the extent permitted by law, to give financial assistance, directly or indirectly, for the acquisition of shares in the Bank or any holding company of the Bank or for the reduction or discharge of any liability incurred for the purpose of such an acquisition
- (37) To issue, allot and grant options over securities of the Bank—
  - (a) for cash or otherwise, or
  - (b) in payment or part payment for—
    - (i) any property or rights therein purchased or otherwise acquired by the Bank, or
    - (ii) any services rendered to, or at the request of, or for the benefit of, the Bank; or
  - (c) as security for, or indemnity for, or towards satisfaction of, any liability or obligation undertaken or agreed to be undertaken by or for the benefit of the Bank, or
  - (d) in consideration of any obligation or liability (even if valued at less than the nominal value of such securities), or
  - (e) for any other purpose
- (38) To undertake and provide any service required in connection with or relating to individual insolvency or bankruptcy or the administration, receivership or winding up of any company

- (39) To acquire any property or any interest in such property, and—  
    (a) to sell, feu, lease, exchange, hire, or otherwise dispose of, and  
    (b) to improve, manage, develop, grant rights or privileges in respect of or otherwise deal with  
any such property or interest or otherwise turn the same to the Bank's advantage
- (40) To build, construct, maintain, alter, enlarge, pull down, remove or replace any—  
    (a) buildings,  
    (b) works,  
    (c) plant and machinery, and  
    (d) all other works and facilities which may seem to the directors of the Bank necessary or convenient for the business of the Bank or likely to be to the Bank's advantage, and  
to work, manage and control the same or to join with any person in doing any of the above
- (41) To apply for, register, purchase, develop or otherwise acquire and protect, prolong and renew intellectual property rights, including, but not limited to, any patents, trade marks, service marks, design rights, copyrights, licences and the like, or any secret or other information as to any invention or process, which in the opinion of the directors of the Bank may be likely to be to the Bank's advantage and—  
    (a) to use, develop, manufacture under or grant licences in respect of, or  
    (b) otherwise turn to account and expend money—  
        (i) in experimenting upon and testing and carrying on all kinds of research and development work in connection with; and  
        (ii) in improving or seeking to improve,  
any such rights and information so developed, acquired or proposed to be acquired
- (42) In any manner to invest and deal with the moneys of the Bank not immediately required by it
- (43) To—  
    (a) enter into any arrangement with any—  
        (i) government or other public body or authority,  
        (ii) company, or  
        (iii) individual, and  
    (b) obtain from any such government, body, authority, company or individual all—  
        (i) enactments,  
        (ii) charters;  
        (iii) contracts,  
        (iv) decrees,  
        (v) rights,  
        (vi) concessions, and  
        (vii) privileges,

which may seem to the directors of the Bank to be conducive to the Bank's purposes or any of them or likely to be to the Bank's advantage, and

- (c) carry out, exercise and comply with any such—
  - (i) enactments,
  - (ii) charters,
  - (iii) contracts,
  - (iv) decrees,
  - (v) rights,
  - (vi) concessions, and
  - (vii) privileges
- (44) To distribute among the shareholders of the Bank in specie or in kind any property of the Bank, and in particular any securities of other companies belonging to the Bank or of which the Bank may have the power of disposing
- (45) To advertise, market and sell the products and services of the Bank and of any other person and to carry on the business—
  - (a) of advertisers or advertising agents, or
  - (b) of a marketing and selling organisation, or
  - (c) of a supplier, wholesaler, retailer, merchant or any other dealer
- (46) To provide—
  - (a) technical,
  - (b) cultural,
  - (c) artistic,
  - (d) educational,
  - (e) entertainment, or
  - (f) business,material, facilities or services and to carry on any business involving any such provision
- (47) To cease carrying on or wind up any business or activity of the Bank and to cancel any registration of and to wind up or procure the dissolution of the Bank in any state or territory
- (48) To secure all or any of the Bank's liabilities in respect of money raised or borrowed, or any other debt or obligation of, or binding on, the Bank, by mortgaging or charging all or any part of the undertaking, property and assets, present and future, and uncalled capital of the Bank
- (49) To transfer to any person any part of, or the whole or substantially the whole of, the business and undertaking of the Bank and all or any rights and liabilities in connection therewith, or to receive from any person any part of, or the whole or substantially the whole of, the business and undertaking of such person and all or any rights and liabilities in connection therewith, whether pursuant to the Financial Services and Markets Act 2000 (c 8) or by such other means as the directors of the Bank think fit
- (50) To establish and maintain branches and agencies in any part of the world

- (51) To carry out any of the objects set out in sub paragraphs (1) to (50)—
- (a) as principal or agent;
  - (b) by or through trustees or agents,
  - (c) in partnership or on a joint account,
  - (d) as joint venture with any person, or
  - (e) in any other way,
- in any part of the world
- (52) To carry on any other trade or business whatever which can, in the opinion of the directors of the Bank—
- (a) be advantageously carried on by the Bank in connection with, or incidental to—
    - (i) any of the businesses referred to in sub paragraphs (1) to (51), or
    - (ii) the general business of the Bank, or
  - (b) be calculated directly or indirectly to—
    - (i) enhance the value of,
    - (ii) facilitate the realisation of, or
    - (iii) render profitable or more profitable,any of the property or rights of the Bank, or
  - (c) be likely to be to the Bank's advantage
- (53) To use any of the powers conferred above and do all such other things as may be deemed, or as the Bank considers, incidental or conducive to the attainment of the above objects or any of them

### *Interpretation*

- 2 The following rules of interpretation apply to this Schedule
- (1) The objects set out in paragraph 1 shall be construed in the widest manner possible and their construction shall not be restricted by the scope of any examples given in those objects
  - (2) Unless the context expressly requires it, the provisions of paragraph 1 will not be limited to, or restricted by—
    - (a) any other object, or objects, set out in the other provisions of paragraph 1,
    - (b) the terms of any other provision of paragraph 1, or
    - (c) the Bank's name
  - (3) None of the—
    - (a) provisions or objects of, or
    - (b) powers conferred by,paragraph 1 shall be treated as subordinate to or incidental to any other such provision, object or power
  - (4) The Bank shall have full power to use any of the powers conferred by, and to achieve or try to achieve any of the objects set out in, any one or more of the provisions of paragraph 1

- (5) In this Schedule, unless the subject or context requires otherwise, the following terms shall have the following meanings—
- “acquire” means to acquire in any way, including purchasing, taking options over, taking on lease or in exchange, hiring, subscribing for, or otherwise acquiring, and for any kind of estate or interest, whether directly or indirectly, by contract, tender, underwriting or in any other way and on any terms and conditions,
  - “the Bank” means Bank of Scotland plc,
  - “company” includes any company or corporate body established anywhere in the world,
  - “holding company” has the same meaning as in the Companies Act 1985 (c 6), except that it also includes any other parent undertaking, as defined in that Act,
  - “person” includes a body of persons corporate or unincorporated,
  - “property” includes real, heritable, moveable and personal property of any kind and any interest in, or right to, any such property,
  - “securities” include any shares, stocks, debentures, debenture stock, bonds, notes or warrants, whether fully or partly paid, and
  - “subsidiary” has the same meaning as in the Companies Act 1985, except that it also includes any other subsidiary undertaking, as defined in that Act

## SCHEDULE 2

Sections 8 and 23

## REPEALS

## PART 1

## BANK OF SCOTLAND

<i>Title and reference</i>	<i>Extent of repeal</i>
An Act of the Parliament of Scotland, 5 William III, 17 July 1695, for Erecting a Bank in Scotland	In the copy printed in Edinburgh by the King's printer of Acts of the Parliament of Scotland— from the words "which shall lie open" on line 24 of page 3 to the words "carrying on the Bank," on line 4 of page 4, the words "under which Name," on line 8 of that page, the words "and shall have a common seal," on line 9 of that page, the words "by the Name foresaid," on line 10 of that page; from the words "And for the better Ordering" on lines 17 and 18 of that page to the words "allanarly, in whose Favours this Act is granted" on line 47 of page 6
The Bank of Scotland Act 1873 (c xcix)	The whole Act
Bank of Scotland Act 1920 (c xxxi)	The whole Act
Bank of Scotland Order Confirmation Act 1954 (c lvi)	Section 15 of the Schedule

PART 2

CLERICAL, MEDICAL AND GENERAL LIFE ASSURANCE SOCIETY

<i>Title and reference</i>	<i>Extent of repeal</i>
The Clerical, Medical and General Life Assurance Act 1961 (c 111)	The whole Act
The Clerical, Medical and General Life Assurance Act 1974 (c 11)	The whole Act

© Crown copyright 2006

Printed in the UK by The Stationery Office Limited  
under the authority and superintendence of Carol Tullo, Controller of  
Her Majesty's Stationery Office and Queen's Printer of Acts of Parliament

7/2006 341731 19585

Published by TSO (The Stationery Office) and available from

**Online**

[www.tso.co.uk/bookshop](http://www.tso.co.uk/bookshop)

**Mail, Telephone, Fax & E mail**

TSO

PO Box 29 Norwich NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Fax orders 0870 600 5533

Order through the Parliamentary Hotline *Lo-call* 0845 7 023474

Email [book.orders@tso.co.uk](mailto:book.orders@tso.co.uk)

Textphone 0870 240 3701

**TSO Shops**

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

68-69 Bull Street, Birmingham B4 6AD

0121 236 9696 Fax 0121 236 9699

9-21 Princess Street, Manchester M60 8AS

0161 834 7201 Fax 0161 833 0634

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

18-19 High Street, Cardiff CF10 1PT

029 2039 5548 Fax 029 2038 4347

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

**The Parliamentary Bookshop**

12 Bridge Street Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders 020 7219 3866

**Accredited Agents**

(see Yellow Pages)

and through good booksellers

**REGULATIONS**  
  
**of**  
  
**BANK of SCOTLAND plc**

2007  
WGS MBH H1094 1002  
FAS NO 7646



**TODS MURRAY LLP**  
SOLICITORS

Edinburgh Quay 133 Fountainbridge Edinburgh EH3 9AG  
Tel 0131 656 2000 Fax 0131 656 2020 DX ED58  
Also at 33 Bothwell Street Glasgow G2 6NL Tel 0141 275 4771 Fax 0141 275 4781 DX 512815 Glasgow Central  
Email [maildesk@todsmurray.com](mailto:maildesk@todsmurray.com)  
[www.todsmurray.com](http://www.todsmurray.com)

## 1 Table A and other standard regulations do not apply

The regulations in Table A of the Companies (Tables A to F) Regulations 1985 (and any similar regulations in any other legislation relating to companies) do not apply to the Company

## 2 The meaning of the Regulations

- 2.1 The following table gives the meaning of certain words and expressions as they are used in the **Regulations**. However, the meaning given in the table does not apply if it is not consistent with the context in which a word or expression appears. Throughout the **Regulations**, those words and expressions defined in this Regulation 2.1 are printed in bold

<b>Words</b>	<b>Definitions</b>
<b>amount</b> (of a share)	This refers to the nominal amount of the share
<b>Auditors</b>	The Company's auditors
<b>Chairman</b>	The chairman of the board of Directors
<b>Class A Perpetual Preference Shares</b>	8 117% non cumulative redeemable Preference Shares of £10 each in the capital of the Company
<b>Class B Perpetual Preference Shares</b>	7 754% non cumulative redeemable Preference Shares of £10 each in the capital of the Company
<b>Companies Act</b>	The Companies Act 1985
<b>company</b>	Includes any company or corporate body established anywhere in the world
<b>the Company</b>	Bank of Scotland plc
<b>Convertible Preference Shares</b>	Preference Shares which will or may be converted into Ordinary Shares or other securities of the Company
<b>Directors</b>	The executive and non executive directors of the Company who make up its board of Directors
<b>existing Preference Shares</b>	Preference Shares which are in issue at the relevant time
<b>existing shares (of any kind)</b>	Shares which are in issue at the relevant time
<b>FSA</b>	The Financial Services Authority or any other person or body which is the regulator of the Company's business at the relevant time
<b>Initial Preference Shares</b>	The 9¼ per cent Preference Shares and 9¾ per cent Preference Shares

<b>Words in writing</b>	<b>Definitions</b> In writing, or any substitute for writing, or both including electronic communication but only to the extent that both the Company and the other party or parties to the communication have agreed to accept it in such form
<b>Governor</b>	The Governor of the Company
<b>Group</b>	The Company together with its subsidiaries
<b>legislation</b>	The Companies Act and all other laws and regulations applying to the Company
<b>Ordinary Resolution</b>	A resolution passed by a simple majority of such shareholders as (being entitled to do so) vote in person or, where proxies are allowed, by proxy at a General Meeting of the Company
<b>Ordinary Shares</b>	The Company's ordinary shares
<b>Ordinary Shareholder</b>	A holder of the Company's Ordinary Shares
<b>paid-up share</b>	Includes a share which is treated (credited) as paid up
<b>Parent Company</b>	HBOS plc, a company incorporated in Scotland under the Companies Act with the registered number 218813
<b>pay</b>	Includes any kind of reward or payment for services
<b>Perpetual Preference Shares</b>	The Class A Perpetual Preference Shares and the Class B Perpetual Preference Shares
<b>Preference Dividend</b>	Has the meaning ascribed thereto in Regulation 4 2 1(i)
<b>Preference Shareholder</b>	A holder of the Company's Preference Shares
<b>Preference Shares</b>	The Company's preference shares Any Preference Shares with a right to cumulative dividends are called Cumulative Preference Shares Any Preference Shares with a right to non cumulative dividends are called Non Cumulative Preference Shares
<b>9¼ per cent. Preference Shares</b>	The non cumulative irredeemable Preference Shares in the capital of the Company which have a dividend rate of 9¼ per cent each year
<b>9¾ per cent Preference Shares</b>	The non cumulative irredeemable Preference Shares in the capital of the Company which have a dividend rate of 9¾ per cent each year
<b>Redeemable Preference Shares</b>	Preference Shares which are to be redeemed or are liable to be redeemed
<b>Redemption Date</b>	Except where otherwise specifically defined in these Regulations, the date on which Redeemable Preference Shares are to be redeemed

<b>Words</b>	<b>Definitions</b>
<b>Register</b>	The Company's register of members
<b>Registered Office</b>	The Company's registered office
<b>Regulations</b>	The Company's Regulations
<b>rights (of any share)</b>	The rights attached to the share at the time it is issued or at any later time
<b>Seal</b>	The Company's Common Seal, any facsimile seal authorised under Regulation 102 6 or any official seal kept by the Company under Section 40 of the Companies Act (called a "Securities Seal")
<b>Secretary</b>	Any person appointed by the Directors to do work as the Company Secretary including (without limit) any deputy or assistant secretary
<b>share capital</b>	This refers to the Company's authorised share capital
<b>shareholder</b>	A holder of the Company's shares
<b>shareholders meeting</b>	Includes both a General Meeting of the Company and a meeting of holders of any class of the Company's shares
<b>subsidiary</b>	A "subsidiary undertaking", as defined in Section 258 of the Companies Act
<b>terms of a share</b>	The terms on which a share is issued or such terms as subsequently amended
<b>United Kingdom</b>	Great Britain and Northern Ireland
<b>working day</b>	In relation to payments, a day on which banks in the country in which a payment is to be made (and, if so specified in the terms of issue of any shares, banks in any other country or countries) are generally open for business and in relation to any other matter, a day, other than a Saturday, Sunday or public holiday when banks in Scotland are generally open for business

- 2 2 References to "**debenture**" include "**debenture stock**" and references to a "**debenture holder**" include a "**debenture stockholder**"
- 2 3 Words which are in the singular may also be read as being in the plural and the other way around
- 2 4 Words which are in the masculine form may also be read as referring to the feminine or to other bodies or persons
- 2 5 References to a "**person**" or "**people**" include any **company**, corporate body, partnership, firm, government authority, body or society (whether incorporated or not)
- 2 6 Any headings in the **Regulations** are only included for convenience They do not affect the meaning of the **Regulations**
- 2 7 When an Act, or a section of an Act, is referred to, this includes any amendment to the Act or the section, as well as its inclusion or re enactment (with or without modification) in a later Act

- 2 8 References to an Act or the **Regulations** are to the version which is current at any particular time
- 2 9 Where the **Regulations** give any power or authority to any person, this power or authority can be used on any number of occasions, unless the way in which the words are used does not allow this meaning
- 2 10 Any word which is defined in the **Companies Act** means the same in the **Regulations**, unless the **Regulations** define it differently or the way in which the word is used is inconsistent with the definition given in the **Companies Act**
- 2 11 Where the **Regulations** say that anything can be done by passing an **Ordinary Resolution**, this can also be done by passing a Special Resolution or an Extraordinary Resolution
- 2 12 Where the **Regulations** refer to changing the **amount** of shares, this means doing any or all of the following
- subdividing the shares into other shares with a smaller nominal amount,
  - consolidating the shares into other shares with a larger nominal amount, and
  - dividing shares which have been consolidated into shares with a larger nominal amount than the original shares had
- 2 13 Where the **Regulations** refer to any document being "**made effective**", this means being signed, sealed or executed in some other legally valid way
- 2 14 Where the **Regulations** refer to "months" or "years", these are calendar months or years
- 2 15 The **Regulations** which apply to fully paid shares can also apply to stock. References in the **Regulations** to "share" or "shareholder" include "stock" or "stockholder"
- 2 16 Where the **Regulations** refer to "**communication**" and "**electronic communication**", these terms have the same meaning in the **Regulations** as in the Electronic Communications Act 2000. References to "**electronic communication**" include email, facsimile, CD Rom, audio tape and telephone transmission and publication on a web site
- 2 17 Where the **Regulations** refer to "**address**", this includes, in relation to electronic communication, any number or address used for the purpose of the electronic communication
- 2 18 References to a meeting shall not be taken as requiring more than one person to be present if any quorum requirement can be satisfied by one person

## **SHARE CAPITAL**

### **3 Form of the Company's Share Capital**

- 3 1 **The Company's share capital** at the date on which Part 2 of the HBOS Group Reorganisation Act 2006 comes into force consists of (i) 2,085,301,755 **Ordinary Shares** of 25p each, (ii) 375,000,000 **9¼ per cent. Preference Shares** of £1 each, (iii) 125,000,000 **9¾ per cent. Preference Shares** of £1 each, (iv) 250,000 **Class A Perpetual Preference Shares** of £10 each and (v) 150,000 **Class B Perpetual Preference Shares** of £10 each
- 3 2 The rights of **the Company's Ordinary Shares** to income and capital are as follows
- 3 2 1 Rights to income

Any profits of any financial year which the **Directors** or **Ordinary Shareholders** (subject to Regulation 106) decide to distribute to the **Ordinary Shareholders** will be distributed in proportion to the amounts paid up on their **Ordinary Shares**. This is subject to the **rights** of any other class of shares which then exist.

### 3.2.2 Rights to capital

If there is a return of capital because the **Company** is wound up, the **Company's** assets which are left after paying its liabilities will be distributed to the **Ordinary Shareholders** in proportion to the amounts paid up on their **Ordinary Shares**. This is subject to the **rights** of any other class of shares which then exist.

## PREFERENCE SHARES

### 4 The rights of the Preference Shares

4.1 The **rights** attaching to the **9¼ per cent Preference Shares**, the **9¼ per cent. Preference Shares**, the **Class A Perpetual Preference Shares** and the **Class B Perpetual Preference Shares** are set out in Regulations 4.2, 4.3, 4.4 and 4.5 respectively. As regards any other series of **Preference Shares** (other than the **Initial Preference Shares** and the **Perpetual Preference Shares**), the **rights** thereof shall be determined in accordance with Regulations 4.6 to 4.9 inclusive and Regulations 5 to 11 inclusive. In the event of any conflict or inconsistency between the respective provisions of Regulations 4.2, 4.3, 4.4 and 4.5 and any other Regulations, as regards the **rights** of and the restrictions which apply to the **9¼ per cent. Preference Shares**, the **9¼ per cent Preference Shares**, the **Class A Perpetual Preference Shares** and the **Class B Perpetual Preference Shares** respectively, the provisions of Regulations 4.2, 4.3, 4.4 and 4.5 shall prevail.

4.2 The **rights** attaching to the **9¼ per cent Preference Shares** shall be as follows:

#### 4.2.1 Income

- (i) The **9¼ per cent. Preference Shares** shall (subject to the further provisions of this paragraph) entitle the **Preference Shareholders** holding the same to receive a fixed non cumulative preferential dividend (hereinafter called the "**Preference Dividend**"), which shall be calculated at the rate of **9¼ per cent per annum** (exclusive of any imputed tax credit available to such **Preference Shareholders**) on the amounts (excluding any premium) from time to time paid up or credited as paid up thereon. The **Preference Dividend** shall be payable in each year in equal half yearly instalments on 31st May in respect of the half yearly period ending on the preceding 28th February (or in a leap year 29<sup>th</sup> February) and on 30th November in respect of the half yearly period ending on the preceding 31st August. The **Preference Dividend** payable in respect of any financial year shall be paid in priority to the payment of any dividend on the **Ordinary Shares** in respect of that financial year.
- (ii) The **9¼ per cent. Preference Shares** in issue shall rank equally for dividend with any further **Preference Shares** created and/or issued pursuant either to sub paragraph (vi) below or to paragraph 4.2.4 of this Regulation and otherwise in priority to any other shares of the **Company**.
- (iii) If, on any date on which an instalment of the **Preference Dividend** would fall to be paid under sub paragraph (i) above, the distributable profits and distributable reserves of the **Company** are together insufficient to enable payment in full to be made of such instalment and, if applicable, of any instalments of dividends payable on such date on any other **Preference Shares** ranking equally with the **9¼ per cent Preference Shares** as regards dividend, then none of the said instalments shall be paid. If it shall

subsequently appear that any instalment of the **Preference Dividend** or of any such other preferential dividend which has been paid should not, in accordance with the provisions of this sub paragraph, have been so paid, then provided the **Directors** shall have acted in good faith, they shall not incur any liability for any loss which any **Shareholder** may suffer in consequence of such payment having been made

- (iv) Where any instalment of the **Preference Dividend** is payable in terms of the foregoing provisions of this paragraph, the **Directors** shall resolve to make payment of such instalment, provided however that such instalment shall not be payable if in the judgement of the **Directors** the payment of such instalment would breach or cause a breach of the capital adequacy requirements of the **FSA** from time to time applicable to the **Company**
- (v) Subject to sub paragraph (vi) below, the **9¼ per cent. Preference Shares** shall carry no further rights to participate in the profits and reserves of the **Company** other than the **Preference Dividend** and if on any occasion a half yearly instalment of the **Preference Dividend** is not paid for the reasons described in sub paragraph (iii) or sub paragraph (iv) above, the holders of **9¼ per cent. Preference Shares** shall have no claim in respect of such shortfall

(vi)

- (a) The provisions of this sub paragraph shall apply where any instalment of the **Preference Dividend** is, for the reasons specified in sub paragraph (iii) or sub paragraph (iv) above, not to be payable and the amount (if any) at credit of the profit and loss account of the **Company** together with the amount of the reserves of the **Company** available for the purpose are sufficient to enable the allotments of additional **Preference Shares** referred to in the further provisions of this sub paragraph to be made in full

- (b) For the purposes of this sub paragraph

- (i) "Relevant Shares" means **9¼ per cent Preference Shares** and any **Preference Shares** of the **Company** ranking equally with the **9¼ per cent Preference Shares** as regards dividend in respect of which an instalment of preference dividend which would have been payable on the same date as a Relevant Instalment on **9¼ per cent. Preference Shares** is not to be paid, and

- (ii) "Relevant Instalment" means an instalment of preference dividend which is not to be paid on Relevant Shares on any occasion,

and where a **Preference Shareholder** holds Relevant Shares of more than one class, the provisions of this sub paragraph shall be interpreted and applied separately in respect of each class of Relevant Shares held by him

- (c) Each **Preference Shareholder** of Relevant Shares shall, on the date for payment of the Relevant Instalment had such instalment been paid in cash, be allotted such additional nominal amount of **Preference Shares** of the class in question, credited as fully paid, as is equal to an amount determined by multiplying the cash amount of the Relevant Instalment that would have been payable to him, had such instalment been payable in cash, by four thirds and rounding the resulting sum down to the nearest integral multiple of £1 A

**Preference Shareholder** receiving an allotment of additional **Preference Shares** in terms of this sub paragraph shall not be entitled to receive any part of the Relevant Instalment relating to Relevant Shares of that class in cash

- (d) For the purpose of paying up **Preference Shares** to be allotted on any occasion pursuant to this sub paragraph, the **Directors** shall capitalise out of the sums standing to the credit of the profit and loss account of **the Company** and/or to the credit of **the Company's** reserve accounts (including share premium account) available for the purpose, as the **Directors** may determine, a sum equal to the aggregate nominal amount of the additional **Preference Shares** then to be allotted and apply the same in paying up in full the appropriate amount of unissued **Preference Shares** of the class or classes in question
- (e) The additional **Preference Shares** so allotted shall rank equally in all respects with the fully paid Relevant Shares of the same class then in issue save only as regards participation in the Relevant Instalment
- (f) The **Directors** may undertake and do such acts and things as they may consider necessary or expedient for the purpose of giving effect to the provisions of this paragraph

#### 4 2 2 Capital

- (i) On a distribution of assets on a winding up of **the Company**, **Preference Shareholders** holding **9¼ per cent. Preference Shares** shall in respect thereof be entitled to receive, out of the surplus assets remaining after payment of **the Company's** liabilities, an amount equal to the amount paid up or credited as paid up on each **9¼ per cent Preference Share** (excluding any premium paid to **the Company** in respect thereof)
- (ii) In addition to the amount repayable on each **9¼ per cent. Preference Share** pursuant to sub paragraph (i) above there shall be payable
  - (a) the amount of any half yearly instalment of the **Preference Dividend** which is properly payable in accordance with paragraph 4 2 1 of this Regulation in respect of a period ending prior to the date of commencement of the winding up of **the Company** but in respect of which the date for payment had not occurred prior to the date of such commencement, and
  - (b) a sum equal to the **Preference Dividend** which would have been payable by **the Company** in accordance with paragraph 4 2 1 of this Regulation calculated at the annual rate specified in sub paragraph (i) of that paragraph 4 2 1 in respect of the number of days included in the period commencing with whichever of 1<sup>st</sup> March or 1<sup>st</sup> September shall more recently have occurred prior to the date of commencement of the winding up of **the Company** and ending with the date of such commencement, as though such period had been one in relation to which a half yearly instalment of the **Preference Dividend** would have been payable pursuant to sub paragraph (i) of paragraph 4 2 1 of this Regulation, but subject always to the provisions of sub paragraphs (iii), (iv) and (v) of that paragraph
- (iii) The amounts payable or repayable under sub paragraphs (i) and (ii) of this paragraph 4 2 2 in the event of a winding up of **the Company** shall be so paid equally with any amounts payable or repayable in that event upon or in respect of any further **Preference Shares** of **the Company** ranking equally

with the **9¼ per cent Preference Shares** as regards repayment of capital, and shall be so paid in priority to any repayment of capital on any other class of **shares of the Company**. The holders of **9¼ per cent Preference Shares** shall not be entitled in respect thereof to any further or other right of participation in the assets of **the Company** upon a winding up

#### 4.2.3 Voting

The holders of **9¼ per cent Preference Shares** shall be entitled to receive notice of and to attend any General Meeting of **the Company** but shall not, in respect of the **9¼ per cent Preference Shares**, be entitled to speak and/or vote upon any resolution other than

- (i) a resolution for, or in relation to, the winding up of **the Company**, or
- (ii) a resolution varying, altering or abrogating any of the rights, privileges, limitations or restrictions attached to the **9¼ per cent Preference Shares** (passed in accordance with Regulation 40) unless at the date of such meeting the most recent half yearly instalment of the **Preference Dividend** due to be paid prior to such meeting shall not have been paid in cash

Each holder of **9¼ per cent Preference Shares** present in person (including by a corporate representative authorised in accordance with Regulation 67) or by proxy and entitled to vote shall have one vote on a show of hands and on a poll shall have one vote for each **9¼ per cent Preference Share** held by him

#### 4.2.4 Further Shares

- (i) Save as provided in paragraph 4.2.1(vi) of this Regulation and in this paragraph, **the Company** shall not create or issue any further shares ranking as regards participation in the profits or assets of **the Company** equally with or in priority to the **9¼ per cent Preference Shares**
- (ii) **The Company** may from time to time create and issue further **Preference Shares** ranking equally as regards participation in the profits and assets of **the Company** with the **9¼ per cent Preference Shares** but so that any such further **Preference Shares** may carry as regards participation in the profits and assets of **the Company** only rights identical in all respects to those attaching to the **9¼ per cent Preference Shares** or rights differing therefrom in one or more of the following respects, viz
  - (a) the rate of dividend may differ,
  - (b) the dates for payment of dividend and/or the periods by reference to which dividend is payable may differ

provided that an issue of such further **Preference Shares** may only be made if the **Auditors** shall have certified in writing to **the Company** that immediately following such issue (i) the aggregate nominal amount of the **9¼ per cent Preference Shares** in issue and all further **Preference Shares** then in issue and ranking equally therewith will not exceed an amount equal to 25 per cent of the Adjusted Capital and Reserves (as hereinafter defined), and (ii) the average of the profits after taxation and before extraordinary items and dividends, on an annualised basis, for the three most recent financial years of **the Company** to have ended prior to the date of such issue, as shown in the audited consolidated accounts relating thereto, shall exceed four and one half times the aggregate annual amount of the dividends (exclusive of any imputed tax credit available to **shareholders**) payable on the **9¼ per cent Preference Shares** in issue and any further **Preference Shares** of **the Company** which are in issue immediately

following such issue and rank equally with the **9¼ per cent. Preference Shares**

For the purposes of these **Regulations**

(A) "the Adjusted Capital and Reserves" means the aggregate from time to time of

- (I) the amount paid up or credited as paid up on the issued **share capital of the Company**, and
- (II) the amount standing to the credit of reserve accounts, including any share premium account and revaluation reserve and the credit balance on profit and loss account

all as shown in the then latest audited consolidated balance sheet dealing with the state of affairs of **the Company** and such of its **subsidiaries** as are dealt with in the audited consolidated accounts ('the Balance Sheet') but after

- (1) deducting from the aggregate any debit balance on profit and loss account subsisting at the date of the Balance Sheet except to the extent that deduction has already been made on that account,
  - (2) deducting any amount referable to goodwill (arising other than on consolidation) or any other intangible asset (as that term falls to be interpreted for the purpose of the preparation of a balance sheet in accordance with Schedule 4 to the **Companies Act**),
  - (3) deducting an amount equal to any distribution (other than distributions to any member of the **Group**) out of the profits accrued prior to the date of the Balance Sheet, in so far as not provided for therein,
  - (4) excluding any sums set aside for future taxation (including deferred taxation),
  - (5) excluding any amounts attributable to outside interests in **subsidiaries**,
  - (6) making such adjustments as may be appropriate to reflect any variation in the amount of the paid up **share capital** or share premium account since the date of the Balance Sheet, and
  - (7) making such adjustments as may be appropriate to reflect the issue of the further **Preference Shares** then to be issued,
- (B) **the Company** may from time to time change the accounting conventions on which the audited consolidated accounts are based provided that any new convention adopted complies with the requirements of the **Companies Act**, and
- (C) a certificate or report by the **Auditors of the Company** as to the amount of the Adjusted Capital and Reserves or to the effect that a limit imposed by this sub paragraph of this Regulation has not been or will not be exceeded at any particular time or times shall be conclusive evidence of the amount or of that fact
- (iii) The creation or issue of further **Preference Shares** ranking equally with the **9¼ per cent. Preference Shares** as provided for under sub paragraph

4 2 4 (ii) above (and the creation or issue of, or the variation, alteration or abrogation of or addition to the rights attaching to, any shares of the **Company** ranking after the **9¼ per cent. Preference Shares** as regards participation in the profits and assets of the **Company**) shall be deemed not to be a variation, alteration or abrogation of the rights, privileges, limitations or restrictions attached to the **9¼ per cent Preference Shares**. If any further **Preference Shares** of the **Company** shall have been issued, then any subsequent variation, alteration or abrogation of or addition to the rights, privileges, limitations or restrictions attaching to any of such further **Preference Shares** shall be deemed not to be a variation, alteration or abrogation of the rights attaching to the **9¼ per cent. Preference Shares** provided that the rights attaching to such further **Preference Shares** thereafter shall be such that the creation and issue by the **Company** of further **Preference Shares** carrying those rights would have been permitted under sub paragraph 4 2 4 (ii) above

4 3 The rights attaching to the **9¼ per cent Preference Shares** shall be as follows

**9¼ per cent Preference Shares** in issue shall rank in all respects equally with the **9¼ per cent Preference Shares** and carry the same rights as are conferred on the **9¼ per cent Preference Shares** in accordance with these **Regulations** save that

4 3 1 the dividend attaching to the **9¼ per cent Preference Shares** shall be calculated at the rate of **9¼ per cent per annum** (exclusive of any imputed tax credit available to the holders thereof) on the amounts (excluding any premium) from time to time paid up or credited as paid up thereon, and

4 3 2 the provisions of these **Regulations** shall be interpreted as applying *mutatis mutandis* to **9¼ per cent Preference Shares** from their date of issue as though references herein to **9¼ per cent. Preference Shares** included a reference to such **9¼ per cent Preference Shares** for the time being in issue and references herein to the **Preference Dividend** (as referred to in Regulation 4 2 1(i)) included a reference to the dividend payable on such **9¼ per cent Preference Shares** for the time being in issue, save that

- (i) the provisions of Regulation 4 2 1(i) shall apply subject to such modifications as are required to give effect to the rate of dividend attaching to the **9¼ per cent. Preference Shares** set out above, and
- (ii) the provisions of Regulation 115 5 shall be applied separately in relation to the **9¼ per cent Preference Shares** and the other classes of **Preference Shares** in issue at the relevant time

4 4 The rights attaching to the **Class A Perpetual Preference Shares** shall be as follows

4 4 1 Definitions

In this Regulation 4 4, except to the extent that the context otherwise requires and notwithstanding anything to the contrary in Regulation 2 1

"Actual/Actual Basis" means, in respect of any Dividend Period, the number of days from and including the day on which a Dividend was paid in respect of the immediately preceding Dividend Period to but excluding the day on which a Dividend is paid in respect of that Dividend Period, divided by the number of days in the Dividend Period multiplied by the number of Dividend Periods in the year. In respect of the Dividend Period in which the Issue Date occurs, the immediately preceding "Dividend Period" shall mean the period ending on whichever of 31<sup>st</sup> May and 30th November shall last have occurred prior to the Issue Date and the date on which a Dividend was paid in respect of that period shall be construed as the date on which a Distribution was paid in respect of the corresponding

Distribution Period on the £250,000,000 8 117% Non cumulative Perpetual Preferred Securities, Class A issued by Bank of Scotland Capital Funding L P (or would have been paid but for the restrictions under the terms of issue thereof) ("Distribution" and "Distribution Period" having the respective meanings attributed thereto by the terms of issue of the 8 117% Non cumulative Perpetual Preferred Securities, Class A issued by Bank of Scotland Capital Funding L P ) References to a Dividend being paid on a particular day shall include any day on which a Dividend would, but for the restrictions in paragraph 4 4 2, have been paid,

"Additional Amounts" has the meaning given to that term in paragraph 4 4 6,

"Bonus Shares" means, in relation to the Existing Preference Shares, such additional **Preference Shares** credited as fully paid as may require to be issued pursuant to these **Regulations** to holders of Existing Preference Shares where an instalment of the preference dividend thereon is not paid for the reasons specified in these **Regulations**,

"Calculation Agent" means such person as is appointed from time to time by **the Company** as calculation agent in connection with the Perpetual Preference Shares,

"Dividend Date" means 31st May and 30th November in each year,

"Dividend Period" means the period from (and including) whichever of 31<sup>st</sup> May and 30<sup>th</sup> November shall have last occurred prior to the Issue Date to (but excluding) the first Dividend Date and each period thereafter from (and including) one Dividend Date to (but excluding) the next following Dividend Date,

"Dividend Rate" means (i) in respect of each Dividend Period until 31st May 2010, 8 117 per cent per annum, and (ii) in respect of each Dividend Period from 31st May 2010, a rate determined in accordance with paragraph 4 4 2(ii)(b) as being equal to the sum of the Reference Rate in effect during the relevant Dividend Period plus the Margin,

"Dividends" has the meaning given to that term in paragraph 4 4 2 and "Dividend" has a corresponding meaning,

"Early Redemption Date" means any date designated for redemption for tax or regulatory reasons of the Perpetual Preference Shares as described under paragraphs 4 4 4(iii) or 4 4 4(iv),

"Existing Preference Shares" means the **9¼ per cent. Preference Shares**, the **9¾ per cent. Preference Shares** and shall include any further **Preference Shares** required to be issued pursuant to these **Regulations** to the holders thereof where an instalment of the preference dividend thereon is not paid for the reasons specified in these **Regulations**,

"Holder" means, in respect of the Perpetual Preference Shares, each person registered on the Register as the holder at the relevant time,

"Issue Date" means the date of issue of the Perpetual Preference Shares,

"Liquidating Distribution" means an amount equal to the Liquidation Preference together with any accrued but unpaid Dividend from and including the commencement of the Dividend Period in which the date of the winding up falls (taking into account any interim liquidation distribution that may have been paid),

"Liquidation Preference" means the liquidation preference of £1,000 per £10 nominal of Perpetual Preference Shares,

"London Business Day" means a day other than a Saturday or Sunday on which commercial banks and foreign exchange markets settle payments and are open for general business in London,

"Make Whole Amount" means an amount equal to the sum of (i) the present value of the Liquidation Preference at the next succeeding Optional Redemption Date plus (ii) the present values of the scheduled semi annual non cumulative Dividends from and including the Early Redemption Date to and including the next succeeding Optional Redemption Date in each case discounted to the Early Redemption Date at a rate equal to the sum of 0.50% and the gross redemption yield (as calculated by the Calculation Agent on the basis set out by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Vol 105, Part 1, 1978, page 18 (as amended or updated) on a semi annual compounding basis (rounded to four decimal places) of such U.K. government gilt edged security as has prior to the Early Redemption Date a maturity nearest to the next succeeding Optional Redemption Date (the "Relevant Gilt") with the price of the Relevant Gilt for this purpose being the arithmetic average of the bid and offered prices of the Relevant Gilt quoted (to four decimal places) at 3.00 pm (London time) on the fifth London Business Day prior to the Early Redemption Date by three brokers of gilts or gilt edged market makers chosen by the Calculation Agent for the purpose on a dealing basis for settlement on the next London Business Day,

"Margin" means 3.85 per cent per annum,

"Optional Redemption Date" means 31<sup>st</sup> May 2010 and each fifth anniversary thereafter,

"Optional Redemption Price" means an amount equal to the Liquidation Preference,

"Parity Obligations" means any other **Preference Shares** (other than the Existing Preference Shares) issued by **the Company** that are not expressly stated to rank in all material respects senior or junior to the Perpetual Preference Shares and any guarantee given or support agreement entered into by **the Company** in respect of any preference shares or other preferred securities (not constituting debt obligations) having in all material respects the same ranking as preference shares, issued by any **Subsidiary** that are not expressly stated to rank in all material respects senior or junior to the Perpetual Preference Shares,

"Paying and Transfer Agent(s)" means such entity or entities as is or are appointed from time to time by **the Company** as paying and transfer agent(s) and notified to the Holders in the manner described in Regulations 120 – 125,

"Perpetual Preference Shares" means the **Class A Perpetual Preference Shares** and includes any further perpetual preference shares of **the Company** of the same class issued after the Issue Date and ranking equally with the **Class A Perpetual Preference Shares** as regards participation in the profits and assets of **the Company**,

"Redemption Condition" means that the consent of the **FSA** to the redemption of the Perpetual Preference Shares, if then required, has been obtained

"Redemption Date" means an Early Redemption Date or an Optional Redemption Date, as applicable,

"Reference Rate", "Reference Rate Determination Date", "Reference Rate Market Makers", "Reference Rate Period", "Reference Security" and "Reset Date" have the respective meanings given to such terms in paragraph 4.4.2(ii),

"Register" means the register of Holders,

"Registrar" means such entity appointed from time to time by the **Company** to act as registrar in relation to the Perpetual Preference Shares and notified to the holders in the manner described in Regulations 120 – 125,

"Regulatory Event" means a change in any applicable law or regulation, or in the official interpretation or application thereof, which results in more than an insubstantial risk that for the purposes of the **FSA's** capital adequacy requirements applicable to banks in the United Kingdom at that time an amount equal to the total Liquidation Preference of the Perpetual Preference Shares will not be included in the Tier 1 capital of **the Company**,

"Regulatory Redemption Price" means the higher of an amount equal to the Liquidation Preference and the Make Whole Amount determined by the Calculation Agent,

"Relevant Proportion" means (a) in relation to any partial payment of a Dividend, the amount available for payment of dividend (after deduction of the aggregate amount of the dividend to be paid on the Existing Preference Shares on that Dividend Date) in accordance with these **Regulations** divided by the sum of (i) the total amount originally scheduled to be paid by way of Dividend on the Perpetual Preference Shares on the relevant Dividend Date and (ii) the sum of any dividends or other distributions or payments in respect of Parity Obligations due and payable on that Dividend Date, converted where necessary into the same currency in which distributable reserves are reported by **the Company**, and (b) in relation to any partial payment of any Liquidating Distribution, the total amount available for any such payment and for making any liquidating distribution on any Parity Obligations divided by the sum of (i) the full Liquidating Distribution before any reduction or abatement hereunder and (ii) the amount (before any reduction or abatement hereunder) of the full liquidating distribution on any Parity Obligations, converted where necessary into the same currency in which liquidation payments are made to creditors of **the Company**,

"Stock Exchange" means the Luxembourg Stock Exchange or such other stock exchange as may be approved by **the Company** on which the Perpetual Preference Shares may be listed from time to time,

"Subsidiary" means any entity which is for the time being a subsidiary or a subsidiary undertaking of **the Company** (within the respective meanings of the Companies Acts 1985 and 1989),

"Tax Event" means that, as a result of a change in any law or regulation of the United Kingdom, or in any treaty to which the United Kingdom is a party, or in the official interpretation or application of any law, regulation or treaty by any relevant body in the United Kingdom payments to Holders would be subject to deduction or to withholding tax or would give rise to any obligation to account for any tax in the United Kingdom, and

"Tax Redemption Price" means an amount equal to the Liquidation Preference

#### 4.4.2 Dividends

- (i) Subject as provided in sub paragraph 4.4.2 (iii), non cumulative preferential cash dividends on the Perpetual Preference Shares ("Dividends") shall accrue from whichever of 31<sup>st</sup> May and 30<sup>th</sup> November shall last have occurred prior to the Issue Date (or, in the case of any further perpetual preference shares issued so as to rank equally with the Perpetual Preference Shares as regards participation in the profits and assets of **the Company**, their respective dates of issue or such other date or dates as the

**Directors** may prior to their issue determine) and shall be payable in arrear on each Dividend Date

(ii) Dividends in respect of any Dividend Period will be payable on each £10 nominal of Perpetual Preference Shares at the applicable Dividend Rate on the amount of the Liquidation Preference. Dividends will be non cumulative and will accrue on a day by day basis. Accrued Dividends in respect of each Dividend Period shall be calculated on an Actual/Actual Basis

(a) (If applicable) Dividends in respect of periods from (and including) whichever of 31<sup>st</sup> May and 30<sup>th</sup> November shall last have occurred prior to the Issue Date to (but excluding) 31st May 2010 will be calculated at a Dividend Rate of 8.117 per cent per annum

(b) Dividends in respect of periods from (and including) 31st May 2010 will be calculated at a Dividend Rate equal to the sum of the Reference Rate plus the Margin. On each Reference Rate Determination Date, the Calculation Agent shall calculate the Reference Rate in accordance with the following

"Reference Rate" shall mean, in respect of any Reference Rate Period, the gross redemption yield (as calculated by the Calculation Agent on the basis set out by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Vol 105, Part 1, 1978, page 18 (as amended or updated)) on a semi annual compounding basis (rounded, if necessary, to four decimal places) of the Reference Security, with the price of the Reference Security for this purpose being the arithmetic average of the bid and offered prices of the Reference Security quoted (to four decimal places) by the Reference Rate Market Makers at 3.00 p.m. (London time) on the relevant Reference Rate Determination Date on a dealing basis for settlement on the next following London Business Day,

"Reference Rate Determination Date" shall mean the day that is five London Business Days prior to the beginning of each Reference Rate Period,

"Reference Rate Market Makers" shall mean three brokers of gilts and/or gilt edged market makers chosen by the Calculation Agent for the purpose of calculating the Reference Rate,

"Reference Rate Period" shall mean each five year period from (and including) one Reset Date to (but excluding) the next Reset Date,

"Reference Security" shall mean such U.K. government security having a maturity date on or about the last day of the relevant Reference Rate Period as may be selected by the Calculation Agent with the advice of the Reference Rate Market Makers, and

"Reset Date" shall mean 31st May 2010 and each fifth anniversary thereafter

The Calculation Agent will at or as soon as practicable after each time at which the Reference Rate is to be determined, determine the Reference Rate for the relevant Reference Rate Period. Each such determination will be notified to **the Company**, the Registrar, the Stock Exchange and the Holders before the commencement of the relevant Reference Rate Period

In the event that the Issue Date occurs after a Reset Date, the Dividend Rate shall until the next Reset Date be calculated on the basis of the Distribution Rate applicable immediately prior to the Issue Date to the £250,000,000 8 117% Non cumulative Perpetual Preferred Securities, Class A, issued by Bank of Scotland Capital Funding L P (as "Distribution Rate" is defined in the terms of issue of such 8 117% Non cumulative Perpetual Preferred Securities, Class A)

- (iii) Dividends will be payable out of **the Company's** own legally available resources on each Dividend Date and shall be subject to the prior ranking for dividend of the Existing Preference Shares. Notwithstanding any resources legally available for distribution by it, **the Company** will not, save to the extent provided in paragraph 4.4.2(iv), pay a Dividend or make any payment in respect of a Dividend on the Perpetual Preference Shares if, on the relevant Dividend Date, **the Company** is prevented by applicable U.K. banking regulations or other requirements from making payment in full of Dividends or dividends or other distributions on its Parity Obligations.
- (iv) If, whether by reason of the provisions of paragraph 4.4.2(iii) or any equivalent regulation or term of a Parity Obligation, on any Dividend Date Dividends are not paid in full on the Perpetual Preference Shares or dividends or other distributions are not paid in full on any Parity Obligations, but there are sufficient distributable reserves (after deduction of the aggregate amount of the dividend to be paid on the Existing Preference Shares on the relevant Dividend Date) so as to allow payment of part of any Dividend, then each Holder will be entitled to receive the Relevant Proportion of any such Dividend. No Holder shall have any claim in respect of any Dividend or part thereof not payable as a result of the limitations set out in paragraph 4.4.2(iii). Accordingly, such amount will not cumulate for the benefit of the Holders or entitle the Holders to any claim in respect thereof against **the Company**.
- (v) In the event that any Dividend is not paid in full as a result of paragraph 4.4.2(iii), **the Company** will not (a) declare or pay any dividends or other distributions in respect of its **Ordinary Shares** or (if permitted) effect any repurchase of its **Ordinary Shares** or any other security of **the Company** ranking junior to the Perpetual Preference Shares (or contribute any moneys to a sinking fund for the redemption of any such shares or securities) until after the second consecutive following Dividend Date on which a Dividend in respect of the Perpetual Preference Shares is paid in full (or an amount equivalent to the Dividends to be paid in respect of the next two Dividend Periods has been paid or irrevocably set aside in a separately designated trust account for payment to the Holders) or (b) (if permitted) repurchase or redeem Parity Obligations which are securities until after the second consecutive following Dividend Date on which a Dividend in respect of the Perpetual Preference Shares is paid in full (or an amount equivalent to the Dividends to be paid in respect of the next two Dividend Periods has been paid or irrevocably set aside in a separately designated trust account for payment to the Holders).
- (vi) In the event that any Dividend cannot be paid in full, **the Company** will notify or procure notification to the Stock Exchange, the Registrar and the Paying and Transfer Agent(s), and to Holders in accordance with Regulations 120-125, of the fact and of the amount, if any, to be paid in respect of that Dividend.
- (vii) Save as described above, Holders will have no right to participate in the profits of **the Company**.

#### 4 4 3 Liquidating Distributions

- (i) In the event of the commencement of any winding up of **the Company** before the redemption of the Perpetual Preference Shares, the Holders at that time will be entitled to receive the Liquidating Distribution, in respect of each £10 nominal of Perpetual Preference Shares held, out of the assets of **the Company** available for distribution to such Holders. Such entitlement will arise (i) before any distribution of assets is made in respect of the **Ordinary Shares** or any other security or obligation of **the Company** which is subordinated to the Perpetual Preference Shares and (ii) equally with the equivalent claims under all outstanding Parity Obligations but (iii) after the claims of depositors and all other creditors of **the Company** and holders of obligations of **the Company** which are not Parity Obligations (nor subordinated to the Perpetual Preference Shares) and of the holders of the Existing Preference Shares
- (ii) If the Liquidating Distribution and any other such liquidation distributions in respect of Parity Obligations cannot be made in full by reason of the limitation described in paragraph 4 4 3(i) or any equivalent regulation or term of a Parity Obligation, but there are funds available for payment so as to allow payment of part of the Liquidating Distribution then each Holder will be entitled to receive the Relevant Proportion of the Liquidating Distribution. After payment of the Liquidating Distribution, or the Relevant Proportion thereof, if applicable, the Holders will have no right or claim to any of the remaining assets of **the Company**

#### 4 4 4 Redemption

- (i) The Perpetual Preference Shares are perpetual shares of **the Company**. The Perpetual Preference Shares may be redeemed, at the option of **the Company** only, in the circumstances set out in paragraphs 4 4 4(ii), 4 4 4(iii) and 4 4 4(iv)
- (ii) The Perpetual Preference Shares may be redeemed, in whole but not in part, at the option of **the Company**, subject to satisfaction of the Redemption Condition and to applicable law, on the Optional Redemption Date upon not less than 30 nor more than 60 days' notice to the Holders specifying the Optional Redemption Date (which notice shall be irrevocable). Upon the expiry of such notice, **the Company** shall be bound to redeem the Perpetual Preference Shares in accordance with the provisions set out in paragraphs 4 4 4(v) to 4 4 4 (viii) of this Regulation
- (iii) If at any time a Tax Event has occurred and is continuing, the effect of which cannot be avoided by **the Company** taking reasonable measures available to it, then the Perpetual Preference Shares may be redeemed, in whole but not in part, at the option of **the Company**, subject to satisfaction of the Redemption Condition and to applicable law, at any time upon not less than 30 nor more than 60 days' notice to the Holders specifying the Early Redemption Date (which notice shall be irrevocable)

Prior to the service of any notice of redemption pursuant to the foregoing, **the Company** shall deliver to the Registrar a certificate signed by two **Directors** stating that **the Company** is entitled to effect such redemption of the Perpetual Preference Shares and an opinion of counsel to **the Company** experienced in such matters to the effect that a Tax Event has occurred. Upon the expiry of such notice, **the Company** shall be bound to effect the redemption of the Perpetual Preference Shares in accordance with the provisions set out in paragraphs 4 4 4(v) to 4 4 4(viii)

- (iv) If at any time a Regulatory Event has occurred and is continuing, the Perpetual Preference Shares may be redeemed, in whole but not in part, at the option of **the Company**, subject to satisfaction of the Redemption Condition and to applicable law, at any time upon not less than 30 nor more than 60 days' notice to the Holders specifying the Early Redemption Date (which notice shall be irrevocable) Where a notice of redemption has been given in accordance with the foregoing sentence, **the Company** shall notify Holders of the Regulatory Redemption Price as soon as reasonably practicable after it has been determined (and in any event not later than the second London Business Day prior to the Early Redemption Date)

Prior to the service of any notice of redemption pursuant to the foregoing, **the Company** shall deliver to the Registrar a certificate signed by two **Directors** stating that **the Company** is entitled to effect such redemption of the Perpetual Preference Shares and an opinion of counsel to **the Company** experienced in such matters to the effect that a Regulatory Event has occurred Upon the expiry of such notice, **the Company** shall be bound to effect the redemption of the Perpetual Preference Shares in accordance with the provisions set out in paragraphs 4 4 4(v) to 4 4 4(viii)

- (v) In order to effect redemption of the Perpetual Preference Shares as described in paragraph 4 4 4(ii), 4 4 4(iii) and 4 4 4(iv) **the Company** shall pay to the Holders an amount equal to the Optional Retirement Price in the case of Economic Retirement under paragraph 4 4 4(ii), the Tax Retirement Price in the case of redemption under paragraph 4 4 4(iii) or the Regulatory Retirement Price in the case of redemption under paragraph 4 4 4(iv), in any such case together with any accrued but unpaid Dividend in respect of the Dividend Period in which the Redemption Date falls Payment on redemption may be made or paid only in respect of all (and not some only) of the issued Perpetual Preference Shares
- (vi) Payment on redemption shall, subject to the consent of the **FSA**, if then required, and to these **Regulations** and applicable law, be paid in cash
- (vii) Once a notice to effect redemption of the Perpetual Preference Shares has been given under any of paragraphs 4 3 4(ii), 4 3 4(iii) or 4 3 4(iv), no similar notice may be given under either of the other paragraphs If at any time the Perpetual Preference Shares may be redeemed under more than one such paragraph, the **Directors** may elect under which paragraph the notice of redemption is to be given
- (viii) If, and to the extent, so required by the **FSA**, **the Company** may not effect any redemption of any Perpetual Preference Shares unless the **FSA** gives its prior written consent, and the **FSA** may impose conditions on **the Company** in respect of any such redemption

#### 4 4 5 Ranking

Unless with the prior consent of the Holders in accordance with these **Regulations**, **the Company** shall not so long as the Perpetual Preference Shares have not been redeemed (1) issue any **Preference Shares** which would rank (as regards (a) dividends and/or (b) distributions on a return of assets) senior to the Perpetual Preference Shares (other than any Bonus Shares) nor (2) give any guarantee or enter into any support agreement in respect of any preference shares or other preferred securities (not constituting debt obligations) having in all material respects the same ranking as preference shares, issued by any Subsidiary, which guarantee or support agreement would rank (as regards (a) dividends and/or (b) distributions on a return of assets) senior to the Perpetual Preference Shares, unless in any such case the rights of the Perpetual Preference

Shares are altered so that they rank equally in all material respects with any such **Preference Shares** or other guarantee or support agreement as the case may be

#### 4 4 6 Additional Amounts

All payments in respect of the Perpetual Preference Shares by **the Company** will be made without withholding or deduction for, or on account of, any tax in 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 tax is required by law. In the event of such withholding or deduction, **the Company** will declare and pay, if permitted by the **FSA**, as a further dividend, such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Perpetual Preference Shares in the absence of such withholding or deduction, except that no such Additional Amounts will be payable to a Holder (or a third party on his behalf) to the extent that such tax is imposed or levied by virtue of such Holder (or the beneficial owner of Perpetual Preference Shares) having some connection with the United Kingdom other than being a Holder (or beneficial owner) of Perpetual Preference Shares, and except that **the Company's** obligation to pay any such amounts is subject to these **Regulations** and to the limitations provided in paragraphs 4 4 2(iii) and 4 4 3(i)

#### 4 4 7 Payments

- (i) Dividends will be payable subject to these **Regulations** on the relevant Dividend Date (or, where any Dividend Date is not a London Business Day, on the next London Business Day immediately following the Dividend Date, without interest in respect of such delay) to the Holders of record as they appear on the Register on the relevant record date, which will be five London Business Days prior to the relevant Dividend Date. If **the Company** gives notice of redemption pursuant to paragraphs 4 4 4(ii), (iii) or (iv) in respect of the Perpetual Preference Shares, then, on the Redemption Date, **the Company** shall procure that the Optional Redemption Price, the Tax Redemption Price or the Regulatory Redemption Price, as the case may be, will be paid by or on behalf of **the Company** to the Holders. Upon such payment, all rights of Holders to participate in the assets of **the Company** or to be returned any amount in respect of the Perpetual Preference Shares will be extinguished provided holdings of Perpetual Preference Shares are redeemed in accordance with the foregoing.
- (ii) Subject to all applicable fiscal or other laws and regulations
  - (a) each payment in respect of Dividends will be made by cheque and mailed on the relevant Dividend Date to the Holder of record at such Holder's address as it appears on the Register on the relevant record date for the Perpetual Preference Shares, and
  - (b) any payment of amounts in respect of the Optional Redemption Price, the Tax Redemption Price, the Regulatory Redemption Price or the Liquidating Distribution (or relevant proportion thereof) in respect of the Perpetual Preference Shares will be made by cheque against (if so required by **the Company**) presentation and surrender of the relevant certificate of entitlement at the office of the Registrar or any Paying and Transfer Agent,

provided, however, that a Holder may receive such payment by direct transfer arranged by a Paying and Transfer Agent if appropriate direct transfer instructions have been received by the Registrar in sufficient time prior to the relevant date of payment. Holders will not be entitled

to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a London Business Day, if the Holder is late in surrendering certificates (if required to do so) or if a cheque mailed in accordance with this paragraph arrives after the due date for payment

In the event that payment of the Optional Redemption Price, the Tax Redemption Price or the Regulatory Redemption Price is improperly withheld or refused and not paid by **the Company**, Dividends on such Perpetual Preference Shares, subject as described in paragraph 4.4.2(iii), will continue to accrue, on a day by day basis compounding annually, from the Redemption Date to the date of actual payment of the Optional Redemption Price, the Tax Redemption Price or the Regulatory Retirement Price as the case may be

- (iii) **The Company** will not, and will procure that no Subsidiary will, make any payment to Holders, or procure or permit to be made such a payment, in respect of the Perpetual Preference Shares, except for payments to which the Holders are expressly entitled under the terms of the Perpetual Preference Shares
- (iv) **The Company** will maintain at all times whilst the Perpetual Preference Shares is in issue (a) a Paying and Transfer Agent outside the United Kingdom and (b) if and for so long as the Perpetual Preference Shares are listed on the Luxembourg Stock Exchange, a Paying and Transfer Agent in Luxembourg

#### 4.4.8 Voting Rights

- (i) Except as described below, the Perpetual Preference Shares shall not carry the right to receive notice of, nor to attend, speak or vote at, any General Meeting of **shareholders** of the Company or of any class thereof, other than a meeting of **shareholders** holding Perpetual Preference Shares held in accordance with Regulation 40. At any such meeting, every **shareholder** holding Perpetual Preference Shares present in person (including by a corporate representative authorised in accordance with Regulation 67.1) and entitled to vote shall have one vote on a show of hands. On a poll taken in respect of a resolution put to a meeting of **shareholders** holding Perpetual Preference Shares, every such **shareholder** present in person or by proxy and entitled to vote shall have one thousand votes for each Perpetual Preference Share held by him
- (ii) If for any two consecutive Dividend Periods, Dividends have not been paid in full on the Perpetual Preference Shares then Holders will be entitled to receive notice of and to attend, speak and vote at General Meetings of **the Company**. On a poll, **shareholders** holding Perpetual Preference Shares shall in such circumstances have one thousand votes for each Perpetual Preference Share held. Such rights to receive notice of and to attend, speak and vote at General Meetings will cease if, after they have arisen, (a) full dividend payments have been made on the Perpetual Preference Shares for the two previous consecutive Dividend Periods (or an amount equivalent to the full Dividends to be paid in respect of the next two Dividend Periods has been paid or irrevocably set aside in a separately designated trust account for payment to the Holders) or (b) the Perpetual Preference Shares are redeemed
- (iii) The consent or sanction of **Preference Shareholders** holding Perpetual Preference Shares in accordance with Regulation 40 shall be required in order to give effect to any variation or abrogation of the rights, preferences and privileges of the Perpetual Preference Shares (including, without

limitation, the authorisation or creation of any **Preference Shares** (other than any Bonus Shares) ranking as to participation in the profits or assets of the **Company**, senior to the Perpetual Preference Shares) No such sanction shall be required if the change is solely of a formal, minor or technical nature or is to correct an error or cure an ambiguity, provided that the change does not reduce the amounts payable to Holders, impose any obligation on the Holders or adversely affect their voting rights

- (iv) Notwithstanding the foregoing, **the Company** may, without the consent or sanction of the Holders, take such action as is required in order
  - (a) to allow an increase in the authorised or issued Perpetual Preference Shares or to authorise, create and issue one or more other classes of preferred shares of **the Company** ranking equally with the Perpetual Preference Shares as regards participation in the profits and assets of **the Company**, or
  - (b) to authorise, create and issue one or more other classes of shares in **the Company** ranking junior, as regards participation in the profits and assets of **the Company**, to the Perpetual Preference Shares
- (v) No vote of the **shareholders** of **the Company** will be required for the redemption of the Perpetual Preference Shares in accordance with these **Regulations**
- (vi) For the purposes of paragraphs 4.4.2(v) and 4.4.8(ii), if a Distribution is not paid on the 8.117% Non cumulative Perpetual Preferred Securities, Class A issued by Bank of Scotland Capital Funding L.P. for the Distribution Period(s) immediately preceding the Issue Date, such Distribution shall be deemed to have been a Dividend which has not been paid on the Perpetual Preference Shares in respect of Dividend Period(s) corresponding to the Distribution Period(s) (in this paragraph (vi) "Distribution" and "Distribution Period" shall have the respective meanings attributed thereto by the terms of issue of the 8.117% Non cumulative Perpetual Preferred Securities, Class A issued by Bank of Scotland Capital Funding L.P.)

#### 4.4.9 Notices

If and so long as the Perpetual Preference Shares are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, notices to Holders, as well as being given in accordance with the other provisions of these **Regulations**, shall be published in a leading Luxembourg newspaper which is expected to be the Luxemburger Wort

#### 4.4.10 Form

The Perpetual Preference Shares will be issued in registered form

#### 4.4.11 Redenomination

- (i) In the event that the United Kingdom participates in the third stage of European economic and monetary union, **the Company** may, without the consent of Holders, on giving prior notice to the Stock Exchange and the Paying and Transfer Agent(s), and at least 30 days' prior notice to Holders, elect that, with effect from the date (the "Redenomination Date") so specified in the notice, the Liquidation Preference shall be redenominated in euro
- (ii) The election will have effect as follows

- (a) the Liquidation Preference shall be deemed to be redenominated into euro at the rate for the conversion of sterling (including compliance with rules relating to rounding in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty establishing the European Community, as amended by the Treaty on European Union,
- (b) if issued prior to the Redenomination Date, the payment obligations contained in any Perpetual Preference Shares issued in definitive certificated form will become void on that date although those certificates will continue to constitute valid exchange obligations of **the Company**. New euro denominated certificates in respect of such Perpetual Preference Shares will be issued in exchange for certificates denominated in sterling at the rate specified in paragraph 4.4.11(ii)(a) above in such manner as the Paying and Transfer Agent(s) may specify and as shall be notified to the Holders. No such notice of exchange may be given less than 15 days prior to any date for any payment on the Perpetual Preference Shares,
- (c) after the Redenomination Date, all payments in respect of the Perpetual Preference Shares, other than any Dividend in respect of a period commencing before the Redenomination Date, will be made solely in euro. 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, if no such account is specified, by a euro cheque, and
- (d) such other changes shall be made to the conditions of the Perpetual Preference Shares as **the Company** may decide, after consultation with the Paying and Transfer Agent(s), and as may be specified in the notice, to conform them to conventions then applicable to instruments denominated in euro

#### 4.4.12 Altering capital

- (i) Subject to any restrictions in the **Companies Act**, if **the Company** redeems Perpetual Preference Shares, the **Directors** can do either or both of the following things relating to the **share capital** representing the Perpetual Preference Shares
  - (a) change the nominal amount of Perpetual Preference Shares into Perpetual Preference Shares of a larger or smaller nominal amount, or
  - (b) convert this capital into shares of any other class of **share capital** in the same currency which exists at the time, or into unclassified shares in the same currency, with as near as possible the same total nominal amount

Regulation 14 will apply to any change to the amount of Perpetual Preference Shares which is carried out under this Regulation 4.4.12

- 4.5 The rights attaching to the **Class B Perpetual Preference Shares** are identical to those of the **Class A Perpetual Preference Shares** set out in Regulation 4.4, except that in

- 4.5.1 the definition of "Dividend Rate" and paragraph 4.4.2(ii)(a), the rate "8.117 per cent" is deleted and replaced by "7.754 per cent",

- 4 5 2 the definition of "Margin", the rate of "3 85 per cent " is deleted and replaced by "4 20 per cent ",
- 4 5 3 in the definition of "Actual/Actual Basis" and in paragraph 4 4 2, the reference to "£250,000,000 8 117% Non cumulative Perpetual Preferred Securities, Class A" is deleted and replaced by "£150,000,000 7 754% Non cumulative Perpetual Preferred Securities, Class B",
- 4 5 4 in the definition of "Actual/Actual Basis" and in paragraphs 4 4 2 and 4 4 8(vi), the reference to "8 117% Non cumulative Perpetual Preferred Securities, Class A" is deleted and replaced by "7 754% Non cumulative Perpetual Preferred Securities, Class B",
- 4 5 5 the definition of "Perpetual Preference Shares" the references to "the **Class A Perpetual Preference Shares**" are deleted and are replaced by references to "the **Class B Perpetual Preference Shares**",
- 4 5 6 all instances, the year "2010" is replaced by the year "2021"
- 4 6 **The Company** may from time to time *issue Preference Shares* in addition to the **Initial Preference Shares** and the **Perpetual Preference Shares** Subject to legislation in force at the relevant time, a series of such additional **Preference Shares** shall have such **rights** to share in the profits and assets of **the Company** and such other **rights** as the **Directors** shall decide to give it before **Preference Shares** of that series are first allotted but any such decision shall be without prejudice to any **rights** attaching to any **existing Preference Shares** and no such decision shall vary or abrogate the **rights** attaching to **existing Preference Shares** without such consent to the variation or abrogation as is required by these **Regulations** In deciding the **rights** attaching to any series of additional **Preference Shares** (being shares other than the **Initial Preference Shares** or the **Perpetual Preference Shares**), the **Directors** shall decide upon the matters referred to in Articles 4 7 to 4 9 and 5 to 11 inclusive below
- 4 7 Subject only to there being authorised but unissued **share capital** of the Company denominated in a relevant currency, a series of **Preference Shares** may be issued in such currency as the **Directors** shall decide
- 4 8 The **Directors** shall decide whether the **rights** attaching to a series of **Preference Shares** to share in the profits and assets of **the Company** rank equally with or behind or ahead of any other **Preference Shares** of **the Company** then in issue or to be issued and whether all or any of such **rights** or the ranking of such **Preference Shares** may be varied after **Preference Shares** of that series are first allotted and, if so, in what circumstances and subject to what conditions
- 4 9 In addition to the provisions of Regulations 4 6 to 4 8 and 5 to 11, the **Directors** may decide any other terms or conditions of issue of a series of **Preference Shares** whatsoever

## 5 The rights of Preference Shares to share in profits

A series of **Preference Shares** shall have such **rights** to a preferential dividend as the **Directors** decide to give it before shares of that series are first allotted Without prejudice to the generality of this statement, the **Directors** shall decide, in respect of any series, the matters set out in paragraphs 5 1 to 5 5 inclusive below

### 5 1 Dividend rate

The **Directors** shall decide whether or not a dividend is payable, the extent to which a dividend shall be payable, and, if payable, at what rate or rates or how the rate or rates shall be determined,

## 5 2 Dividend Payment Dates

The **Directors** shall decide whether a dividend in respect of a series of **Preference Shares** is payable upon a specified date or dates or at a date or dates to be determined or otherwise,

## 5 3 Dividend Periods

The **Directors** shall decide the date (if any) from which a dividend will accrue and the date (if any) to which it will accrue and shall also decide how the amount of any dividend is to be calculated if it is or may be payable otherwise than in respect of the period between such dates,

## 5 4 Cumulative or non cumulative dividend

The **Directors** shall decide whether the right to receive a dividend shall be cumulative or non cumulative or may change from one to the other at any specified date or dates or at a date or dates to be determined in the future,

## 5 5 Shares in lieu of dividend

5 5 1 The **Directors** shall decide, in respect of a series of **Preference Shares**, whether or not additional **Preference Shares** may or shall be allotted and issued in lieu of a dividend

5 5 2 No additional **Preference Shares** may be allotted and issued unless there is an amount in **the Company's** profit and loss account, or in any of **the Company's** reserves (including any share premium account and capital redemption reserve), which can be used for paying up the full nominal value of such **Preference Shares**

5 5 3 Additional **Preference Shares** allotted and issued in lieu of a dividend will be credited as fully paid. The total nominal value of the additional **Preference Shares** shall be determined in such manner and upon such terms as the **Directors** shall have decided before the **Preference Shares** of the relevant series in respect of which additional **Preference Shares** are to be allotted and issued are first allotted

5 5 4 To pay up in full additional **Preference Shares** to be allotted and issued in lieu of a dividend, the **Directors** will

5 5 4 1 capitalise from the reserves a sum equal to the total nominal value of such **Preference Shares**,

5 5 4 2 set that sum aside for the holders of **Preference Shares** of the relevant series on the **Register** at the close of business on the record date for the relevant dividend (or another date if the **Directors** consider it appropriate) and use that sum to pay up in full the additional **Preference Shares**,

5 5 4 3 allot and issue the additional **Preference Shares** to the holders of the **Preference Shares** entitled to them, and

5 5 4 4 if the additional **Preference Shares** to be allotted and issued in lieu of a dividend are denominated in a currency different from the currency in which the relevant reserves are denominated, the **Directors** shall use such exchange rate to calculate the amount of reserves to be capitalised as they consider appropriate

5 5 5 The **Directors** must call a General Meeting of **the Company's shareholders** if the Company cannot allot and issue the additional **Preference Shares** in lieu of a dividend because

5 5 5 1 there is not enough authorised **share capital**, and/or

5 5 5 2 the Directors are not authorised to allot enough **Preference Shares** under Section 80 of the **Companies Act**

The **Directors** will propose resolutions at that meeting to increase the authorised **share capital**, and/or to grant the **Directors** the necessary authority to allot the additional **Preference Shares**

5 5 6 The **Directors** can do anything which they think is necessary or convenient to carry out what is required by this Article 5 5

## 6 The Rights of Preference Shares to Capital

The **Directors** shall decide the **rights** attaching to a series of **Preference Shares** to share in the Company's assets before **Preference Shares** of that series are first allotted and, in particular, but without prejudice to the generality of the foregoing the **Directors** shall decide what amounts a holder of a **Preference Share** will be entitled to receive from **the Company's** assets which may be fixed or to be calculated by reference to a formula or to be determined in any other manner whatsoever

## 7 Redemption and Purchase

In respect of any series of **Preference Shares**, the **Directors** may decide before **Preference Shares** of a series are first allotted that the **Preference Shares** of that series are **Redeemable Preference Shares** and, in such event, the **Directors** may

7 1 designate any **Redemption Date** or **Redemption Dates** whatsoever or decide that there shall be no fixed **Redemption Date** or that a fixed **Redemption Date** or fixed **Redemption Dates** may be designated after allotment,

7 2 decide that any redemption in respect of a series of **Redeemable Preference Shares** shall be in respect of all of the **Redeemable Preference Shares** of such series or of part only, and

7 3 decide in their absolute discretion the terms of redemption and the manner in which such shares may be redeemed and, in particular, without prejudice to the foregoing

7 3 1 specify whether or not any dividend which may have accrued but which is unpaid as at a **Redemption Date** in respect of such series shall be payable as part of the redemption payment on such **Redemption Date**,

7 3 2 specify whether or not any premium paid when the **Preference Shares** were issued shall be payable as part of the redemption payment on a **Redemption Date** in respect of such shares, and

7 3 3 specify any other amounts which shall be payable as part of the redemption payment on a **Redemption Date** in respect of such series of **Preference Shares**, and

**The Company** can purchase any **Preference Shares** which have been issued, on the terms and conditions decided on by the **Directors** The **Preference Shares** can be bought back

- through the market,

- by tender (which will be available to all holders of **Preference Shares** alike), or
- if the **Directors** decide before the **Preference Shares** of any particular series are first allotted, by private arrangement,

## 8 Payment

- 8 1 Payment of any amount due to a holder of a **Preference Share** of any series (including, without prejudice to the foregoing, by way of dividend, on redemption or on a winding up) shall be made in the currency in which such **Preference Share** is denominated or in such other currency or currencies as may be determined by the **Directors** before **Preference Shares** of the relevant series are first allotted
- 8 2 If the day on which payment of any amount due to a holder of a **Preference Share** of any series is not a **working day**, the payment will be made on the next **working day**. There will be no interest or other payment for any such delay.

## 9 Voting Rights

- 9 1 If the **Directors** so decide prior to the **Preference Shares** of any series being first allotted, the **Preference Shareholders** of such series shall have such rights to attend and/or speak and/or vote at such meetings as the **Directors** may decide.
- 9 2 If the **Directors** decide that **Preference Shareholders** shall have the right to vote at any meeting, they shall decide how many votes each **Preference Shareholder** shall have on (i) a show of hands and (ii) a poll and shall also decide when and how **Preference Shareholders** of such series shall exercise such right.
- 9 3 If the **Directors** so decide prior to the **Preference Shares** of any series being first allotted, **Preference Shareholders** of such series shall have the right to requisition a General Meeting of the Company. The **Directors** can decide when and how those **Preference Shareholders** can requisition a General Meeting.

## 10 Variation of rights of Preference Shares

- 10 1 A variation or abrogation of **rights** attached to any particular series of **Preference Shares** can only take place if
- 10 1 1 holders of at least three quarters in nominal value of all **existing Preference Shares** of the relevant series agree in writing, or
- 10 1 2 an Extraordinary Resolution, passed at a separate meeting of the holders of the **existing Preference Shares** of the relevant series approves the proposal in accordance with Regulation 40 3.

Whenever the **rights** attached to **existing Preference Shares** of any particular series differ from the **rights** attached to **existing Preference Shares** of any other series and some matter arises which would amount to a variation or abrogation of the **rights** attached to all the **Preference Shares** of those series, if the effect of that variation or abrogation on all the **Preference Shares** of those series is, in the opinion of the **Directors**, substantially the same, the **rights** attached to all the **Preference Shares** of those series may be varied or abrogated by the agreement in writing of the holders of at least three quarters in nominal value of all the **Preference Shares** of those series (other than the **Initial Preference Shares** and the **Perpetual Preference Shares**) or with the approval of any Extraordinary Resolution, passed at a separate meeting of the holders of all the **Preference Shares** of those series (other than the **Initial Preference Shares** and the **Perpetual Preference Shares**). Whenever this provision applies, all the holders of the **Preference Shares** of the relevant series shall be treated as holding **Preference Shares** of a single class (other than the **Initial Preference Shares** and the **Perpetual Preference Shares**).

- 10 2 Unless the **Directors** decide otherwise before the **Preference Shares** of any particular series are first allotted, the special rights which apply to those **Preference Shares** will not be varied or abrogated or deemed to be varied or abrogated if

10 2 1 any other series of **Preference Shares** is created or issued,

10 2 2 any other shares are created or issued which rank equally with, or behind, the **Preference Shares** in sharing in the **Company's** profits or assets, or

10 2 3 the **Company** redeems or buys back any of its shares which rank equally with, or behind, those **Preference Shares** in sharing in the **Company's** profits or assets

The **Directors** may also decide, in respect of any series of **Preference Shares**, before shares of that series are first allotted, that any other specified matter or specified matters will be, or will be deemed to be, or not to be, a variation or abrogation of **rights** attached to that series of **Preference Shares**

- 10 3 If a new series of **Preference Shares**, or any other class of shares, is created, or issued, which ranks equally with **existing Preference Shares** in sharing in the profits or assets of the **Company** ("new shares"), the new shares can have the same rights as, or different rights from, **existing Preference Shares**. This will not, of itself, be treated as varying or abrogating the rights of the **existing Preference Shares**. For example

10 3 1 the rate of the dividend on the new shares can be different,

10 3 2 the way that the dividend is worked out can be different including, without limitation, whether the dividend is cumulative or non cumulative,

10 3 3 the circumstances (if any) in which a dividend can be paid or cannot be paid can be different,

10 3 4 the payment dates for dividends can be different,

10 3 5 the date from when the new shares are entitled to dividends can be different,

10 3 6 a premium may or may not be paid if capital is returned on the shares whether or not such a premium is payable on the **existing Preference Shares**,

10 3 7 the **Company** can redeem the new shares or they can be non redeemable whether or not **existing Preference Shares** are **Redeemable Preference Shares**,

10 3 8 if the **Company** can redeem the new shares, the redemption can be on different dates, and on different terms, from those which apply to the **existing Preference Shares** which are **Redeemable Preference Shares**,

10 3 9 the new shares can be converted (on the terms and conditions set before the new shares are first allotted) into **Ordinary Shares**, or into any other class of shares which rank equally with, or behind, or ahead of the **existing Preference Shares** in sharing in the profits or assets of the **Company**,

10 3 10 the new shares and dividends payable in respect of those shares can be in any currency or denomination, and/or

10 3 11 the new shares can be in any basket of currencies if the **legislation** allows

## 11 Conversion of Preference Shares into other shares

Before the **Preference Shares** of any series are first allotted the **Directors** may

11 1 Decide that such **Preference Shares** shall be **Convertible Preference Shares** which

11 1 1 will upon certain dates or in certain circumstances, or

11 1 2 may at the option of **the Company** upon certain dates or in certain circumstances, or

11 1 3 may at the option of the **Preference Shareholder** upon certain dates or in certain circumstances,

be converted into

11 1 4 **Ordinary Shares**, or

11 1 5 any other class of shares which rank equally with, or behind, or ahead of **existing Preference Shares** in sharing in the profits and assets of **the Company**, or

11 1 6 any other type of securities whatsoever,

11 2 Decide the number of shares or other securities into which such **Preference Shares** shall be converted, or any formula or other method for calculating this number,

11 3 Subject to the **legislation**, decide the manner in which such conversion shall be effected

11 4 If the **Convertible Preference Shares** are to be redeemed for the purposes of the conversion, decide the person or persons, including without limitation the **Secretary**, who will

11 4 1 be required to subscribe for the shares or other securities into which the **Convertible Preference Shares** are to be converted and to borrow money in anticipation of the redemption of the **Convertible Preference Shares**, and

11 4 2 receive any redemption money payable to the relevant **Preference Shareholder** prior to subscription for such shares or other securities,

11 5 Decide, if the **Convertible Preference Shares** are not denominated in **Sterling**, by what method the equivalent amount of **Sterling** is to be calculated for the purposes of calculating any premium payable on any shares into which the **Convertible Preference Shares** are being converted

## 12 The power to increase capital

**The Company's shareholders** can increase **the Company's share capital** by passing an **Ordinary Resolution**. This resolution will fix the amount of the increase, the nominal amount of the new shares and the currency or currencies of the shares

## 13 Application of the Regulations to new shares

Subject to the terms of issue of new shares, the provisions of the **Regulations** will apply to new shares in the same way as if they were part of **the Company's existing share capital**

#### 14 The power to change capital

The Company's shareholders can pass **Ordinary Resolutions** to do any of the following

- consolidate, or consolidate and then divide, all or any of its **share capital** into shares of a larger nominal amount than the **existing shares**,
- cancel any shares which have not been taken, or agreed to be taken, by any person at the date of the resolution and reduce the amount of **the Company's share capital** by the **amount** of the cancelled shares,
- divide some or all of its shares into shares of a smaller nominal amount than the **existing shares**. This is subject to any restrictions in the **Companies Act**. The resolution may provide that, as between the holders of the divided shares, different **rights** and restrictions of a kind which **the Company** can apply to new shares may apply to different divided shares, and
- convert all or any of its paid up shares into stock, and re convert that stock into paid up shares of any denomination

#### 15 Fractions of shares

If any shares are consolidated, the **Directors** have power to deal with any fractions of shares which result from the consolidation. If the **Directors** decide to sell any shares representing fractions, they can do so for the best price reasonably obtainable and distribute the net proceeds of sale among **shareholders** in proportion to their fractional entitlements. The **Directors** can sell those shares to any person (including **the Company**, if the **legislation** allows this) and can authorise any person to transfer those shares to the buyer. The buyer does not need to take any steps to see how any money he is paying is used and his ownership will not be affected if the sale was irregular or invalid in any way.

#### 16 The power to reduce capital

Subject to the terms of any **Preference Shares** in issue, **the Company's shareholders** can pass **Special Resolutions** to do any of the following

- reduce its **share capital** in any way, and
- reduce any capital redemption reserve or share premium account in any way

#### 17 Buying back shares

Subject to the terms of any **Preference Shares** in issue, **the Company** can buy back, or agree to buy back in the future, any shares of any class (including redeemable shares), if the **legislation** allows this. However, if **the Company** has **existing shares** which are convertible into other shares which are equity securities of the class to be purchased, then **the Company** can only buy back equity securities of that class if either

- the terms of issue of the convertible shares permit **the Company** to buy back equity securities, or
- the buy back or agreement to buy back has been approved by an Extraordinary Resolution passed by the holders of the convertible shares

## SHARES

### 18 The special rights of new shares

- 18 1 Subject to Regulation 18 4, if **the Company** issues new shares, they may have any **rights** or restrictions attached to them. These **rights** and restrictions can apply to sharing in **the Company's** profits or assets. Other **rights** and restrictions can also apply, for example, on the right to vote. These **rights** and restrictions can give the new shares priority over some or all of the **rights** of **existing shares**, or **existing shares** can have priority over the **rights** of new shares. Alternatively, the new shares and the **existing shares** can have the same **rights** and restrictions.
- 18 2 The **rights** and restrictions referred to in Regulation 18 1 can be set out in the **Regulations**, or can be decided either by an **Ordinary Resolution** passed by the **shareholders** or by the **Directors** as long as there is no conflict with any resolution passed by the **shareholders**.
- 18 3 If the **legislation** allows this, the **rights** of any new shares can include a **right** for the holder and/or **the Company** to have them redeemed.
- 18 4 The **rights** of any new shares must not vary or abrogate any special rights already given to any other class of shares unless the holders of those shares have given their approval in the way required by Regulation 40.
- 18 5 The **Directors** can make it a term of any **Preference Shares** of a particular series that they can only be transferred as a unit together with another right or security. This can be for a limited period, or at all times, or until an event happens. The **Directors** must decide on any restrictions of this kind before the **Preference Shares** are first allotted. Regulations 42 to 46 (transferring shares) will apply to these **Preference Shares**, but the **Directors** can refuse to register a transfer of any of the **Preference Shares** to which this Regulation 18 5 applies if they are not transferred with the other right or security.

### 19 Redeemable Shares

Subject to the provisions of the **Companies Act** and to any rights previously conferred on the holders of any other shares, any share may be issued which is to be redeemed, or is liable to be redeemed at the option of **the Company** or the holder.

### 20 The Directors' powers to deal with shares and renunciations of allotted but unissued shares

- 20 1 The **Directors** can decide how to deal with any shares which have not been issued. The **Directors** can allot them on any terms, which can include the right to transfer the allotment to another person before any person has been entered on the **Register**. This is known as the right to renounce the allotment. The **Directors** can also grant options to give people an opportunity to acquire shares in the future. The **Directors** can dispose of the shares in any other way which they consider appropriate. The **Directors** are free to decide who they deal with, when they deal with the shares and the terms on which they deal with the shares. However, in making their decision they must obey
- the provisions of the **legislation** relating to authority, pre-emption rights and other matters, and
  - any resolution of a General Meeting which is passed under the **legislation**.
- 20 2 Where a share has been allotted to a person but that person has not yet been entered on the **Register**, the **Directors** can recognise a transfer (called a "renunciation") by that person of his right to the share in favour of some other person. The ability to renounce allotments only applies if the terms on which the share is allotted are consistent with renunciation. The **Directors** can impose conditions regulating renunciation rights.

## 21 Recognition of trusts

**The Company** shall not be bound to recognise but shall be entitled to recognise, in such manner and to such extent as it may think fit, notices of any trusts in respect of any shares of **the Company**. Notwithstanding any such recognition, **the Company** shall not be bound to see to the execution, administration or observance of any trust, whether expressed, implied or constructive, in respect of any shares of **the Company** and shall be entitled to recognise and give effect to the acts and deeds of the holders of such shares as if they were the absolute owners thereof. For the purposes of this Regulation "trust" includes any right in respect of any shares of the Company other than an absolute right thereto in the registered holder thereof.

## SHARE CERTIFICATES

## 22 Certificates

- 22 1 When a **shareholder** is first registered as the holder of any class of shares he is entitled, free of charge, to a separate share certificate for the shares of each class held by him.
- 22 2 If a **shareholder** gets more shares of any class, he is entitled, free of charge, to another certificate for the extra shares.
- 22 3 If a **shareholder** transfers part of his shares covered by a certificate, he is entitled, free of charge, to a new certificate for the balance.
- 22 4 Share certificates can be
- signed by one or more **Directors** or by the **Secretary** or by any other person authorised by the **Directors**,
  - sealed with the **Seal** or the **Securities Seal**, or
  - printed in any way with a copy of the **Seal** or the **Securities Seal** or a copy of the signature of one or more **Directors** or by the **Secretary** or by any other person authorised by the **Directors**.
- 22 5 A share certificate must state the number and class of shares to which it relates and the amount paid up on those shares. It cannot be for shares of more than one class.

## 23 Replacement share certificates

- 23 1 A **shareholder** can ask **the Company** for a new certificate if the original is
- damaged or defaced, or
  - said to be lost, stolen or destroyed.
- 23 2 If a certificate has been damaged or defaced, **the Company** can require the certificate to be returned to it before issuing a replacement. If a certificate is said to be lost, stolen or destroyed, **the Company** can require satisfactory evidence of this and insist on receiving an indemnity before issuing a replacement.

## CALLS ON SHARES

## 24 The Directors can make calls on shares

**The Directors** can call on **shareholders** to pay any money which has not yet been paid to **the Company** for their shares. This includes the nominal value of the shares and any premium which may be payable on those shares. If the terms of issue of the shares allow this, the **Directors** can do any one or more of the following:

- make calls at any time and as often as they think fit,
- decide when and where the money is to be paid,
- decide that the money may be paid by instalments,
- revoke or postpone any call

A call is treated as having been made as soon as the **Directors** pass a resolution authorising it

## 25 The liability for calls

A **shareholder** who has received at least 14 days' notice giving details of the amount called and of the time and place for payment, must pay the call as required by the notice

## 26 Interest on unpaid calls

If the person due to pay any money called for in this way does not pay it by the day that it is due, he is liable to pay interest on the money. This interest will run from the day the money is due until it has actually been paid. The yearly interest rate will be fixed by the **Directors** (subject to a maximum of 15 per cent) or if no rate is fixed, the appropriate rate (as defined by the **Companies Act**). The **Directors** can decide to forgo any or all of this interest

## 27 Shareholders may not exercise their rights until calls are paid

If a **shareholder** has not paid any amount which is due under a call at the time it is due (including any interest and expenses) then, until he has paid all amounts due, he is not entitled to

- receive any dividend,
- attend any meeting,
- vote at a meeting or in a poll,
- appoint a proxy or company representative to do any of these things for him, or
- exercise any of the other rights of a **shareholder**

## 28 Calls can be for different amounts

On or before an issue of shares, the **Directors** can decide that **shareholders** may be called on to pay different amounts or that they may be called on at different times

## FORFEITING SHARES AND LIENS OVER SHARES

## 29 Notice following non payment of a call

Regulations 29 to 39 apply if a **shareholder** fails to pay the whole amount of a call, or an instalment of a call, by the day that it is due. If the whole amount then due has not been paid, the **Directors** can serve a notice on him at any time after the date the payment is due

## 30 Contents of the notice

This notice must

- demand payment of the amount immediately payable, together with any interest and any of **the Company's** expenses caused by the failure to pay which the **Directors** have decided should be claimed from the **shareholder**,

- give a date by when the total referred to immediately above must be paid. This must be at least seven days after the notice is served on the **shareholder**,
- notify him of the restrictions which apply to him under Regulation 27,
- say where the payment must be made, and
- say that, if the full amount demanded is not paid by the time and at the place stated, **the Company** can forfeit the shares on which the call or instalment was due

### 31 **Forfeiture if the notice is not complied with**

If the notice is not complied with, the shares that it relates to can be forfeited at any time while any amount (including interest and expenses) is still outstanding. This is done by the **Directors** passing a resolution stating that the shares have been forfeited. The **Directors** can accept the surrender of any share that would otherwise be forfeited.

### 32 **Forfeiture will include unpaid dividends**

If any shares are forfeited, all dividends which are due on the shares, but not yet paid, will also be forfeited.

### 33 **Dealing with forfeited shares**

A share forfeited or surrendered under Regulation 31 belongs to **the Company**. The **Directors** can sell or dispose of any forfeited share on any terms and in any way that they decide. This can be with or without a credit for any amount previously paid up for the share. It can be sold or disposed of to any person, including the previous **shareholder**. The **Directors** can, if necessary, authorise any person to transfer a forfeited share.

### 34 **Cancelling forfeiture**

After a share has been forfeited, the **Directors** can cancel the forfeiture, but they can only do this before the share has been sold or disposed of. This cancellation of forfeiture can be done on any terms the **Directors** decide.

### 35 **The position of shareholders after forfeiture**

A **shareholder** loses all **rights** in connection with forfeited shares and must surrender any certificate for those shares to **the Company** for cancellation. A **shareholder** is still liable to pay calls which have been made, but not paid, before the forfeiture of his shares. He is also liable to pay interest on the unpaid amount until it is paid. The **Directors** can fix the rate of interest, but it must not be more than 15 per cent a year. The **shareholder** continues to be liable for all claims and demands which **the Company** could have made relating to the forfeited share. He is not entitled to any credit for the value of the share when it was forfeited or for money received by **the Company** under Regulation 32, unless the **Directors** decide to allow credit for all or any of that value.

### 36 **The Company's lien on shares**

**The Company** has a lien on all partly paid shares. This lien has priority over claims of others to the shares. This lien is for any money owed to **the Company** for the shares. The **Directors** can decide to give up any lien which has arisen and can also decide to suspend any lien which would otherwise apply to particular shares.

### 37 Enforcing the lien by selling the shares

If the **Directors** want to enforce the lien referred to in Regulation 36, they can sell some or all of the shares in any way they decide. The **Directors** can authorise someone to transfer the shares sold, but they cannot sell the shares until all of these conditions are met

- the money owed by the **shareholder** must be immediately payable,
- the **Directors** must have given a written notice to the **shareholder**. This notice must say how much is due. It must also demand that this money is paid, and say that the **shareholder's** shares will be sold if the money is not paid,
- the notice must have been served on the **shareholder** and can be served in any way that the **Directors** decide, and
- the money has not been paid by at least 14 days after the notice has been served

### 38 Using the proceeds of the sale

If the **Directors** sell any shares under Regulation 37, the net proceeds will first be used to pay off the amount which is then payable to the **Company**. The **Directors** will pay any money left over to the former **shareholder**. The **Company's** lien will also apply to any money left over to cover any money still due to the **Company** on the partly paid shares but which is not yet payable. The **Company** has the same rights over this money as it had over the shares immediately before they were sold. The **Company** need not pay over anything until the certificate representing the shares sold has been delivered to the **Company** for cancellation.

### 39 Evidence of forfeiture or sale

A **Director**, or the **Secretary**, can make a statutory declaration which declares

- that he is a **Director** or the **Secretary of the Company**,
- that a share has been properly surrendered, forfeited or sold to satisfy a lien under the **Regulations**, and
- when the share was surrendered, forfeited or sold

This will be evidence of these facts which cannot be disputed. If this declaration is delivered to the new holder of a share with any evidence of transfer which is required, this gives the new holder good title to the share. The new holder of the share does not need to take any steps to see how any money he may be paying for the share is used. The new **shareholder's** ownership of the share will not be affected if the steps taken to surrender or forfeit the share, or the sale or disposal of the share, were invalid or irregular or if anything that should have been done was not done.

## CHANGING SHARE RIGHTS

### 40 Changing the special rights of shares

- 40 1 If the **Company's share capital** is split into different classes of shares, and if the **legislation** allows this, the special rights which are attached to any of these classes can be changed or abrogated with the agreement **in writing** of the holders of three quarters in nominal value of the issued shares of that class or with the sanction of an Extraordinary Resolution. This must be passed at a separate meeting of the holders of the relevant class of shares. This is called a "class meeting". However, subject to section 125 of the **Companies Act**, in the case of the **Initial Preference Shares** and the **Perpetual**

**Preference Shares** the agreement in writing of the holders of a majority in nominal value of, or the approval of an **Ordinary Resolution** passed at a meeting of holders of the relevant class of **Initial Preference Shares** or **Perpetual Preference Shares** is sufficient. Regulation 40 is subject to what is said in Regulation 10 about varying the **rights** of the **Preference Shares** (other than the **Initial Preference Shares** or the **Perpetual Preference Shares**)

40 2 The special rights of a class of shares can be changed or abrogated while **the Company** is a going concern or while **the Company** is being wound up (or while its winding up is being considered)

40 3 All the **Regulations** relating to General Meetings apply, with any necessary changes, to a class meeting, but with the following changes

- two persons who hold (or who act as a proxies for) at least one third of the total nominal value of the **existing shares** of the class are a quorum, but if this quorum is not present at an adjourned meeting, one person who holds shares of the class, or his proxy, is a quorum,
- any holder of **shares** who is personally present or who is represented by a proxy can demand a poll, and
- on a poll, the holders of shares will have one vote for every share of the class which they hold, but this is subject to any special rights or restrictions which are attached to any class of shares by the **Regulations** or any **rights** which are attached to shares in some other way under the **Regulations**

40 4 This Regulation 40 also applies to any change or abrogation of special rights of shares forming part of a class, unless the terms of those shares require changes to be approved in some other way. Each part of the class which is being treated differently is treated as a separate class in operating this Regulation 40

#### 41 More about the special rights of shares

The special rights of **existing shares** are not regarded as changed or abrogated

- if new shares are created or issued which rank equally with any other **existing shares** when sharing in profits or assets of **the Company**, or
- if **the Company** buys back its own shares,

unless the terms of the **existing shares** expressly say otherwise

### TRANSFERRING SHARES

#### 42 Transfer forms

Unless the **Regulations** say otherwise, and subject to the terms of issue of any **Preference Shares**, any **Shareholder** can transfer some or all of his shares to another person. Every transfer of a share must be in writing and either in the usual standard form or in any other form approved by the **Directors**

#### 43 More about transfers

43 1 The transfer form must be delivered to the office where the **Register** is kept. The transfer form must have duly been stamped and have with it

- the share certificate(s) for the shares to be transferred, and

- any other evidence which the **Directors** ask for to prove the entitlement of the person wishing to make the transfer

43 2 A share transfer form must be signed, or made effective in some other way, by the person making the transfer. It need not be made effective by that person sealing it.

43 3 In the case of a transfer of a share where the share is not a fully paid share, a share transfer form must also be signed, or made effective in some other way, by the person the share is being transferred to. It need not be made effective by that person sealing it.

43 4 The person making a transfer will be treated as continuing to be the **shareholder** until the name of the person to whom a share is being transferred is put on the **Register** for that share.

43 5 If the **Company** registers a transfer of a share it may keep the transfer form.

43 6 A transfer form cannot be used to transfer more than one class of shares. Each class needs a separate form.

43 7 No fee is payable to the **Company** for transferring shares or registering changes relating to the ownership of shares.

#### 44 **Restrictions on transfer**

The **Directors** may not register a transfer of shares except with the prior consent of the Parent Company and shall register a transfer of shares if required to do so by the Parent Company.

#### 45 **Closing the Register**

The **Directors** can decide to suspend the registration of transfers by closing the **Register**. This closure can be for part of a day, a day or more than a day. Suspension periods can vary between different classes of shares. The **Register** cannot be closed for more than 30 days a year.

#### 46 **Overseas branch registers**

The **Company** can use all the powers that the **legislation** gives it to keep an overseas branch register. The **Directors** can make regulations, and change any regulations previously made by them, relating to this register, as long as the **legislation** allows this.

### **GENERAL MEETINGS**

#### 47 **The Annual General Meeting**

The **Company** must hold an Annual General Meeting once in each year, in addition to any other General Meetings which are held in the year. The notice calling the meeting must say that the meeting is the Annual General Meeting. There must not be a gap of more than 15 months between one Annual General Meeting and the next. The **Directors** will decide when and where to hold the Annual General Meeting.

#### 48 **Extraordinary General Meetings**

If a General Meeting is not an Annual General Meeting, it is called an Extraordinary General Meeting.

#### 49 **Calling an Extraordinary General Meeting**

The **Directors** can decide to call an Extraordinary General Meeting at any time.

## 50 Notice of meetings

50 1 At least 21 clear days' notice **in writing** must be given for every Annual General Meeting and for any other meeting where it is proposed to pass a Special Resolution or to pass some other resolution of which "special notice" under the **Companies Act** has been given to **the Company**. For every other General Meeting, at least 14 clear days' notice **in writing** must be given. However, a shorter period of notice can be given

- for an Annual General Meeting, if all the members who are entitled to attend and vote agree, or
- for an Extraordinary General Meeting, if a majority of the members agree and those members hold at least 95 per cent by nominal value of the shares whose holders can vote at the meeting

50 2 Any notice of meeting must

- say where the meeting is to be held,
- give the date and time of the meeting,
- give the general nature of the business of the meeting,
- say if any resolution will be proposed as a Special Resolution or Extraordinary Resolution, and
- say that a **shareholder** who can attend and vote can appoint one or more proxies (who need not be **shareholders**) to vote for him. Where more than one proxy is appointed, the form appointing each proxy must state the number of shares in respect of which each proxy is given

50 3 Notices of meetings must be given to the **shareholders** unless the **Regulations** say they are not entitled to receive them from **the Company**. Notice must also be given to the **Auditors**. The day when the notice is served (see Regulation 122), or is treated as served, and the day of the meeting do not count towards the period of notice

## PROCEEDINGS AT GENERAL MEETINGS

### 51 The chairman of a meeting

51 1 The **Chairman** will be the chairman of the meeting at every General Meeting, if he is willing and able to take the chair

51 2 If **the Company** does not have a **Chairman**, or if he is not willing and able to take the chair, a Vice Chairman will chair the meeting if he is willing and able to take the chair. If more than one Vice Chairman is present they will agree between themselves who will take the chair and if they cannot agree, the Vice Chairman who has been a **Director** longest will take the chair

51 3 If **the Company** does not have a **Chairman** or a Vice Chairman, or if neither the **Chairman** nor a Vice Chairman is willing and able to chair the meeting, after waiting five minutes from the time that a meeting is due to start, the **Directors** who are present will choose one of themselves to act as chairman of the meeting. If there is only one **Director** present, he will be the chairman of the meeting, if he so agrees

51 4 If there is no **Director** willing and able to be the chairman of the meeting, then the **shareholders** who are personally present at the meeting and entitled to vote will decide which one of them is to be the chairman of the meeting

51 5 To avoid any doubt, nothing in the **Regulations** restricts or excludes any of the powers, or rights of a chairman of a meeting which are given by the general law

## 52 The quorum needed for meetings

Before a General Meeting starts to do business, there must be a quorum present. If there is not, the meeting cannot carry out any business. Unless the **Regulations** say otherwise, a quorum for all purposes is two persons who are entitled to vote. They may be **shareholders** who are personally present or proxies for a **shareholder** and each person will count towards a quorum.

## 53 The procedure if there is no quorum

This Regulation 53 applies if a quorum is not present within five minutes of the time fixed for a General Meeting to start or within any longer period which the chairman of the meeting may decide. The meeting shall be adjourned to any day, time and place stated in the notice of meeting. If the notice does not provide for this, the meeting shall be adjourned to a day, time and place decided on by the chairman of the meeting.

## 54 Adjourning meetings

54 1 The chairman of a meeting can adjourn the meeting, before or after it has started, and whether or not a quorum is present, if he considers that an adjournment is necessary for any reason.

54 2 The chairman of the meeting does not need the consent of the meeting to adjourn it to a time, date and place which he decides. He may also adjourn the meeting to a later time on the same day or indefinitely. If a meeting is adjourned indefinitely, the **Directors** will fix the time, date and place of the adjourned meeting.

# VOTING PROCEDURES

## 55 How votes are taken

55 1 If a resolution is put to the vote at a General Meeting, it will be decided by a show of hands, unless a poll is demanded when, or before, the result of the show of hands is declared by the chairman of the meeting. A poll can be demanded by

- the chairman of the meeting,
- any one **shareholder** at the meeting (including a proxy) who is entitled to vote.

55 2 A proxy form gives the proxy the authority to demand a poll or to join others in demanding one. A demand for a poll made by a proxy for a **shareholder** is treated in the same way as a demand by the **shareholder** himself.

55 3 A demand for a poll can be withdrawn if the chairman of the meeting agrees to this. If a poll is demanded, and this demand is then withdrawn, any declaration by the chairman of the meeting of the result of a vote on that resolution by a show of hands, which was made before the poll was demanded, will stand.

## 56 How a poll is taken

56 1 If a poll is demanded in the way allowed by the **Regulations**, the chairman of the meeting decides where, when and how it will be carried out. The result is treated as the decision of the meeting where the poll was demanded, even if the poll is carried out after the meeting.

56 2 If a poll is called, a **shareholder** can vote either personally or by his proxy. If a **shareholder** votes on a poll, he does not have to use all of his votes, nor does he have to cast all of his votes in the same way.

**57 Where there cannot be a poll**

A poll is not allowed on a vote to elect a chairman of a meeting. Nor is a poll allowed on a vote to adjourn a meeting, unless the chairman of the meeting demands a poll.

**58 A meeting continues after a poll is demanded**

A demand for a poll on a particular matter does not stop a meeting from continuing and dealing with other matters.

**59 Timing of a poll**

A poll to adjourn the meeting must be taken immediately at the meeting. Any other poll can either be taken immediately at the meeting or within 30 days and at a place decided on by the chairman of the meeting. No notice is required for a poll which is not taken immediately.

**60 The chairman of the meeting's casting vote**

If the votes are equal, either on a show of hands or a poll, the chairman of the meeting is entitled to a further, casting vote. This is in addition to any other votes which he may have as a **shareholder** or as a proxy.

**61 The effect of a declaration by the chairman of the meeting**

The following applies when there is a vote on a show of hands and no poll is demanded (or any demand for a poll is withdrawn). Any of the following declarations by the chairman of the meeting which is entered in the minute book is conclusive proof that

- a resolution has been carried,
- a resolution has been carried unanimously,
- a resolution has been carried by a particular majority,
- a resolution has been lost, or
- a resolution has been lost by a particular majority.

There is no need to prove the number, or proportion, of votes recorded for or against a resolution.

## **VOTING RIGHTS**

**62 The votes of shareholders**

When a **shareholder** is entitled to attend a meeting and vote, he has only one vote on a show of hands. A proxy (other than the chairman of the meeting in his capacity as a proxy) can vote on a show of hands but does not have more than one vote even if he is also a **shareholder** himself or is a proxy for more than one person. When there is a poll, a **shareholder** (or his proxy) who is entitled to be present and to vote has one vote for every share which he holds. This is subject to any special rights or restrictions which are given to any class of shares by, or under, the **Regulations**.

### 63 Completing proxy forms

- 63 1 A proxy form can be in any form which the **Directors** approve
- 63 2 A proxy form must be **in writing** A proxy form given by an individual must be signed by the **shareholder** appointing the proxy or by an attorney who has been properly appointed **in writing** If a proxy is appointed by a **company**, the proxy form should be either sealed with the **company's** seal or signed by an officer or an attorney who is properly authorised to act on behalf of the **company** Signatures need not be witnessed
- 63 3 If a **shareholder** appoints more than one proxy and the proxy forms appointing those proxies would give those proxies the apparent right to exercise votes on behalf of the **shareholder** in a General Meeting over more shares than are held by the **shareholder**, then each of those proxy forms will be invalid and none of the proxies so appointed will be entitled to attend or vote at the General Meeting
- 63 4 A proxy need not be a **shareholder**

### 64 Delivering proxy forms

- 64 1 A proxy form must be delivered to the place stated in the notice of meeting or in the proxy form, or, if no place is stated, to the office where the **Register** is kept It must be delivered at least
- 48 hours before a meeting or an adjourned meeting, or
  - 48 hours before a poll is taken, if the poll is not taken on the same day as the meeting or adjourned meeting
- 64 2 If a proxy form is signed by an attorney, the power of attorney or other authority relied on to sign it (or a copy which has been certified by a notary or an office copy) must be delivered with the proxy form, unless the power of attorney has already been registered with the **Company**
- 64 3 If a proxy form which relates to several meetings has been properly delivered for one meeting, or adjourned meeting, it does not need to be delivered again for any later meeting which the proxy form covers

### 65 Revocation of proxies or changing a proxy's instructions

- 65 1 Any vote cast in the way a proxy form authorises or any demand for a poll made by a proxy will be valid even though
- the proxy form has been revoked, or
  - the authority of the person who signed the proxy form for the **shareholder** has been revoked

However, this does not apply if written notice of the fact has been received at the office where the **Register** is kept at least 48 hours before

- the meeting or adjourned meeting starts, or
  - the time fixed to take a poll on a later day
- 65 2 A **shareholder** who has delivered a proxy form under Regulation 64 may change that proxy form (for example, by changing any voting instructions given to the proxy in the

proxy form) by delivering a written notice of any change which must be received at the office where the **Register** is kept at least 48 hours before the time of the meeting. No change may be made to a proxy form after this time (although it may still be revoked under Regulation 65 1)

#### 66 Proxies speaking at meetings

A proxy may speak at a meeting

#### 67 Company representatives

67 1 A **corporation** which is a **shareholder** can authorise any person to act as its representative at any **shareholders meeting** which it is entitled to attend. This person is called a "**company representative**". The **Directors** can require evidence of the authority of a company representative. A company representative can exercise all the powers on behalf of the corporation which the corporation could exercise if it were an individual **shareholder** present at the meeting in person. This includes the power to vote on a show of hands when the company representative is personally present at a meeting.

67 2 Any vote cast by a company representative and any demand by him for a poll is valid even though he is, for any reason, no longer authorised to represent the corporation. However, this does not apply if written notice of the fact that he is no longer authorised has been received at the office where the **Register** is kept before the deadline which applies to notice of revocation of proxies under Regulation 65.

#### 68 Written resolutions

A resolution in writing which has been consented to and signed by or on behalf of all of the **shareholders** or all the holders of a class of shares (as the case may be) who would have been entitled to vote upon it if it had been proposed at a General Meeting or a class meeting (as the case may be) at which they were present (which consent or signature may be evidenced by letter, cable, electronic communication, facsimile, or otherwise as the **Directors** may from time to time permit) shall be as effective as a resolution passed at a meeting of **shareholders** or a meeting of holders of a class of shares (as the case may be) duly convened and held and may consist of several documents in the same terms each consented to by one or more **shareholders**, and shall be deemed to have been passed at the time the resolution was last consented to or signed.

### DIRECTORS

#### 69 The number of Directors

There must be at least 10 **Directors**. But the **shareholders** can vary this minimum, or impose a maximum, by passing an **Ordinary Resolution**.

#### 70 Directors' fees and expenses

The total fees paid to all of the **Directors** (but excluding any payments made under Regulations 71, 72 or 73) must not exceed

- £4,000,000 a year, or
- any higher sum decided on by an **Ordinary Resolution** at a General Meeting

70 1 Unless an **Ordinary Resolution** is passed saying otherwise, the fees will be divided between some or all of the **Directors** in the way that they decide. If they fail to decide, the fees will be shared equally by the **Directors**, except that any **Director** holding office as a **Director** for only part of a year is only entitled to a pro rata share covering that part of the year.

70 2 **Directors** are not entitled to receive a pension from **the Company** simply because they are acting as **Directors**. A **Director** may only receive a pension if he is also an officer, executive or employee of **the Company**

## 71 Other remuneration

71 1 The **Directors** can award other remuneration in addition to that paid under Regulation 70 to any **Director** who

- holds any executive post,
- acts as **Chairman** or Vice Chairman,
- serves on any committee of the **Directors**, or
- performs any other services which the **Directors** consider to extend beyond the ordinary duties of a **Director**,
- acts as **Governor**

71 2 This other remuneration can take the form of salary, commission or other benefits or can be paid in some other way

## 72 Directors' expenses

In addition to any fees or expenses paid under Regulations 70 or 71, the **Directors** can also repay to a **Director** all reasonable expenses incurred

- to attend and return from General Meetings,
- to attend and return from **Directors'** meetings,
- to attend and return from meetings of committees of the **Directors**, or
- in other ways in connection with **the Company's** business

## 73 Directors' pensions and other benefits

As long as there is no conflict with Regulation 70 2, it is entirely for the **Directors** to decide whether to award

- pensions,
- annual payments,
- gratuities, or
- other allowances or benefits

to any people who are, or who were, **Directors**. The **Directors** can decide to contribute to any scheme or fund or to pay premiums to a third party for these purposes

## 74 Appointing Directors to various posts

74 1 The **Directors** can appoint any **Director** as **Chairman** or Vice Chairman or to any executive position they decide on. As far as the **legislation** allows this, they can decide on how long these appointments will be for and on their terms. They can also vary or end such appointments

74 2 A **Director** who holds an executive appointment will automatically cease to be a **Director** if he no longer holds any executive appointment and the other **Directors** resolve that he should stop being a **Director**. An executive appointment means any paid employment or office (other than as a **Director**) with the **Company** or any of its holding companies or subsidiary undertakings. If a person ceases to be a **Director** because of this Regulation 74 2, this does not prejudice any claim for breach of contract against the **Company** which may otherwise apply.

74 3 The **Directors** can give a **Director** appointed to an executive post any of the powers which they jointly have as **Directors**. These powers can be given on terms and conditions decided on by the **Directors** either in parallel with, or in place of, the powers of the **Directors** acting jointly. The **Directors** can change the basis on which such powers are given or withdraw such powers from the executive.

## 75 Governor

The **Directors** may at any time appoint any **Director** to the office of **Governor**. They can decide on the duration of this appointment and on its terms. The **Directors** may also terminate or vary such appointment at any time.

## CHANGING DIRECTORS

## 76 Age limits

No **Director** shall require to stop being a **Director** because he has reached a particular age.

## 77 The power to appoint and remove Directors

The power to appoint **Directors** whether to fill casual vacancies or as an addition to the board of **Directors** or otherwise, and the power to remove any **Directors**, howsoever appointed, shall reside exclusively in the **Parent Company**. Any such appointment or removal shall be effected by instrument in writing signed on behalf of the **Parent Company** by one of its directors duly authorised on its behalf and shall be effective forthwith upon the receipt of such instrument at the **Registered Office of the Company**. Each person holding office as a director on the date on which Part 2 of The HBOS Group Reorganisation Act 2006 comes into force shall be deemed to have been appointed by the **Parent Company** for the purpose of these **Regulations**.

## 78 When Directors are disqualified

Any **Director** automatically stops being a **Director** in any one or more of the following circumstances:

- if he is an executive director and his appointment as an executive director is terminated or expires and the other **Directors** resolve that he should stop being a **Director**,
- if a bankruptcy order is made against him,
- if he makes any arrangement or composition with his creditors or applies for an interim order under Section 253 of the Insolvency Act 1986 in connection with a voluntary arrangement under that Act,
- if he becomes of unsound mind,
- if he has missed **Directors'** meetings for a continuous period of six months, without permission from the **Directors**, and the **Directors** pass a resolution stating that he has ceased to be a **Director**,
- if he is prohibited from being a **Director** under the legislation,

- if he gives **the Company** a letter of resignation,
- if he is removed from office in accordance with Regulation 77, or
- if at least 75 per cent of the **Directors** pass a resolution, or sign a notice, requiring the **Director** to resign. He will stop being a **Director** when the notice is served on him. But if a **Director** is removed in this way this is an act of **the Company** which does not affect any claim for damages for breach of any contract of service which he may have with **the Company**.

## **DIRECTORS' MEETINGS**

### **79 Directors' meetings**

The **Directors** can decide when to have meetings and how they will be conducted and on the quorum. They can also adjourn the **Directors'** meetings.

### **80 Who can call Directors' meetings**

A **Directors'** meeting can be called by any **Director** or by the **Secretary**. The **Secretary** must also call a **Directors'** meeting if a **Director** requests a **Directors'** meeting.

### **81 How Directors' meetings are called**

**Directors'** meetings are called by serving a notice on all the **Directors**. But a **Director** who is out of the **United Kingdom** is not entitled to be given notice of any **Directors'** meeting unless he has notified the Company of an address in the United Kingdom to which notices should be sent when he is out of the United Kingdom. Any **Director** can waive notice of any **Directors'** meeting, including one which has already taken place.

### **82 Quorum**

If no other quorum is fixed, two **Directors** are a quorum. A **Directors'** meeting at which a quorum is present can exercise all the powers and discretions of the **Directors**.

### **83 The chairman of Directors' meetings**

The **Directors** can elect any **Director** as **Chairman** or as one or more Vice Chairman for such periods as the **Directors** decide. If the **Chairman** is at a **Directors'** meeting, he will chair it. In his absence, the chair will be taken by a Vice Chairman, if one is present. If more than one Vice Chairman is present, the Vice Chairman longest in office will take the chair, unless the **Directors** decide otherwise. If there is no **Chairman** or Vice Chairman present within five minutes of the time when the **Directors'** meeting is due to start, the **Directors** who are present can choose which one of them will be the chairman of the meeting.

### **84 Voting at Directors' meetings**

Matters for decision which arise at a **Directors'** meeting will be decided by a majority vote. If votes are equal, the chairman of the meeting has a second, casting vote.

### **85 Directors can act even if there are vacancies**

The **Directors** can continue to act even if one or more of them stops being a **Director**, but if the number of **Directors** falls below the minimum which applies under Regulation 69 (including any change to that minimum number approved by an **Ordinary Resolution of shareholders**) the remaining **Directors** will, as soon as convenient take steps to procure the appointment of further **Director(s)**.

## 86 Telephone meetings

Any or all of the **Directors**, or members of a committee, can take part in a meeting of the **Directors** or of a committee by way of a conference telephone or similar equipment which allows everybody to take part in the meeting by being able to hear each of the other people at the meeting and by being able to speak to all of them at the same time. Taking part in this way will be counted as being present at the meeting. These meetings will be treated as taking place where most of the participants are (or where the chairman of the meeting is situated is if there is no majority in any one place)

## 87 Resolutions in writing

This Regulation 87 applies to a written resolution which is signed by all the **Directors** who are in the **United Kingdom** at the time and who would be entitled to vote on the resolution at a **Directors'** meeting. A written resolution will be valid at the time it is signed by the last **Director**. This kind of resolution is just as valid and effective as a resolution passed by those **Directors** at a meeting which is properly called and held. The resolution can be passed using several copies of a document if each document is signed by one or more **Directors**. These copies can be fax copies.

## 88 The validity of Directors' actions

Everything which is done by any **Directors'** meeting, or by a committee of the **Directors**, or by a person acting as a **Director**, or as a member of a committee, will be valid even though it is discovered later that any **Director**, or person acting as a **Director**, was not properly appointed. This also applies if it is discovered later that anyone was disqualified from being a **Director**, or had ceased to be a **Director**, or was not entitled to vote. In any of these cases in favour of anyone dealing with **the Company** in good faith anything done will be as valid as if there was no defect or irregularity of the kind referred to in this Regulation 88.

## DIRECTORS' INTERESTS

### 89 Directors' interests in transactions with the Company

89 1 If the **legislation** allows and he has disclosed the nature and extent of his interest to the **Directors**, a **Director** can do any one or more of the following

- have any kind of interest in any existing or proposed contract, transaction or arrangement with or involving **the Company**,
- have any kind of interest in any existing or proposed contract, transaction or arrangement with or involving another **company** in which **the Company** has some interest, and
- alone, or through some firm with which he is associated, do paid professional work for **the Company** (other than as **Auditor**)

89 2 A **Director** does not have to hand over to **the Company** any benefit he receives as a result of anything allowed under Regulation 89 1

### 90 When Directors can vote on things which they are interested in

90 1 Unless the **Regulations** say otherwise, a **Director** cannot cast a vote on any contract, transaction, arrangement or any other kind of proposal in which he has an interest and which he knows is material. For this purpose, interests of a person who is connected with a **Director** under Section 346 of the **Companies Act** are added to the interests of the **Director** himself. Interests purely as a result of an interest in **the Company's** shares,

debentures or other securities are disregarded. A **Director** may not be included in the quorum of a meeting in relation to any resolution he is not allowed to vote on

90 2 However, a **Director** can vote, and be counted in the quorum, on any resolution about any of the following things, as long as the only material interest he has in it is included in the following list

- a resolution about giving him, or any other person, any security or any indemnity for any money which he, or that other person, has lent at the request, or for the benefit, of **the Company**, any of its holding companies or any of its **subsidiaries**,
- a resolution about giving him, or any other person, any security or any indemnity for any liability which he, or that other person, has incurred at the request, or for the benefit of, **the Company**, any of its holding companies or any of its **subsidiaries**,
- a resolution about giving any security or any indemnity to any other person for a debt or obligation which is owed by **the Company**, any of its holding companies or any of its **subsidiaries**, to that other person, if the **Director** has taken responsibility for some or all of that debt or obligation. The **Director** can take this responsibility by giving a guarantee, indemnity or security,
- a resolution about any proposal relating to an offer of any shares or debentures or other securities for subscription or purchase by **the Company**, any of its holding companies or any of its **subsidiaries**, if the **Director** takes part because he is a holder of shares, debentures or other securities, or if he takes part in the underwriting or sub underwriting of the offer,
- a resolution about any proposal involving any other **company** if the **Director** (together with any person connected with the **Director** under Section 346 of the **Companies Act**), has a direct or indirect interest of any kind (including an interest by holding any position in that **company**, or by being a shareholder of that **company**) This does not apply if he knows that he and any persons connected with him hold an interest in shares (as defined for Part 22 of the Companies Act 2006 ) representing one per cent or more of
  - any class of equity share capital of that **company**, or
  - the voting rights in that **company**

Any of these interests of one per cent or more are treated for the purposes of this Regulation 90 2 as being material interests,

- any arrangement for the benefit of employees of **the Company**, any of its holding companies or any of its **subsidiaries** which only gives him benefits which are also generally given to the employees to whom the arrangement relates, or
- a resolution about any proposal relating to any insurance which **the Company** can buy and renew for the benefit of **Directors** or of a group of people which includes **Directors**

90 3 This Regulation 90 3 applies if the **Directors** are considering proposals about appointing two or more **Directors** to positions with **the Company** or any **company** in which **the Company** is interested. It also applies if the **Directors** are considering setting or changing the terms of their appointment. These proposals can be split up to deal with each **Director** separately. If this is done, each **Director** can vote and be included in the quorum for each resolution, except the one concerning him. But he cannot vote if the resolution relates to appointing him to a **company** which **the Company** is interested in if he has an interest of one per cent or more in that **company** (in the manner described in Regulation 90 2)

- 90 4 If any question comes up at a meeting about whether a **Director** has a material interest, or whether he can vote, and the **Director** does not agree to abstain from voting on the issue, the question shall be referred to the chairman of the meeting (or, in the case of the chairman of the meeting, to the Vice Chairman) The chairman of the meeting's or Vice Chairman's ruling about any other **Director** is final and conclusive, unless the nature and extent of the **Director's** interests have not been fairly disclosed to the **Directors**

## 91 More about Directors' interests

For the purpose of Regulations 89 and 90

- a general notice given to the **Directors** that a **Director** has an interest of the kind stated in the notice in any contract, transaction or arrangement involving any **company** or person identified in the notice is treated as a standing disclosure that the **Director** has that interest, and
- interests which are unknown to the **Director** and which it is unreasonable to expect him to know about are ignored

## DIRECTORS' COMMITTEES

## 92 Delegating powers to committees

- 92 1 The **Directors** can delegate any of their powers or discretions to committees of two or more natural persons This includes powers or discretions relating to **Directors' pay** or giving benefits to **Directors** If the **Directors** have delegated any power or discretion to a committee, any references in the **Regulations** to using that power or discretion include its use by the committee Any committee must comply with any regulations laid down by the **Directors** These regulations can require or allow people who are not **Directors** to be co-opted onto the committee, and can give voting rights to co-opted members But

- there must be more **Directors** on a committee than co-opted members, and
- a resolution of the committee is only effective if a majority of the members of the committee present at the time of the resolution were **Directors**

- 92 2 Unless the **Directors** decide not to allow this, a committee can sub-delegate powers and discretions to sub-committees References in the **Regulations** to committees include sub-committees permitted under this Regulation 92 2

## 93 Committee procedure

The **Regulations** which regulate **Directors'** meetings and their procedure, including, for the avoidance of doubt, the power to act by written resolution, will also apply to committee meetings (if they can apply to committee meetings), unless these are inconsistent with any regulations for the committee which have been laid down under Regulation 92

## DIRECTORS' POWERS

## 94 The Directors' management powers

- 94 1 The **Directors** shall conduct and manage the **Company's** business They can use all the **Company's** powers But this does not apply where the **Regulations** or the legislation say that powers can only be used by the **shareholders** voting to do so at a General Meeting The general management powers under this Regulation 94 are not limited in any way by specific powers given to the **Directors** by other **Regulations**

- 94 2 The **Directors** are, however, subject to

- the provisions of the **legislation**,
- the requirements of the **Regulations**, and
- any regulations laid down by the **shareholders** by passing a Special Resolution at a General Meeting

However, if the **shareholders** lay down any regulation relating to something which the **Directors** have already done which was within their powers, that regulation cannot invalidate the **Directors'** previous action

## 95 The power to appoint managers or agents

95 1 The **Directors** can appoint, remove and re appoint managers or agents of the **Company** either in or outside the **United Kingdom**

95 2 The **Directors** may

- delegate any of their authority, powers or discretions to any manager or agent of the **Company**,
- allow managers or agents to delegate to another person,
- remove any people they have appointed in any of these ways, and
- cancel or change anything that they have delegated, although this will not affect anybody who acts in good faith who has not had any notice of any cancellation or change

Any appointment or delegation by the **Directors** which is referred to in this Regulation 95 can be on any conditions decided on by the **Directors**

## 96 The power to appoint attorneys

96 1 The **Directors** can appoint anyone (including the members of a group which changes over time) as the **Company's** attorneys by granting a power of attorney or by authorising them in some other way. The attorneys can either be appointed directly by the **Directors** or the **Directors** can give someone else the power to select attorneys. The **Directors** or the persons who are authorised by them to select attorneys can decide on the purposes, powers, authorities and discretions of attorneys. But they cannot give an attorney any power, authority or discretion which the **Directors** do not have under the **Regulations**

96 2 The **Directors** can decide how long a power of attorney will last for and attach any conditions to it. The power of attorney can include any provisions which the **Directors** decide on for the protection and convenience of anybody dealing with the attorney. The power of attorney can allow the attorney to grant any or all of his power, authority or discretion to any other person

## 97 Signature on cheques etc

All cheques, promissory notes, drafts, bills of exchange and other negotiable or transferable instruments and all receipts for money paid to the **Company** can be signed, drawn, accepted, endorsed or made legally effective in any manner the **Directors** resolve

## 98 Borrowing powers

As far as the **legislation** allows, the **Directors** may exercise all the powers of the **Company**

- to borrow money,

- to mortgage or charge all or any of **the Company's** undertaking, property (present and future) and uncalled capital,
- to issue debentures and other securities, and
- to give security either outright or as collateral security for any debt, liability or obligation of **the Company** or of any third party

## **ALTERNATE DIRECTORS**

### **99 Alternate Directors**

- 99 1 Any **Director** (other than an **alternate Director**) may appoint any person (including another **Director**) to act in his place (called an "**alternate Director**") That appointment requires the approval of the **Directors**, unless previously approved by the **Directors** or unless the appointee is another **Director** A **Director** appoints an **alternate Director** by delivering a signed appointment to the **Registered Office** or by tabling it at a meeting of the **Directors**
- 99 2 The appointment of an **alternate Director** ends on the happening of any event which, if he were a **Director**, would cause him to vacate that office It also ends if his appointor stops being a **Director** A **Director** can also remove his **alternate Director** by a written notice delivered to the **Registered Office** or tabled at a meeting of the **Directors** This notice must also be copied to the **alternate Director**, but will be effective whether or not it has been received by the **alternate Director**
- 99 3 An **alternate Director** is entitled to receive notices of meetings of the **Directors** and of committees of the **Directors** of which his appointor is a member, except when absent from the **United Kingdom** He is entitled to attend and vote as a **Director** at any meeting at which the **Director** appointing him is not personally present and generally at that meeting is entitled to perform all of the functions of his appointor as a **Director** The provisions of the **Regulations** regulating the meeting apply as if he (instead of his appointor) were a **Director** If he is himself a **Director** or attends any meeting as an **alternate Director** for more than one **Director**, he can vote cumulatively for himself and for each other **Director** he represents but he may not be counted more than once for the purposes of the quorum If his appointor is absent from the **United Kingdom** or temporarily unable to act through ill health or disability, his signature to any resolution **in writing** of the **Directors** is as effective as the signature of his appointor If the **Directors** decide to allow this, this Regulation 99 3 also applies in a similar fashion to any meeting of a committee of which his appointor is a member Except as set out in this Regulation 99 3, an **alternate Director**
- does not have power to act as a **Director**,
  - is not deemed to be a **Director** for the purposes of the **Regulations**, and
  - is not deemed to be the agent of his appointor
- 99 4 An **alternate Director** is entitled to contract and be interested in and benefit from contracts, transaction or arrangements and to be repaid expenses and to be indemnified to the same extent as if he were a **Director** However, he is not entitled to receive from **the Company** as an **alternate Director** any **pay**, except for that part (if any) of the **pay** otherwise payable to his appointor as his appointor may tell **the Company in writing** to pay to his **alternate Director**

## MINUTES

### 100 Keeping minutes

The **Directors** will make sure that proper minutes are kept of

- the resolutions, proceedings and names of people who attend **Directors'** meetings and **Directors'** committees, and
- the proceedings, resolutions and business and any orders made at any General Meetings or class meetings

These minutes must be recorded in minute books. If a minute has apparently been signed by the chairman of the meeting, or by the chairman of the meeting which approves the minutes, this minute will prove what it records without any need for any further proof

## THE SECRETARY

### 101 The Secretary and deputy and assistant secretaries

101 1 The **Secretary** (but not any deputy or assistant secretary) is appointed by the **Directors**. The **Directors** shall decide on the terms and period of his appointment. The **Directors** may also remove him from office, but this does not affect any claim for damages against the **Company** for breach of any contract of employment he may have with the **Company**. The **Directors** may appoint two or more people to be joint **Secretaries**.

101 2 Anything which the **Regulations** require or allow to be done by the **Secretary** can also be done by any deputy or assistant secretary.

## THE SEAL AND EXECUTION OF DOCUMENTS

### 102 The Seal

102 1 The **Directors** are responsible for arranging for the **Seal** and any **Securities Seal** to be kept safely. The **Seal** and any **Securities Seal** can only be used with the authority of the **Directors** or of a committee authorised by the **Directors**. The **Securities Seal** can be used only for sealing securities issued by the **Company** in certificated form and documents creating or evidencing securities issued by it.

102 2 Every document which is sealed using the **Seal** or the **Securities Seal** (other than a certificate for any securities issued by the **Company** in certificated form – see Regulation 22) must be signed by one **Director** and the **Secretary** or by two **Directors** or by some other authorised person or persons. A person may be authorised by the **Directors** or by a committee authorised by the **Directors** or by a person so authorised by the **Directors** or such a committee. The **Directors** may resolve that the **Seal** or the **Securities Seal** may be attached to any document or type of document.

102 3 The **Directors** can use all the powers given by the **legislation** relating to official seals for use abroad.

102 4 Any document signed by one **Director** and the **Secretary** or by two **Directors** and expressed to be entered into by the **Company** shall have the same effect as if it had been made effective by using the **Seal**. However no document which states that it is intended to have effect as a deed shall be signed in this way without the authority of the **Directors** or of a committee authorised by the **Directors**.

102 5 The **Directors** may resolve that the **Seal** may be printed by some mechanical, electronic or photographic method.

102 6 The **Directors** may decide to have one or more facsimile copies of the **Seal** for use by the **Company**. Where any facsimile seal has been authorised under this Regulation 102 6, Regulation 102 will apply to that facsimile seal as if it were the **Seal**.

102 7 Certificates for debentures or other securities of the **Company** may be printed in any way and may be sealed and/or signed in any manner allowed by this Regulation 102 or by Regulation 22 4.

#### 102A **Execution of documents**

Subject to the provisions of the **legislation and to Regulation 102**, documents may be signed by a **Director** or by the **Secretary** or by some other authorised person or persons. A person may be authorised by the **Directors** or by a committee authorised by the **Directors** or by a person so authorised by the **Directors** or such a committee. Provided that this Regulation is without prejudice to any other manner of execution of documents permitted or prescribed by the **legislation**.

### **AUTHENTICATING DOCUMENTS**

#### 103 **Establishing that documents are genuine**

103 1 Any **Director** or the **Secretary**, has power to authenticate any of the following things, and to certify copies or extracts from them as true copies or extracts:

- any documents relating to the **Company's** constitution,
- any resolutions passed by the **shareholders**, or by the **Directors** or by a committee of the **Directors**, and
- any books, documents, records or accounts which relate to the **Company's** business.

103 2 The **Directors** can also give this power to others. When any books, documents, records and accounts are not kept at the **Registered Office**, the officer of the **Company** who holds them is treated as a person who has been authorised by the **Directors** to authenticate any of them and to provide certified copies or extracts from them.

103 3 This Regulation 103 3 applies to a document which appears to be a copy of a resolution or an extract from the minutes of any meeting, and which is certified as a copy or extract as described in Regulation 103 1 or 103 2. Such document is conclusive evidence for anyone who deals with the **Company** on the strength of the document that:

- the resolution has been properly passed, or
- the extract is a true and accurate record of the proceedings of a valid meeting.

103 4 Unless the **legislation** prevents it, any books, documents or records which are held by the **Company** in digital, imaged or other electronic form are valid books, documents or records and can be authenticated under this Regulation 103 as if they were books, documents or records held in hard copy form.

### **RESERVES**

#### 104 **Setting up reserves**

The **Directors** can set aside any profits of the **Company** and hold them in a reserve. The **Directors** can decide to use these sums for any purpose for which the profits of the **Company** can lawfully be used. Sums held in a reserve can either be employed in the business of the **Company** or be invested. The **Directors** can divide the reserve into separate funds for special

purposes and alter the funds into which the reserve is divided. The **Directors** can also carry forward any profits without holding them in a reserve. The **Directors** must comply with the restrictions under the **legislation** which relate to reserve funds.

#### 105 Assets bought as from a past date

This Regulation 105 applies if the **legislation** allows this and the **Directors** decide to deal with profits, losses, dividends or interest as this Regulation 105 allows. Where any asset, business or property is bought by **the Company** as from a past date (whether that date is before or after the incorporation of **the Company**), any of the profits and losses can be added to **the Company's** revenue account and treated for all purposes as profits or losses of **the Company**. Similarly, where shares or other securities are purchased with any dividend or interest, any such dividend or interest can be treated as revenue, rather than being treated as a capital item.

### DIVIDENDS

#### 106 Final dividends

Provided that the instalments of **Preference Dividend** payable in respect of a financial year have been or are to be paid in full at the rate specified in Regulation 4 2 1 (i) and subject always to the rights of any other **Preference Shares**, **the Company's shareholders** can declare dividends by passing an **Ordinary Resolution**. No such dividend can exceed the amount recommended by the **Directors**.

#### 107 Fixed and Interim dividends

107 1 If the **Directors** consider that the profits of **the Company** justify such payments, they can

- pay the fixed dividends on any class of shares carrying a fixed dividend, including a dividend fixed by reference to or linked to a variable or floating charge or determined by or linked to a formula or index, on the dates prescribed for the payment of those dividends, and
- provided that the first instalments of **Preference Dividend** payable in respect of a financial year has been or is to be paid in full at the rate specified in Regulation 4 2 1 (i) and subject always to the rights of any other **Preference Shares** pay interim dividends on shares of any class of any amounts and on any dates and for any periods that they decide.

107 2 If the **Directors** act in good faith, they are not liable to the holders of any shares for any loss they may suffer because a lawful dividend has been paid under this Regulation 107 on other shares which rank equally with or behind their shares.

#### 108 Distributions in kind

If the **Directors** recommend this, **the Company's shareholders** can pass an **Ordinary Resolution** to direct all or part of a dividend to be paid by distributing specific assets (and, in particular, **paid-up shares** or debentures of any other company). The **Directors** must give effect to this resolution. Where any difficulty arises on such a distribution, the **Directors** can settle it as they decide. In particular, they can

- issue fractional shareholdings,
- value assets for distribution purposes,
- pay cash of a similar value to adjust the rights of **shareholders**, and/or
- vest any assets in trustees for more than one **shareholder**.

**109 No dividends are payable except out of profits**

No dividend can be paid otherwise than out of profits available for distribution under the legislation

**110 Apportioning dividends**

All dividends will be divided and paid in proportions based on the amounts which have been paid up on the shares during any period for which the dividend is paid. Sums which have been paid up in advance of calls count as paid up for this purpose. If the terms of any share say that it will be entitled to a dividend as if it were a fully paid up, or partly paid up, share from a particular date (in the past or the future), it will be entitled to a dividend on this basis. This Regulation 110 applies unless the **rights** attached to any shares, or the terms of any shares, say otherwise.

**111 Deducting amounts owing from dividends and other money**

If a **shareholder** owes any money for calls on shares or money relating in any other way to shares, the **Directors** can deduct any of this money from

- any dividend on any shares held by the **shareholder**, or
- any other money payable by **the Company** in connection with the shares

Money deducted in this way can be used to pay amounts owed to **the Company** in connection with the shares

**112 Payments to shareholders**

112 1 Any dividend or other money payable in cash relating to a share can be paid by cheque or warrant payable to the **shareholder** who is entitled to it or to someone else named in a written instruction from the **shareholder**. A dividend can also be paid by inter bank transfer or by other electronic means directly to an account with a bank or other financial institution (or other organisations operating deposit accounts) or by such other means and to such other persons as determined by the **Directors** and specified in the terms of issue of the relevant shares. A dividend can also be paid in some other way agreed between the **shareholder** and **the Company**.

**113 Record dates for payments and other matters**

Any dividend on any shares can be paid to the registered holder or holders of the shares, at the close of business on a particular day stated in the resolution passed for payment of the dividend. It will be based on the number of shares registered on that day. This Regulation 113 applies whether what is being done is the result of a resolution of the **Directors** or a resolution passed at a General Meeting. The date can be before any relevant resolution was passed. This Regulation 113 does not affect the rights between past and present **shareholders** to payments or other benefits.

**114 Waiver of dividends**

All or any part of a dividend can be waived by means of a document on which **the Company** acts. The document must be signed by the **shareholder** and delivered to **the Company**. The document need not be in the form of a deed.

**CAPITALISING RESERVES****115 Capitalising reserves**

115 1 The **Company's shareholders** can pass an **Ordinary Resolution** to capitalise any sum

- which is part of any of **the Company's** reserves (including premiums received when any shares were issued, capital redemption reserves or other undistributable reserves), or
- which **the Company** is holding as net profits

115 2 Subject to regulation 115 5, the **Directors** may appropriate the sum which is resolved to be capitalised

- to the holders of **Ordinary Shares** who would have been entitled to it if it were distributed by way of dividend on the **Ordinary Shares** and in the same proportions and apply such sum on their behalf either in or towards paying up the amounts, if any, for the time being unpaid on any **Ordinary Shares** held by them respectively, or in paying up in full unissued shares or debentures of **the Company** of a nominal amount equal to that sum, and allot the shares or debentures credited as fully paid to those **shareholders**, or as they may direct, in those proportions, or partly in one way and partly in the other, or
- in paying up in full unissued **Class A Perpetual Preference Shares** and/or **Class B Perpetual Preference Shares** of a nominal amount and share premium equal to the sum capitalised and allot such **Class A Perpetual Preference Shares** and/or **Class B Perpetual Preference Shares** credited as fully paid to the persons entitled thereto in satisfaction of **the Company's** obligations under a Deed of Guarantee executed by **the Company** on 14<sup>th</sup> March 2000 (as the same may be amended, varied, increased, extended or replaced by a new form of guarantee) in connection with the issue by Bank of Scotland Capital Funding LP of £250,000,000 8 117% Non cumulative Perpetual Preferred Securities, Class A and/or 7 754% £150,000,000 Non cumulative Perpetual Preferred Securities, Class B or as permitted by the terms of issue of such £250,000,000 8 117% Non cumulative Perpetual Preferred Securities, Class A and/or 7 754% £150,000,000 Non cumulative Perpetual Preferred Securities, Class B

provided that any share premium account may be applied pursuant to this Regulation only in paying up unissued shares to be allotted credited as fully paid

115 3 If any difficulty arises in operating this Regulation 115, the **Directors** can resolve it in any way which they decide For example, they can deal with entitlements to fractions of a share by deciding that the benefit of share fractions belong to **the Company** or that share fractions are ignored or deal with fractions in some other way

115 4 The **Directors** can appoint any person to sign any contract with **the Company** on behalf of those who are entitled to shares under the **Ordinary Resolution** Such a contract is binding on all concerned

115 5 The **Directors** shall not without the consent in writing of (1) **shareholders** holding a majority of the issued **9¼ per cent. Preference Shares** or the sanction of an **Ordinary Resolution** passed at a meeting of **shareholders** holding **9¼ per cent. Preference Shares**, or (2) **shareholders** holding a majority of the issued **9¼ per cent. Preference Shares** or the sanction of an **Ordinary Resolution** passed at a meeting of **shareholders** holding **9¼ per cent. Preference Shares** capitalise as provided in Regulation 115 2 any part of the sums standing at credit of the profit and loss account and at credit of any of the reserve accounts of **the Company** available for distribution if after such capitalisation the aggregate of the sums standing to the credit of the profit and loss account and to the credit of **the Company's** reserve accounts available for distribution would be a sum less than ten times the aggregate amount of the annual preferential dividends (exclusive of any imputed tax credit available to such **shareholders**) payable on the issued **9¼ per cent. Preference Shares** or **9¼ per cent. Preference Shares** and any other issued preference shares ranking equally therewith

## ACCOUNTS

### 116 Accounting and other records

The **Directors** shall make sure that proper accounting records that comply with the **legislation** are kept to record and explain **the Company's** transactions

### 117 Location and inspection of records

117 1 The accounting records shall be kept

- at the **Registered Office**, or
- at any other place which the **legislation** allows, and the **Directors** decide on

117 2 **The Company's** officers always have the right to inspect the accounting records

117 3 Anyone else (including a **shareholder**) does not have any right to inspect any books or papers of **the Company** unless

- the **legislation** or a proper court order gives him that right, or
- the **Directors** authorise him to do so

## AUDITORS

### 118 Acts of Auditors

As far as the **legislation** allows this, the actions of a person acting as an **Auditor** are valid in favour of someone dealing with **the Company** in good faith, even if there was some defect in the person's appointment or the person was at any time not qualified to act as an **Auditor**

### 119 Auditors at General Meetings

An **Auditor** can attend any General Meeting. He can speak at General Meetings on any business which is relevant to him as **Auditor**

## NOTICES

### 120 Serving and delivering notices and other documents

**The Company** can serve or deliver any notice or other document, including a share certificate, on or to a **shareholder**

- personally,
- by posting it in a letter (with postage paid) to the address recorded for him on the **Register**,
- by leaving it (in an envelope addressed to him) at the address recorded for him on the **Register**, or
- in any other way which has been authorised **in writing** by the **shareholder** concerned

However, Regulations 120 to 125 do not affect any provision of the **legislation** requiring offers, notices or other documents to be served in a particular way

## 121 Electronic Communications

121 1 Any **shareholder** may notify **the Company** of an address to which **the Company** may send electronic communications and having done so the **shareholder** shall be treated as having agreed to receive notices and other documents from **the Company** by electronic communication

121 2 If a **shareholder** notifies **the Company** of his email address **the Company** may send the **shareholder** the notice or other document by

- publishing the notice or other document on a website, and
- notifying the **shareholder** by email that the notice or other document has been published on the website **The Company** must also specify the address of the website on which it has been published, the place on the website where the notice may be accessed and how it may be accessed

If the notice relates to a **shareholders meeting**, **the Company** must also state

- that the notice concerns a notice of a **shareholders meeting** served in accordance with the **Companies Act**,
- the place, date and time of the **shareholders meeting**,
- whether the **shareholders meeting** is to be an Annual General Meeting or an Extraordinary General Meeting, and
- all other information which is required by any laws which apply

121 3 Any amendment or revocation of a notification given to **the Company** under this Regulation shall only take effect in writing, signed by the **shareholder** and on actual receipt by **the Company** of the amendment or revocation

121 4 An electronic communication shall not be treated as having been received by **the Company** if it is rejected by computer virus protection arrangements

## 122 When notices are served

122 1 If a notice or other document is sent through the post, it is treated as being served or delivered on the second day after it was posted. It can be proved that a notice or other document was served by post by showing that

- the letter containing the notice or other document was properly addressed, and
- it was put into the postal system with postage paid

122 2 If a notice or other document is sent by electronic communication, it is treated as being received at 9 am on the day after it was sent. Proof (in accordance with the formal recommendations of best practice contained in the guidance issued by the Institute of Chartered Secretaries and Administrators) that an electronic communication was sent is conclusive evidence that it has been sent

## 123 If documents are accidentally not sent

If any notice or other document relating to any meeting or other proceeding is accidentally not sent or is not received, the meeting or other proceeding will not be invalid as a result

## 124 Signature of documents

If the **Regulations** required a document to be signed by a **shareholder** or other person then if it is in the form of an **electronic communication** it will only be valid if

- it incorporates the electronic signature or personal identification details (which may be previously allocated by the **Company**) of that **shareholder** or person, and
- it is in a form approved by the **Directors** or accompanied by other evidence which satisfies the **Directors** that the signature is genuine

**The Company** may determine the mechanisms for validating the document and if the document is not validated in this way it will not be treated as having been received by the **Company**

## 125 Serving documents on the Company

This Regulation 125 sets out how any document (including summonses, orders and notices) can be served on the **Company** or any of its officers. This can be done by

- delivering it to the **Registered Office** addressed to the **Company** or the particular officer, or
- sending it to the **Registered Office** by letter, postage paid, addressed to the **Company** or the particular officer

## WINDING UP

### 126 Directors' power to petition

The **Directors** can present a petition to the Court in the name and on behalf of the **Company** for the **Company** to be wound up

### 127 Distribution of assets in kind

If the **Company** is wound up (whether the liquidation is voluntary, under supervision of the Court or by the Court), the Liquidator can, with the authority of an Extraordinary Resolution passed by the **shareholders**, divide among the **shareholders** the whole or any part of the assets of the **Company**, subject to the rights of any class of share which then exists (including the rights of any **Preference Shares** of any particular series). This applies whether the assets consist of property of one kind or different kinds. For this purpose, the Liquidator can set such value as he considers fair upon any property and decide how such division is carried out as between **shareholders** or different groups of **shareholders**. The Liquidator can transfer any part of the assets to trustees upon such trusts for the benefit of **shareholders** as the Liquidator, acting under that resolution, decides. The liquidation of the **Company** can then be closed and the **Company** dissolved. However, no past or present **shareholder** can be compelled to accept any shares or other property under this Regulation 127 which carries a liability.

## DESTROYING DOCUMENTS

### 128 Destroying documents and deleting documents held in digital or electronic form

#### 128 1 The Company may destroy or delete

- all transfer forms transferring shares, and documents sent to support a transfer, and any other documents which were the basis for making an entry on the **Register**, after six years from the date of registration,
- all dividend payment instructions and notifications of a change of address or name, after two years from the date these were registered, and

- all cancelled share certificates, after one year from the date they were cancelled

128 2 If **the Company** destroys or deletes a document under Regulation 128 1, it is conclusively treated as having been a valid and effective document in accordance with **the Company's** records relating to the document. Any action of **the Company** in dealing with the document in accordance with its terms before it was destroyed or deleted is conclusively treated as properly taken.

128 3 This Regulation 128 only applies to documents which are destroyed or deleted in good faith and where **the Company** is not on notice of any claim to which the document may be relevant.

128 4 This Regulation 128 does not make **the Company** liable

- if it destroys or deletes a document earlier than referred to in Regulation 128 1, or
- if **the Company** would not be liable if this Regulation 128 did not exist

128 5 This Regulation 128 applies whether a document is destroyed, deleted or disposed of in some other way.

## INDEMNITY AND INSURANCE

### 129 Indemnity

129 1 As far as the **legislation** allows this, every **Director**, **the Company** shall be indemnified by **the Company** out of its own funds against

- any liability incurred by or attaching to him in connection with any negligence, default, breach of duty or breach of trust by him in relation to **the Company** other than (i) any liability to **the Company** or any associated company (as defined in Section 309A(6) of the **Companies Act**) and (ii) any liability of the kind referred to in Sections 309B(3) or (4) of the **Companies Act**, and
- any other liability incurred by or attaching to him in (i) performing his duties, (ii) exercising his powers, (iii) supposedly doing any of those things and/or (iv) otherwise in relation to or in connection with his duties, powers or office

Where a **Director** is indemnified against any liability in accordance with this Article 129 1, such indemnity shall extend to all costs, charges, losses, expenses and liabilities incurred by him in relation thereto.

129 2 As far as the **legislation** allows this, every **Director** is exempted from any liability to **the Company** where that liability would be covered by the indemnity in Regulation 129 1.

### 130 Insurance

130 1 For the purpose of this Regulation 130, each of the following is a "**Relevant Company**"

- **the Company** or any holding company of **the Company**,
- any body, whether or not incorporated, in which **the Company** or any holding company of **the Company** has or has had any kind of direct or indirect interest,

- any body, whether or not incorporated, which is allied to or associated with **the Company** or any holding company of **the Company**,
- any **subsidiary** of any **company** or other body referred to in this Regulation 130 1, or
- any body, whether or not incorporated, acquired by **the Company** or by any **subsidiary of the Company**

130 2 Without limiting Regulations 129 1 and 129 2 in any way, the **Directors** can arrange for **the Company** to purchase and maintain insurance for or for the benefit of any persons who are or were at any time

- **Directors, Secretaries**, other officers, employees, agents or consultants of any Relevant Company, or
- trustees of any pension fund or employees' share scheme in which employees of any Relevant Company are interested

This includes, for example, insurance against any liability which any of these people may have for any act or omission

- in performing their duties,
- in exercising their powers,
- in supposedly doing any of these things, and/or
- otherwise in relation to or in connection with their duties, powers or offices

### 131 Defence Costs

As far as the **legislation** allows this, **the Company** (i) may provide a **Director** with funds to meet expenditure incurred or to be incurred by him in defending any criminal or civil proceedings or in connection with any application under the provisions mentioned in Section 337A(2) of the **Companies Act** and (ii) may do anything to enable a **Director** to avoid incurring such expenditure, but so that the terms set out in Section 337A(4) of the **Companies Act** shall apply to any such provision of funds or other things done

The following is an extract of Schedule 1 of the HBOS Group Reorganisation Act 2006, being the business and objects of the Bank of Scotland plc, as at 17<sup>th</sup> September 2007

## SCHEDULES

## SCHEDULE 1

## Section 6

## BUSINESS AND OBJECTS OF THE BANK

*Objects of the Bank*

- 1 Without prejudice to the power of the Bank to carry on and manage a public bank (as that term may be from time to time understood or interpreted), the Bank's objects are—
  - (1) To carry on the business of banking and the provision of financial services in all their forms
  - (2) This includes financial transactions and any other business carried on in any part of the world by—
    - (a) banks,
    - (b) financial houses,
    - (c) financial intermediaries,
    - (d) financial advisers,
    - (e) guarantee companies,
    - (f) financial managers and consultants,
    - (g) financial services companies,
    - (h) merchant banks,
    - (i) investment banks,
    - (j) issuing houses and investment and trust companies,
    - (k) dealers in securities, or
    - (l) other similar businesses
  - (3) Sub-paragraph (2) above includes,
    - (a) borrowing, raising and taking in money in any way, on any terms and in any currencies, and to employ and use that money,
    - (b) depositing, lending or advancing money, securities or other property (with or without taking security) and generally making or negotiating loans and advances of every kind and providing liquidity support or other financial assistance or facilities on any terms and in any currencies,
    - (c) issuing, subscribing for, guaranteeing that any person will subscribe for, underwriting, buying, selling, discounting, holding, guaranteeing, transferring and dealing with or trading in the following, relating to any person—
      - (i) obligations,
      - (ii) instruments (whether transferable or negotiable or not),
      - (iii) securities (whether transferable or negotiable or not),
      - (iv) bills and drafts, or
      - (v) derivative instruments of whatever nature,
    - (d) granting, issuing, negotiating and in any manner dealing with, or in,

- travellers' cheques, letters of credit, circular notes, money orders and other negotiable instruments,
  - (e) dealing in any kind of commodities or other physical things,
  - (f) receiving cash, securities, documents and any kind of valuables on current account or deposit, or for safe keeping, or in any other way,
  - (g) collecting and transmitting money and securities and acting as agents for the receipt or payment of money or for the delivery of securities and documents, and providing clearing and money transmission services,
  - (h) carrying on business as providers of leasing, contract hire, hire purchase, conditional or credit sale, instalment finance, personal contract purchase or deferred payment facilities and any other credit facilities,
  - (i) managing property,
  - (j) buying, selling, purchasing and repurchasing and dealing in bullion, foreign exchange, currency, futures, options, bills, precious and other metals and commodities,
  - (k) acting as agent, broker or provider of any kind of life assurance, industrial assurance, general insurance, re insurance or other kinds of non life insurance, and
  - (l) undertaking or acting as agents, consultants or advisers in relation to, or in connection with, the management of property or insurance, all aspects of taxation and pension matters and the management and investment of money and generally to transact agency, consultancy and advisory business
- (4) To issue notes of all denominations or amounts payable to bearer subject to compliance with any legal requirements which may from time to time be applicable thereto and to perform any obligations arising from such issue
- (5) To enter into any—
- (a) guarantee,
  - (b) bond,
  - (c) recognisance,
  - (d) cautionary obligation,
  - (e) contract of indemnity or suretyship, or
- otherwise give security or become responsible for the performance or discharge of any obligation or duties by any person
- (6) Without prejudice to the generality of sub paragraph (5) above, to—
- (a) guarantee, support or secure, whether—
    - (i) by personal undertaking or covenant, or
    - (ii) by mortgaging or charging all or any part of the undertaking, property and assets, present or future, and uncalled capital of the Bank, or
    - (iii) by both such methods,
- the performance of the obligations of, and the payment of monies secured by, or payable under or in respect of the securities of, any person,

- (b) give and take counter guarantees and indemnities, and
  - (c) give and receive security for the implementation of any obligation
- (7) To undertake the insurance, re insurance and counter insurance of all kinds of risks and generally to carry on the business of an insurance and guarantee company in all its aspects
- (8) Generally to carry on all or any of the business of a holding company and to—
  - (a) co ordinate and regulate all or any part of the businesses and operations of any and all companies, firms and businesses controlled directly or indirectly for the time being by the Bank or in which the Bank is interested for the time being, whether as a shareholder or otherwise and whether directly or indirectly, and
  - (b) acquire and hold, either in the name of the Bank or in that of any nominee or trustee—
    - (i) shares,
    - (ii) stocks,
    - (iii) debentures,
    - (iv) debenture stock,
    - (v) bonds,
    - (vi) notes,
    - (vii) obligations, and
    - (viii) securities,issued or guaranteed by any company, corporation or undertaking wherever incorporated or carrying on business, and
  - (c) co ordinate the policy management and administration of any companies, corporations or undertakings in which the Bank is a member or participant or which are controlled by or associated with the Bank in any manner
- (9) To carry on business as an investment holding company and to acquire, invest in and hold by way of investment—
  - (a) shares,
  - (b) stocks,
  - (c) debentures,
  - (d) debenture stock,
  - (e) bonds,
  - (f) bills,
  - (g) notes,
  - (h) obligations,
  - (i) certificates of deposit,
  - (j) mortgages,
  - (k) policies of assurance, and
  - (l) securities of all kinds,created, issued or guaranteed by any person mentioned in sub paragraph (10) below

- (10) The persons referred to in sub paragraph (9) above are—
- (a) any company, association or partnership, whether with limited or unlimited liability, constituted or carrying on business in any part of the world,
  - (b) any individual,
  - (c) any government, sovereign, ruler, commissioners, public body or authority, supreme, municipal, local or otherwise, in any part of the world, or
  - (d) units of and participants in any trust, scheme, mutual fund or collective investments scheme in any part of the world
- (11) To do any of the following things (alone or with others)—
- (a) act as a trustee (including a custodian trustee or trust corporation),
  - (b) act as the personal representative of anyone's estate,
  - (c) act as the trustee of any securities,
  - (d) act as receiver or treasurer or as a trustee for a receiver or treasurer,
  - (e) act as an attorney,
  - (f) act as an administrator,
  - (g) act as a manager or trustee of any unit trust, investment trust or other form of investment,
  - (h) issue and carry on any business relating to any type of—
    - (i) charge card,
    - (ii) credit card,
    - (iii) debit card,
    - (iv) payment card, or
    - (v) any other type of card, token, voucher, or similar document issued by or for any bank,
  - (i) finance or assist in financing the acquisition, construction, development, sale, hire, or lease of any property or infrastructure and the provision of services in connection therewith, whether by way of any of the following, or otherwise—
    - (i) personal loan,
    - (ii) hire purchase,
    - (iii) instalment finance,
    - (iv) conditional or credit sale, and
    - (v) deferred payment,
  - (j) buy or sell securities (including derivative products) for the account of the Bank or for any other person and to provide any services which may be ancillary to this business,
  - (k) acquire by assignation, assignment or otherwise debts owing to any person and to collect such debts,
  - (l) act as—
    - (i) forwarding agents,
    - (ii) travel and shipping agents,
    - (iii) commission agents,
    - (iv) surveyors,
    - (v) architects,
    - (vi) valuers,

- (vii) auditors,
    - (viii) property consultants and managers,
    - (ix) land and estate agents, and
    - (x) loss adjusters, andgenerally undertake and carry on every kind of professional and agency business in all its forms,
  - (m) carry on the business of providing any of the following services for, or in relation to, any person, property or business—
    - (i) secretarial services,
    - (ii) managerial services,
    - (iii) consultancy services,
    - (iv) accountancy services,
    - (v) statistical services,
    - (vi) legal services, and
    - (vii) any executive, supervisory or advisory services,
  - (n) carry on the business of selling, installing, operating, renting and providing—
    - (i) data processing, storage and retrieval equipment and systems;
    - (ii) computers,
    - (iii) computer bureau services, and
    - (iv) communication systems of every kind,
  - (o) act as agent, broker or provider of pensions or pensions advice, or as the manager, trustee or administrator of pension schemes or their assets,
  - (p) seek for and secure, and use and develop, any openings for the employment of capital,
  - (q) keep any register, record or account relating to any securities or funds, and
  - (r) carry out any duties relating to securities or funds, including registering transfers and issuing certificates
- (12) To take any action (including accepting any obligation) which may—
- (a) uphold, or support, the credit of the Bank,
  - (b) obtain, maintain or restore public confidence, or
  - (c) avoid or minimise financial disturbances which are affecting, or may affect, the Bank's business, either directly or indirectly
- (13) To acquire any property, business, assets, liabilities or rights which appear to be necessary or convenient for the Bank's purposes, or which contribute towards the Bank's interests
- (14) To sell, secure (by mortgage, charge, lien, or other form of security), develop, lease, improve and operate or use any property, business, assets or rights belonging to the Bank or in which the Bank may be interested
- (15) To accept any securities, or other obligations, of any person in consideration for—
- (a) any property which has been, or may be, let, sold, or disposed of, or

- (b) any services which have been, or may be provided, and to hold and retain or sell, charge, mortgage and deal with any such securities or other obligations so received
- (16) To enter into any partnership or any arrangement to share profits, merge, enter into a joint venture, amalgamate or co operate with any person who carries on, or proposes to carry on, any business within the Bank's objects and to acquire and hold any securities of such person
- (17) To form, or promote, or be involved in forming or promoting any company whose objects—
  - (a) include carrying on any business which the Bank is authorised to carry on,
  - (b) include acquiring, or taking over, any of the Bank's assets or liabilities, or
  - (c) may in any way advance the objects or interests of the Bank, either directly or indirectly
- (18) To acquire and hold the securities of any company referred to in sub paragraph (17) above or of any other person and to guarantee any payment on any securities issued by any such company or any other obligation of any such company
- (19) To acquire in any way, hold and sell any securities of any person whose objects are, either wholly or partly, similar to the Bank's or which appear to the directors of the Bank to be necessary or convenient to promote or advance the Bank's interests
- (20) The securities referred to in sub paragraph (19) can be—
  - (a) acquired either by the Bank alone or together with any other person, and
  - (b) held in the Bank's name or in the name of a nominee
- (21) To exercise and enforce all rights and powers given by, or connected with, the ownership of any of the securities referred to in sub paragraph (18), including any powers of veto or control which the Bank has by holding those securities
- (22) To carry on any business or activity which is within the Bank's objects or powers by or through subsidiaries, or companies which are controlled, either directly or indirectly, by the Bank and to co ordinate the administration of any of these companies and provide all kinds of services and facilities for any or all of them
- (23) To apply for, and promote, any charter, statute, regulation, licence or concession, and to ask for any action or authorisation from any person anywhere in the world who has legislative or regulatory powers, in order to—
  - (a) extend or change the Bank's objects and powers,
  - (b) alter the Bank's constitution,
  - (c) enable the Bank to carry out its objects or to carry them out better, or
  - (d) for any other purpose which may seem to the directors of the Bank to be expedient

- (24) For the purposes of sub paragraphs (25) to (34) below—  
“the beneficiaries” means past or present directors, officers, employees, agents or consultants or other connected persons (including their dependants and people connected with them) of any of the qualifying bodies, and  
“the qualifying bodies” means—  
(a) the Bank or any holding company of the Bank,  
(b) any body, whether or not incorporated, in which the Bank or any holding company of the Bank has or had any kind of direct or indirect interest,  
(c) any body, whether or not incorporated, in which any subsidiary of the Bank has or had any kind of direct or indirect interest, including any building society which has merged with a subsidiary of the Bank,  
(d) any body, whether or not incorporated, which is allied to or associated with the Bank or any holding company of the Bank,  
(e) any subsidiary of any company or other body referred to in this paragraph, and  
(f) any body, whether or not incorporated, acquired by the Bank or by any subsidiary of the Bank (including any building society, the business of which is transferred to the Bank or any subsidiary of the Bank under section 97 of the Building Societies Act 1986 (c 53))
- (25) To award or grant—  
(a) pensions,  
(b) allowances,  
(c) gratuities,  
(d) bonuses,  
(e) superannuation, or  
(f) death, disablement, sickness or other benefit funds,  
to the beneficiaries
- (26) To set up and maintain, or be involved in any other way with setting up and maintaining, trusts, funds, or schemes (whether contributory or non contributory) intended to provide pensions, or other benefits, for any of the beneficiaries
- (27) To set up, maintain and contribute to—  
(a) any scheme or arrangement for encouraging or facilitating the holding of shares or other securities in the Bank or any company associated with it by, or for the benefit of, any of the beneficiaries, or  
(b) any scheme for sharing profits with the beneficiaries, and  
(as far as permitted by law) to lend money to the beneficiaries with a view to enabling them to acquire shares or other securities in or of the Bank or any other company associated with it
- (28) To form, support, donate, or subscribe to, any charitable funds or institutions, or any benevolent schemes or projects of public or general interest, where the directors of the Bank consider that the Bank’s support may be likely to benefit the Bank, its shareholders, or any of the beneficiaries, directly or indirectly

- (29) To set up and maintain any club or other establishment, or any scheme which is intended to advance the interests of the Bank or of any of the beneficiaries
- (30) To take out and renew insurance for, or for the benefit of, any of the beneficiaries
- (31) The insurance referred to in sub paragraph (30) above can include insurance against any liability which any of the beneficiaries have—
  - (a) as a result of anything they do, or do not do, in carrying out or trying to carry out their duties, or using or trying to use their powers in relation to the Bank, or any of the qualifying bodies, or
  - (b) in any other way in connection with their duties, powers or posts in relation to the Bank or any of the qualifying bodies
- (32) To take out and renew insurance for, or for the benefit of, any trustees of any pension fund which the Bank's employees, or employees of any of the qualifying bodies, are interested in
- (33) The insurance mentioned in sub paragraph (32) above can include insurance against any liability referred to in sub paragraph (31) above in relation to their duties as trustees of any such pension funds
- (34) To indemnify, or exempt any of the beneficiaries or the people referred to in sub paragraph (32) above in any other way against, or from, any liability referred to in paragraphs (31) and (33) respectively so far as the law allows
- (35) To pay and discharge all or any expenses, costs and disbursements, to pay commissions and to remunerate any person for services rendered or to be rendered, in connection with the formation, promotion and flotation of the Bank and the underwriting or placing or issue at any time of any securities of the Bank or of any other person
- (36) To the extent permitted by law, to give financial assistance, directly or indirectly, for the acquisition of shares in the Bank or any holding company of the Bank or for the reduction or discharge of any liability incurred for the purpose of such an acquisition
- (37) To issue, allot and grant options over securities of the Bank—
  - (a) for cash or otherwise, or
  - (b) in payment or part payment for—
    - (i) any property or rights therein purchased or otherwise acquired by the Bank, or
    - (ii) any services rendered to, or at the request of, or for the benefit of, the Bank, or
  - (c) as security for, or indemnity for, or towards satisfaction of, any liability or obligation undertaken or agreed to be undertaken by or for the benefit of the Bank, or
  - (d) in consideration of any obligation or liability (even if valued at less than the nominal value of such securities), or
  - (e) for any other purpose
- (38) To undertake and provide any service required in connection with or relating to individual insolvency or bankruptcy or the administration, receivership or winding up of any company

- (39) To acquire any property or any interest in such property, and—  
    (a) to sell, feu, lease, exchange, hire, or otherwise dispose of, and  
    (b) to improve, manage, develop, grant rights or privileges in respect of or otherwise deal with  
any such property or interest or otherwise turn the same to the Bank's advantage
- (40) To build, construct, maintain, alter, enlarge, pull down, remove or replace any—  
    (a) buildings,  
    (b) works,  
    (c) plant and machinery, and  
    (d) all other works and facilities which may seem to the directors of the Bank necessary or convenient for the business of the Bank or likely to be to the Bank's advantage, and  
to work, manage and control the same or to join with any person in doing any of the above
- (41) To apply for, register, purchase, develop or otherwise acquire and protect, prolong and renew intellectual property rights, including, but not limited to, any patents, trade marks, service marks, design rights, copyrights, licences and the like, or any secret or other information as to any invention or process, which in the opinion of the directors of the Bank may be likely to be to the Bank's advantage and—  
    (a) to use, develop, manufacture under or grant licences in respect of, or  
    (b) otherwise turn to account and expend money—  
        (i) in experimenting upon and testing and carrying on all kinds of research and development work in connection with, and  
        (ii) in improving or seeking to improve,  
any such rights and information so developed, acquired or proposed to be acquired
- (42) In any manner to invest and deal with the moneys of the Bank not immediately required by it
- (43) To—  
    (a) enter into any arrangement with any—  
        (i) government or other public body or authority,  
        (ii) company, or  
        (iii) individual, and  
    (b) obtain from any such government, body, authority, company or individual all—  
        (i) enactments,  
        (ii) charters,  
        (iii) contracts,  
        (iv) decrees,  
        (v) rights,  
        (vi) concessions, and  
        (vii) privileges,

which may seem to the directors of the Bank to be conducive to the Bank's purposes or any of them or likely to be to the Bank's advantage, and

- (c) carry out, exercise and comply with any such—
  - (i) enactments,
  - (ii) charters,
  - (iii) contracts,
  - (iv) decrees,
  - (v) rights,
  - (vi) concessions, and
  - (vii) privileges
- (44) To distribute among the shareholders of the Bank in specie or in kind any property of the Bank, and in particular any securities of other companies belonging to the Bank or of which the Bank may have the power of disposing
- (45) To advertise, market and sell the products and services of the Bank and of any other person and to carry on the business—
  - (a) of advertisers or advertising agents, or
  - (b) of a marketing and selling organisation, or
  - (c) of a supplier, wholesaler, retailer, merchant or any other dealer
- (46) To provide—
  - (a) technical,
  - (b) cultural,
  - (c) artistic,
  - (d) educational,
  - (e) entertainment, or
  - (f) business,material, facilities or services and to carry on any business involving any such provision
- (47) To cease carrying on or wind up any business or activity of the Bank and to cancel any registration of and to wind up or procure the dissolution of the Bank in any state or territory
- (48) To secure all or any of the Bank's liabilities in respect of money raised or borrowed, or any other debt or obligation of, or binding on, the Bank, by mortgaging or charging all or any part of the undertaking, property and assets, present and future, and uncalled capital of the Bank
- (49) To transfer to any person any part of, or the whole or substantially the whole of, the business and undertaking of the Bank and all or any rights and liabilities in connection therewith, or to receive from any person any part of, or the whole or substantially the whole of, the business and undertaking of such person and all or any rights and liabilities in connection therewith, whether pursuant to the Financial Services and Markets Act 2000 (c 8) or by such other means as the directors of the Bank think fit
- (50) To establish and maintain branches and agencies in any part of the world

- (51) To carry out any of the objects set out in sub paragraphs (1) to (50)—
  - (a) as principal or agent,
  - (b) by or through trustees or agents,
  - (c) in partnership or on a joint account,
  - (d) as joint venture with any person, or
  - (e) in any other way,in any part of the world
- (52) To carry on any other trade or business whatever which can, in the opinion of the directors of the Bank—
  - (a) be advantageously carried on by the Bank in connection with, or incidental to—
    - (i) any of the businesses referred to in sub paragraphs (1) to (51), or
    - (ii) the general business of the Bank, or
  - (b) be calculated directly or indirectly to—
    - (i) enhance the value of,
    - (ii) facilitate the realisation of, or
    - (iii) render profitable or more profitable,any of the property or rights of the Bank, or
  - (c) be likely to be to the Bank's advantage
- (53) To use any of the powers conferred above and do all such other things as may be deemed, or as the Bank considers, incidental or conducive to the attainment of the above objects or any of them

### *Interpretation*

- 2 The following rules of interpretation apply to this Schedule
  - (1) The objects set out in paragraph 1 shall be construed in the widest manner possible and their construction shall not be restricted by the scope of any examples given in those objects
  - (2) Unless the context expressly requires it, the provisions of paragraph 1 will not be limited to, or restricted by—
    - (a) any other object, or objects, set out in the other provisions of paragraph 1,
    - (b) the terms of any other provision of paragraph 1, or
    - (c) the Bank's name
  - (3) None of the—
    - (a) provisions or objects of, or
    - (b) powers conferred by,paragraph 1 shall be treated as subordinate to or incidental to any other such provision, object or power
  - (4) The Bank shall have full power to use any of the powers conferred by, and to achieve or try to achieve any of the objects set out in, any one or more of the provisions of paragraph 1

- (5) In this Schedule, unless the subject or context requires otherwise, the following terms shall have the following meanings—
- “acquire” means to acquire in any way, including purchasing, taking options over, taking on lease or in exchange, hiring, subscribing for, or otherwise acquiring, and for any kind of estate or interest, whether directly or indirectly, by contract, tender, underwriting or in any other way and on any terms and conditions,
  - “the Bank” means Bank of Scotland plc,
  - “company” includes any company or corporate body established anywhere in the world,
  - “holding company” has the same meaning as in the Companies Act 1985 (c 6), except that it also includes any other parent undertaking, as defined in that Act,
  - “person” includes a body of persons corporate or unincorporated,
  - “property” includes real, heritable, moveable and personal property of any kind and any interest in, or right to, any such property,
  - “securities” include any shares, stocks, debentures, debenture stock, bonds, notes or warrants, whether fully or partly paid, and
  - “subsidiary” has the same meaning as in the Companies Act 1985, except that it also includes any other subsidiary undertaking, as defined in that Act

**AN ACT OF PARLIAMENT FOR ERECTING A BANK IN SCOTLAND  
EDINBURGH, JULY 17, 1695 (the "1695 Act")**

Set out below are the provisions of the 1695 Act in force on 17 September 2007, pursuant to which Bank of Scotland plc was originally incorporated

"Our Sovereign Lord, considering how useful a public bank may be in this Kingdom, according to the custom of other Kingdoms and States, and that the same can only be best set up and managed, by persons in company with a joint stock, sufficiently endowed with these powers, and authorities, and liberties, necessary and usual in such cases, hath therefore allowed, and with advice and consent of the Estates of Parliament, allows, a joint stock, to be raised by the company hereby established, for the carrying on and managing of a public Bank

And farther statutes and ordains, with advice foresaid, that the persons under named, viz Mr William Areskine, son to the Lord Cardross, Sir John Swinton of that ilk, Sir Robert Dickson of Somebeg, Mr George Clerk, Junior, and Mr John Watson, Merchants in Edinburgh, Mr James Fowlis, Mr John Holland, Mr David Nairn, Mr Walter Stuart, Mr Hugh Frazer, Mr Thomas Coutts, and Mr Thomas Deans, Merchants in London, or any three of them, and, in case of the decease of any of them, the persons to be chosen by the survivors, shall have power to appoint a book for subscriptions of persons, either natives or foreigners, who shall be willing to subscribe and pay into the said joint stock, which subscriptions, the aforesaid persons, or their Quorum, are hereby authorised to receive in the aforesaid Book

and every person subscribing as aforesaid, shall be, and are hereby declared to be, one body corporate and politic,

they shall have perpetual succession, and their successor shall be able and capable to purchase and enjoy, as also to give, grant, alienate, and dispose of, lands, tenements, and all other heretage as likewise of all sums of money, and other moveable goods and gear whatsoever

And further, to do and execute all other things, which any other company or body corporate, can or may lawfully do or execute, and that as amply and fully as if the several matters and things were particularly set down in this Act "

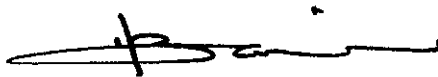
## RESOLUTIONS

of

THE GOVERNOR and COMPANY of the BANK of SCOTLAND (the "Bank")

At an Extraordinary General Meeting of the proprietors of the Bank duly convened and held at The Mound, Edinburgh EH1 1YZ on 6 September 2007 the following resolutions were duly passed

- 1 "That the Bank be registered as a public company under Chapter II of Part XXII of the Companies Act 1985 "
- 2 "That the change of name of the Bank to "Bank of Scotland plc" effective from the date on which the Bank registers under Chapter II of Part XXII of the Companies Act 1985 pursuant to the HBOS Group Reorganisation Act 2006 is hereby approved "



Secretary

G

CHFP000

COMPANIES FORM No. 680a

Application by joint stock company  
for registration under Part XXII of the  
Companies Act 1985, and Declaration  
and related statements

680a

Please do not  
write in  
this margin

Pursuant to sections 680, 681, 684, 685 and 686(2) of the Companies Act 1985

Please complete  
legibly, preferably  
in black type, or  
bold block lettering

To the Registrar of Companies  
(Address overleaf)

For official use

For official use

Name of company

\* insert full name  
of company

\* The Governor and Company of the Bank of Scotland

applies to be registered under the Companies Act 1985 as ~~a company limited by shares~~ ~~a company limited by guarantee~~ ~~(an unlimited company)~~ ~~(a public company)~~ <sup>†</sup>  
under the name

<sup>†</sup> delete as  
appropriate

Bank of Scotland plc

The registered office is to be situated in ~~England and Wales~~ ~~Wales~~ ~~Scotland~~ <sup>†</sup> and  
its intended situation after registration is

The Mound, Edinburgh

Postcode EH1 1YZ

~~The company wishes to be registered with the Welsh equivalent of Public Limited Company~~  
~~(limited) as the last word(s) of its name~~ <sup>§</sup>

The amount of the company's nominal capital is £ 1,025,325,438.75

~~This capital is divided into~~ ~~shares~~ <sup>§</sup>

[The amount of stock of which this capital consists is See paper apart 1 attached] <sup>§</sup>

Number of Shares taken <sup>§</sup>	Amount paid on each share
See paper apart 2 attached	See paper apart 2 attached

continued overleaf

Presentor's name address and  
reference (if any)

Tods Murray LLP  
Edinburgh Quay  
133 Fountainbridge  
Edinburgh EH3 9AG  
Ref: MBH

For official Use (02/00)  
General Section

Post room

Please do not  
write in  
this margin

We, § Colin Matthew, director and Harold Francis Baines,  
secretary, both of The Mound, Edinburgh EH1 1YZ

Please complete  
legibly, preferably  
in black type, or  
bold block lettering

§ insert full name and  
address of two  
directors or other  
principal officers  
(if any)

being directors or other principal officers of the above company do solemnly and sincerely declare that the particulars of the company set out overleaf are true.

And we make this solemn Declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act 1835

Declared at THE MOUND  
EDINBURGH EH1 1YZ

Declarant to sign below

on Day Month Year  

0	6	0	9	2	0	0	7
---	---	---	---	---	---	---	---

before me Malcolm S Holmes

A Commissioner for Oaths or Notary Public or Justice of the Peace or a Solicitor having the powers conferred on a Commissioner for Oaths

MALCOLM BRIAN HOLMES  
NOTARY PUBLIC  
EDINBURGH QUAY  
133 FOUNTAINBRIDGE  
EDINBURGH

A copy of the instrument constituting or regulating the company should be attached to this application

If the application is for registration as a public company the following documents should also be attached

- 1 A copy of the resolution that the company be a public company
- 2 A copy of a written statement by an appropriately qualified accountant
- 3 A copy of the relevant balance sheet, together with a copy of an unqualified report by an appropriately qualified accountant in relation to it
- 4 A statutory declaration (Form 685)
- 5 Where appropriate a copy of a valuation report prepared under section 44(2)(b) of the Companies Act 1985, as applied by section 685(2)

Please insert below the name and telephone number of a person who Companies House can contact at a time when the registration is close to being effected so that a verified list of members, in pursuance of sections 684 and 686 (Form Nos 684 and 686) can be made up and submitted to that office

Name of Contact

Telephone number

Malcolm Holmes, Tods Murray LLP

0131 656 2000

#### NOTE

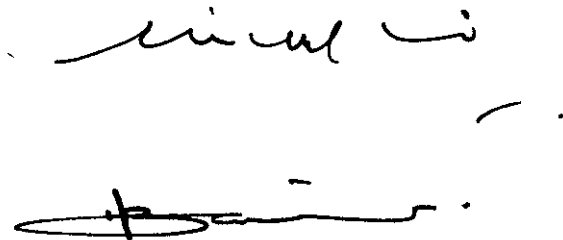
The address for companies intending to have their registered office in England and Wales or Wales is  
The Registrar of Companies, Companies House, Crown Way, Mandy, Cardiff CF14 3UZ

or, for companies intending to have their registered office in Scotland

The Registrar of Companies, Companies House, 37 Castle Terrace, Edinburgh EH1 2EB

Form 680a  
Paper apart 1

- 1 £2,500,000 nominal of 8 1/7 per cent Non Cumulative Perpetual Preference Stock, Class A
- 2 £1,500,000 nominal of 7 7/8 per cent Non Cumulative Perpetual Preference Stock, Class B
- 3 £375,000 nominal of 9 1/4 per cent Non Cumulative Irredeemable Preference Stock
- 4 £125,000 nominal of 9 3/4 per cent Non Cumulative Irredeemable Preference Stock
- 5 £521,325,438 75 nominal of Ordinary Stock

A handwritten signature in black ink, appearing to be 'Michael W.', written in a cursive style.

Form 680a  
Paper apart 2

	<u>Amount of Stock Taken</u>	<u>Amount paid on Stock</u>
1	£300,000 000 nominal of 9 <sup>1</sup> / <sub>4</sub> per cent Non-Cumulative Irredeemable Preference Stock	Fully paid
2	£100,000,000 nominal of 9 <sup>3</sup> / <sub>4</sub> per cent Non-Cumulative Irredeemable Preference Stock	Fully paid
3	£457 503,077 75 nominal of Ordinary Stock	Fully paid

*cin vey*

*if*

# G

CHFP000

COMPANIES FORM No. 685

## Declaration on application by a joint stock company for registration as a public company.

# 685

Please do not  
write in  
this margin

Pursuant to section 685(4)(e) of the Companies Act 1985

Please complete  
legibly, preferably  
in black type, or  
bold block letteringTo the Registrar of Companies  
(Address overleaf)

For official use

For official use

--	--	--

--

Name of company

\* insert full name  
of company

* The Governor and Company of the Bank of Scotland
--

I, Harold Francis Bainesof The Mound, Edinburgh EH1 1YZ

\_\_\_\_\_  
[the director] [the secretary] † of the above  
company do solemnly and sincerely declare that

1 the conditions set out in section 44(2)(a) and (b) (where applicable) and section 45(2) to (4) of the above Act have been satisfied, and

2 between the date of the relevant balance sheet attached to the company's application to be registered as a public company and the date of the application, there has been no change in the company's financial position that has resulted in the amount of its net assets becoming less than the aggregate of its called up share capital and undistributable reserves

And I make this solemn Declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act 1835

Declared at THE MOUND  
EDINBURGH EH1 1YZ

Declarant to sign below



on 

Day	Month	Year
06	09	2007

before me Malcolm Brian Holmes  
A Commissioner for Oaths or Notary Public or Justice of the Peace or a Solicitor having the powers conferred on a Commissioner for Oaths

MALCOLM BRIAN HOLMES  
NOTARY PUBLIC  
EDINBURGH QUAY  
133 FOUNTAINBRIDGE  
EDINBURGH

Presentor's name address and  
reference (if any)  
Tods Murray LLP  
Edinburgh Quay  
133 Fountainbridge  
Edinburgh EH3 9AG  
MBH

For official Use  
General Section

Post room

## **Notes**

If the company has established a place of business in England and Wales or Wales, the address is

The Registrar of Companies  
Companies House  
Crown Way  
Cardiff  
CF4 3UZ

and if the company has established a place of business in Scotland, the address is

The Registrar of Companies  
Companies House  
37 Castle Terrace  
Edinburgh  
EH1 2EB

**If the company establishes a place of business both in England and Wales or Wales AND in Scotland, whether at the same time or not, separate forms must be sent to the relevant registrars.**

# G

CHFP000

COMPANIES FORM No. 684

Registration under Part XXII of  
the Companies Act 1985  
List of members - existing  
joint stock company

# 684

Please do not  
write in  
this margin

Pursuant to section 684(1)(b) of the Companies Act 1985

Please complete  
legibly, preferably  
in black type, or  
bold block lettering

To the Registrar of Companies  
(Address overleaf)

For official use

Company number

Name of company

\* insert full name  
of company

\* The Governor and Company of the Bank of Scotland

§ not more than  
six days before  
the day of  
registration

List of members of the above company made up to 6 September 2007

Full name	HBOS plc	Number of shares or amount of stock held	£300,000,000 nominal of 9½ per cent
		Non Cumulative Irredeemable Preference	
Address	The Mound, Edinburgh EH1 1YZ	Distinctive numbers (if any) of the shares	Stock
Full name	HBOS plc	Number of shares or amount of stock held	£100,000,000 nominal of 9 3/4 per cent
		Non Cumulative Irredeemable Preference	
Address	The Mound, Edinburgh EH1 1YZ	Distinctive numbers (if any) of the shares	Stock
Full name	HBOS plc	Number of shares or amount of stock held	£457,503,077.25 nominal of Ordinary
		Stock	
Address	The Mound, Edinburgh EH1 1YZ	Distinctive numbers (if any) of the shares	

(continue overleaf if necessary)

Signed

[Director][Secretary]\* Date 06-09-2007

Presenter's name address and  
reference (if any)  
Tods Murray LLP  
Edinburgh Quay  
133 Fountainbridge  
Edinburgh EH3 9AG  
MBH

For official Use  
General Section

Post room

# List of members (continued)

Full name	Harold Francis Baines	Number of shares or amount of stock held
		£0.25 nominal of Ordinary Stock
Address	The Mound, Edinburgh EH1 1YZ	Distinctive numbers (if any) of the shares
Full name	Philip Andrew Hodgkinson	Number of shares or amount of stock held
		£0.25 nominal of Ordinary Stock
Address	The Mound, Edinburgh EH1 1YZ	Distinctive numbers (if any) of the shares
Full name		Number of shares or amount of stock held
Address		Distinctive numbers (if any) of the shares
Full name		Number of shares or amount of stock held
Address		Distinctive numbers (if any) of the shares
Full name		Number of shares or amount of stock held
Address		Distinctive numbers (if any) of the shares
Full name		Number of shares or amount of stock held
Address		Distinctive numbers (if any) of the shares

Please do not write in this margin

Please complete legibly, preferably in black type or bold block lettering

If the spaces in this form are insufficient the information must be continued on separate sheets and must appear in the same form as above. Please tick the box below if extra sheets have been used and say how many sheets have been attached

	Number of sheets attached	
--	---------------------------	--

## NOTE

The address for companies intending to have their registered office in England and Wales or Wales is  
The Registrar of Companies, Companies House, Crown Way, Mandy, Cardiff CF4 3UZ

or, for companies intending to have their registered office in Scotland

The Registrar of Companies, Companies House, 57 Castle Terrace, Edinburgh EH1 2EB

# G

CHFP000

## COMPANIES FORM No. 686

## Registration under Part XXII of the Companies Act 1985 Statutory Declaration verifying list of members.

# 686

Please do not  
write in  
this margin

Pursuant to section 686(2) of the Companies Act 1985

Please complete  
legibly, preferably  
in black type, or  
bold block letteringTo the Registrar of Companies  
(Address overleaf) - Note 2

For official use

Company number

--	--	--

--

Name of company

\* insert full name  
of company

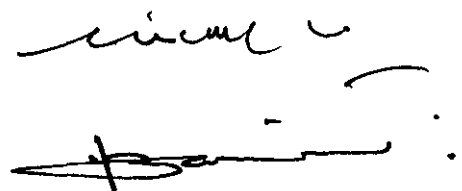
\* The Governor and Company of the Bank of Scotland

§ insert full name and  
address of two  
directors or other  
principal officers  
(if any)We, § Colin Matthew, director and Harold Francis Baines, Secretary  
both of The Mound, Edinburgh EH1 1YZ**Note**Please read notes  
overleaf before  
completing this  
formbeing directors or other principal officers of the above company do solemnly and sincerely declare that  
the particulars in the attached list of members of the company are trueAnd we make this solemn Declaration conscientiously believing the same to be true, and by virtue of  
the provisions of the Statutory Declarations Act 1835Declared at THE MOUND  
EDINBURGH EH1 1YZ

Declarant to sign below

on 

Day	Month	Year
06	09	2007

before me Malcolm B HolmesA Commissioner for Oaths or Notary Public or Justice of  
the Peace or a Solicitor having the powers conferred on  
a Commissioner for OathsMALCOLM BRIAN HOLMES  
NOTARY PUBLIC  
EDINBURGH QUAY  
133 FOUNTAINBRIDGE  
EDINBURGHPresenter's name address and  
reference (if any)  
Tods Murray LLP  
Edinburgh Quay  
133 Fountainbridge  
Edinburgh EH3 9AG  
MBHFor official Use (02/00)  
General Section

Post room

## Notes

- 1 The prescribed list of members (Form No 684) should be attached to this declaration
- 2 The address for companies intending to have their registered office in England and Wales or Wales is -

The Registrar of Companies  
Companies House  
Crown Way  
Cardiff  
CF14 3UZ

or, for companies intending to have their registered office in Scotland

The Registrar of Companies  
Companies House  
37 Castle Terrace  
Edinburgh  
EH1 2EB



THE GOVERNOR & COMPANY OF THE BANK OF SCOTLAND

BALANCE SHEET AND RELATED NOTES

AS AT 30 JUNE 2007

---

**CONTENTS**

<b>Statement of Directors' Responsibilities</b>	<b>2</b>
<b>Accounting Policies</b>	<b>3</b>
<b>Balance Sheet</b>	<b>9</b>
<b>Notes to the Balance Sheet</b>	<b>11</b>
<b>Independent Auditors' Reports</b>	<b>28</b>

**Head Office**

The Mound, Edinburgh, EH1 1YZ

Telephone 0870 600 5000

---

**Statement of Directors' responsibilities in respect of the relevant Balance Sheet**

The Directors are responsible for preparing the relevant Balance Sheet in accordance with applicable law and regulations

Company law requires the Directors to prepare a relevant Balance Sheet for the purposes of registering the Governor and Company of the Bank of Scotland ("the Bank") as a public company

The Directors have prepared the Balance Sheet in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS') and applicable law to the extent necessary of producing a Balance Sheet under section 685 of the Companies Act 1985

The Balance Sheet is required by law and IFRSs to present fairly the financial position of the Bank, the Companies Act 1985 provides that references to financial statements giving a true and fair view are references to achieving a fair presentation

In preparing the relevant Balance Sheet, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRS, and
- prepare the relevant Balance Sheet on the going concern basis unless it is inappropriate to presume that the Bank will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that its Balance Sheet complies with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities

---

## Accounting Policies

### Statement of Compliance and Basis of Preparation

The Balance Sheet of the Governor and Company of the Bank of Scotland ("the Bank") has been prepared solely for the purpose of providing a relevant Balance Sheet under section 685 of the Companies Act 1985 to facilitate the registration of the Bank as a public company. Upon registration the Bank's name will change to become Bank of Scotland plc. Supplementary information directly relevant to the Balance Sheet is given in the related Notes to the Balance Sheet.

Accordingly the Balance Sheet and related Notes do not constitute annual accounts prepared in accordance with Part VII of the Companies Act 1985, as amended by the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004.

The Bank has adopted International Financial Reporting Standards as adopted by the European Union ('IFRS'). The accounting standards adopted by the Bank are those endorsed by the European Union and effective at the date this Balance Sheet is approved. The Balance Sheet has been prepared using IFRS only to the extent that these apply to the preparation of the relevant Balance Sheet under section 685 of the Companies Act 1985.

The Balance Sheet has been prepared under the historical cost basis, except that the following assets and liabilities are stated at their fair values, derivatives and financial instruments classified as available for sale.

### Critical Accounting Estimates and Judgements

The preparation of the Balance Sheet necessarily requires the exercise of judgement both in the application of accounting policies as set out in the sections below and in the selection of assumptions used in the calculation of estimates. These estimates and judgements are continually reviewed and evaluated based on historical experience and other factors. However, actual results may differ from these estimates. The most significantly affected components of the Balance Sheet are as follows:

#### Impairment Losses on Loans and Advances

Impairment loss calculations involve the estimation of future cash flows of loans and advances based on observable data at the balance sheet date and historical loss experience for assets with similar credit risk characteristics. These calculations are undertaken on a portfolio basis other than in respect of significant balances, relating principally to larger corporate customers, which are assessed individually. In applying the portfolio basis the Bank makes use of various statistical modelling techniques which are specific to different portfolio types. Significant judgement is applied in selecting and updating these models. In calculating individual impairment provisions the Bank takes account of a number of relevant considerations including historical experience, future prospects of the customer, value of collateral held and reliability of information. Significant judgement is applied in estimating the impact of these considerations on the expected future cash flows.

#### Effective Interest Rate

In calculating the effective interest rate of financial instruments and in particular loans and advances the Bank takes into account interest received or paid, fees and commissions paid or received, expected early redemptions, related penalties, premiums and discounts on acquisition or issue that are integral to the yield as well as incremental transaction costs. These calculations are undertaken on a portfolio basis other than in respect of significant balances, relating principally to larger corporate customers, which are assessed individually. In applying the portfolio basis the Bank makes use of various statistical modelling techniques which are specific to different portfolios in estimating the expected cash flows from early redemptions and related fees to the extent that these are applicable. Significant judgement is applied in selecting and updating these models. In calculating the effective interest rates of individually significant balances the Bank takes into account a number of relevant considerations to estimate the cash flows from early redemptions including previous experience of customer behaviour, credit scoring of the customer and anticipated future market conditions at the date of acquisition. Significant judgement is applied in estimating the impact of these considerations on the expected future cash flows.

### IFRS Applied in 2007

The Bank is adopting IFRS 7 'Financial Instruments: Disclosures' and the 'Capital disclosure amendment' to IAS 1 'Presentation of financial statements' for reporting purposes in its 2007 Annual Report and Accounts.

The Bank is adopting the following International Financial Reporting Interpretations Committee ('IFRIC') interpretations in its 2007 Annual Report and Accounts: IFRIC 7 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies', IFRIC 8 'Scope of IFRS 2 Share based Payment', IFRIC 9 'Reassessment of Embedded Derivatives' and 'IFRIC 10 'Interim Financial Reporting and Impairment'.

## Accounting policies (continued)

### IFRS Applied in 2007 (continued)

There is no financial impact arising from the adoption of these interpretations as the Bank does not operate in hyperinflationary economies ('IFRIC 7'), does not directly employ staff or operate share based schemes ('IFRIC 8'), and already reflects the revised requirements to assess embedded derivatives ('IFRIC 9'). IFRIC 10 does not have any impact on the Balance Sheet. Accordingly, there have been no significant changes to the accounting policies as described in the 2006 Annual Report and Accounts and the Balance Sheet has been prepared on the basis of the accounting policies adopted in the financial statements for the year ended 31 December 2006.

### IFRS Not Yet Applied

The following interpretation has been adopted by the European Union but is not effective at the date of approval of the Balance Sheet and has not been applied in preparing the Balance Sheet.

IFRIC 11 'Group and Treasury Share Transactions' which is effective for periods commencing on or after 1 March 2007. The application of this interpretation at 30 June 2007 would not have affected the Balance Sheet as the Bank does not directly employ staff.

The following standards and interpretations have not yet been adopted by the European Union, are not effective at 30 June 2007 and have not been applied in preparing the Balance Sheet.

IFRS 8 'Operating Segments' which is applicable for periods commencing on or after 1 January 2009. The application of this standard at 30 June 2007 would not have had any financial impact as it is only concerned with disclosure.

Revised IAS 23 'Borrowing Costs' which is applicable to borrowing costs related to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The application of this revised standard at 30 June 2007 would not have had a material impact on the Balance Sheet.

IFRIC 12 'Service Concession Arrangements' and IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' which are effective for periods commencing on or after 1 January 2008. IFRIC 13 'Customer Loyalty Programmes' which is effective for periods commencing on or after 1 July 2008. The Bank is reviewing the application of these interpretations and currently does not anticipate that these would have had a material impact on the Balance Sheet at 30 June 2007.

### Designation of Financial Instruments

The Bank has classified its financial instruments in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' as follows:

- Non derivative financial assets where there is no active market and which have fixed or determinable payments are designated as 'loans and receivables'
- Derivative instruments are automatically classified as 'at fair value through the income statement' unless they form part of an effective hedging relationship.
- No non derivative financial assets are classified as 'held for trading' nor designated as 'held to maturity' or 'at fair value through the income statement'.
- All other financial assets are classified as 'available for sale'.
- All other financial liabilities are classified as 'at amortised cost'.

The resulting treatment of these financial instruments is set out in the accounting policies below.

### Derivatives

Derivatives are initially recognised at fair value on the date the contract is entered into. Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative as a derivative liability. The gain or loss on re-measurement to fair value at the balance sheet date is taken to net trading income except for interest from derivatives used for economic hedging purposes that do not qualify for hedge accounting treatment which is taken to net interest income, or when cash flow hedge accounting is employed.

Hedge accounting allows one financial instrument, generally a derivative such as a swap, to be designated as a hedge of another financial instrument such as a loan or deposit or a portfolio of the same. At inception of the hedge relationship formal documentation must be drawn up specifying the hedging strategy, the component transactions and the methodology that will be used to measure effectiveness.

Monitoring of hedge effectiveness is undertaken continually. A hedge is regarded as effective if the change in fair value or cash flows of the hedge instrument and the hedged item are negatively correlated within a range of 80% to 125% either for the period since effectiveness was last tested or cumulatively since inception.

**Accounting policies (continued)****Derivatives (continued)**

The Bank uses cash flow hedge accounting. This matches the cash flows of hedged items against the corresponding cash flow of the hedging derivative. The effective part of any gain or loss on a hedging instrument is recognised directly in equity in the cash flow hedge reserve and the hedged item is accounted for in accordance with the policy for that financial instrument. Any ineffective portion of the hedging instrument's fair value is recognised immediately in the income statement through net trading income. The amount deferred in reserves remains until the designated transaction occurs at which time it is released and accounted for through the income statement in line with the treatment of the hedged item. Where the hedge relationship subsequently proves ineffective, or where the hedged item is settled early or is terminated, the associated gains and losses that were recognised directly in reserves are reclassified to the income statement through net trading income. Where the hedging instrument expires or is terminated before the forecast transaction occurs the associated gains and losses recognised in reserves remain deferred until the forecast transaction occurs.

Derivative fair values are determined using valuation techniques that are consistent with techniques commonly used by market participants to price these instruments. These techniques include discounted cash flow analysis and other pricing models. The fair values calculated from these models are regularly compared with prices obtained in actual market transactions to ensure reliability. In all material instances these techniques use only observable market data.

**Loans and Advances**

Loans and advances are classified as loans and receivables. They are initially recognised at fair value plus directly attributable transaction costs and are subsequently carried at amortised cost using the effective interest method less provision for impairment.

The Bank assesses impairment individually for financial assets that are significant and individually or collectively for assets that are not significant.

Individual impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. This may be after an interest or principal payment is missed or when a banking covenant is breached. The present value of estimated cash flows recoverable is determined after taking into account any security held. The amount of any impairment is calculated by comparing the present value of the cash flows discounted at the loan's original effective interest rate with the carrying value. If impaired, the carrying value is adjusted and the difference charged to the income statement.

The written down value of the impaired loan is compounded back to the net realisable balance over time using the original effective interest rate. This is reported through interest receivable within the income statement and represents the unwinding of the discount.

A write off is made when all or part of a claim is deemed uncollectable or forgiven. Write offs are charged against previously established provisions for impairment or directly to the income statement.

In circumstances where an asset has been individually assessed for impairment and no objective evidence of impairment exists, then it will be subject to a collective assessment.

Collective impairment is identified for groups of assets that share similar risk characteristics. Collective impairment is assessed using a methodology based on existing risk conditions or events that have a strong correlation with a tendency to default.

Loans and advances to customers include advances that are subject to non returnable finance arrangements following securitisation of portfolios of mortgages and other advances. The principal benefits of these advances were sold to special purpose securitisation companies that fund their purchase primarily through the issue of floating rate notes.

The fair value of loans and advances to customers is estimated by discounting anticipated cash flows, including interest, at a current market rate of interest. The fair value of floating rate placements and overnight deposits is equal to carrying value. The fair value of fixed interest bearing deposits is based on cash flows discounted using current money market interest rates for debts with similar maturity and credit risk characteristics.

**Finance Leases**

Assets leased to customers that transfer substantially all the risks and rewards incidental to ownership to the customer are classified as finance leases. Together with instalment credit agreements, they are recorded at an amount equal to the net investment in the lease, less any provisions for impairment, within loans and advances to customers.

The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return on the net investment.

---

**Accounting policies (continued)****Investment Securities**

Debt securities for which there is no active market are classified as loans and receivables. They are initially recognised at fair value plus directly related transaction costs and are subsequently carried on the balance sheet at amortised cost using the effective interest method less provision for impairment.

All other investment securities are classified as available for sale. They are initially recognised at fair value plus directly related transaction costs and are subsequently carried on the balance sheet at fair value. Unrealised gains or losses arise from changes in the fair values and are recognised directly in equity in the available for sale reserve, except for impairment losses or foreign currency gains or losses related to debt securities, which are recognised immediately in the income statement in impairment on investment securities or other operating income respectively. Income on debt securities is recognised on an effective interest rate basis and taken to interest receivable through the income statement. Income from equity shares is credited to other operating income, with income on listed equity shares being credited on the ex dividend date and income on unlisted equity shares being credited on an equivalent basis. On sale or maturity, previously unrealised gains and losses are recognised in other operating income.

Impairment losses on available for sale equity instruments are not reversed through the income statement. Any increase in the fair value of an available for sale equity instrument after an impairment loss has been recognised is treated as a revaluation and recognised directly in equity. An impairment loss on an available for sale debt instrument is reversed through the income statement, if there is evidence that the increase in fair value is due to an event that occurred after the impairment loss was recognised.

The fair value of investment securities is based on market prices or broker/dealer valuations. Where this information is not available, the fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics or similar valuation models.

The Bank uses settlement date accounting when recording the purchase and sale of investment securities.

**Jointly Controlled Entities and Associates**

Jointly controlled entities are entities over which the Bank has joint control under a contractual arrangement with other parties.

Associates are entities over which the Bank has significant influence, but not control over the financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the entity but is not control over those policies.

Interests in jointly controlled entities and associates are included in the Balance Sheet at cost less provisions for impairment. At each reporting date an assessment is undertaken to determine if there is any indication of impairment. This assessment can include reviewing factors such as the solvency, profitability and cash flows generated by the entity. If there is an indication of impairment an estimate of the recoverable amount is made. If the carrying value exceeds the recoverable amount then a provision for impairment is made to reduce the carrying value to the recoverable amount.

**Investments in subsidiaries**

Investments in subsidiaries comprise investments in ordinary shares together with other borrowed funds loaned to subsidiaries. These are carried at cost less impairment provisions. At each reporting date an assessment is undertaken to determine if there is any indication of impairment. This assessment can include reviewing factors such as the solvency, profitability and cash flows generated by the subsidiary. If there is an indication of impairment an estimate of the recoverable amount is made. If the carrying value exceeds the recoverable amount then a provision for impairment is made to reduce the carrying value to the recoverable amount.

**Goodwill**

The excess of the cost of a business combination over the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition, of a business, is capitalised as goodwill.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is subject to a six monthly impairment review by comparing the value in use with the carrying value. When this indicates that the carrying value is not recoverable, it is irrevocably written down through the income statement by the amount of any impaired loss identified. IFRS 3, 'Business Combinations' has not been applied retrospectively to business combinations that occurred before 1 January 2004.

---

**Accounting policies (continued)****Software**

Costs associated with the development of software for internal use, subject to de minimis limits, are capitalised if the software is technically feasible and the Bank has both the intent and sufficient resources to complete the development. Costs are only capitalised if the asset can be reliably measured, will generate future economic benefits to the Bank either through sale or use.

Only costs that are directly attributable to bringing the asset into working condition for its intended use are capitalised. These costs include all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in a manner intended by management. Other development expenditure is recognised in the income statement as an expense as incurred.

Capitalised development expenditure and purchased software is stated at cost less accumulated amortisation and impairment losses. Once the software is ready for use, the capitalised costs are amortised over their expected lives, generally four years. Capitalised software is assessed for impairment where there is an indication of impairment. Where impairment exists, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss recognised in the income statement. The amortisation charge for the asset is then adjusted to reflect the asset's revised carrying amount.

Subsequent expenditure is only capitalised when it increases the future economic benefits embodied in the specific asset to which it relates.

**Property and Equipment**

Property and equipment is stated at cost less accumulated depreciation and impairment losses.

Freehold land is not depreciated. Freehold and leasehold property, other than freehold investment properties, is stated at cost and depreciated over fifty years or the length of the lease term if shorter. Improvements to leasehold properties are stated at cost and are depreciated in equal instalments over the lesser of the remaining life of the lease or eight years. Premiums are amortised over the period of the lease.

The cost of equipment, which includes fixtures and fittings, vehicles and computer hardware, less estimated residual value, is written off in equal instalments over the expected lives of the assets, generally between three and eight years.

Subsequent costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

Property and equipment is assessed for impairment where there is an indication of impairment. Where impairment exists, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss recognised in the income statement. The depreciation charge for the asset is then adjusted to reflect the asset's revised carrying amount.

**Taxation**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided: goodwill not deductible for tax purposes, the initial recognition of assets and liabilities that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, based on tax rates enacted, or substantially enacted, at the balance sheet date.

**Deposits by Banks and Customer Accounts**

Deposits by banks and customer accounts are held at amortised cost using the effective interest method. The fair value of customer deposits with no stated maturity date is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings with no quoted market price is calculated using a cash flow model discounted using interest rates for debts with similar maturity.

---

**Accounting policies (continued)****Other Borrowed Funds**

Other borrowed funds comprises preference shares that are classified as debt, preferred securities and subordinated liabilities, all of which are held at amortised cost

Preference shares are classified as debt where they are redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary Dividends on preference shares classified as debt are recognised in the income statement through interest payable

Preferred securities are classified as debt where they are redeemable on a specific date or at the option of the holders or if interest payments are not discretionary The interest payable on such securities is recognised in the income statement through interest payable

Subordinated liabilities consist of dated and undated loan capital The interest payable is recognised in the income statement through interest payable

**Provisions**

The Bank recognises a provision if there is a present obligation either as a consequence of a legal or constructive obligation resulting from a past event for which it is probable that an outflow of economic resources that can be reliably measured will be required to settle the obligation Provisions are measured as the discounted expected future cash flows taking account of the risks and uncertainties associated with the specific liability where appropriate

**Debt Securities in Issue**

Debt securities in issue are held at amortised cost They are initially recognised at fair value plus directly related transaction costs and are subsequently carried on the balance sheet at amortised cost using the effective interest method

Fair values are calculated based on quoted market prices Where quoted market prices are not available, a cash flow model is used, discounted using an appropriate current yield curve for the remaining term to maturity

**Foreign Currencies**

The Balance Sheet is presented in sterling which is the Bank's functional and presentation currency

Foreign currency transactions are translated into sterling at the exchange rate prevailing at the date of the transaction

Monetary assets and liabilities are translated at balance sheet exchange rates Exchange differences arising are recognised in the income statement except for differences arising from net investment hedges and derivatives related to cash flow hedges which are recognised directly in equity

Non monetary assets and liabilities carried at historical cost are translated using the historic exchange rate Non monetary assets and liabilities carried at fair value are translated at exchange rates on the date fair value is determined Exchange differences arising are recognised in the income statement except those relating to available for sale financial assets (equity investments) which are recognised directly in reserves

**Guarantees**

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument

Intra group financial guarantee contracts are accounted for as insurance contracts This practice also applies to new intra group financial guarantees


**Balance Sheet****As at 30 June 2007**

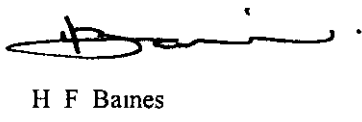
	Notes	30 June 2007 £m	31 December 2006 £m
<b>Assets</b>			
Cash and balance at central banks		1,084	1,059
Items in course of collection		729	667
Derivative assets	1	84	47
Loans and advances to banks		60,763	53,154
Loans and advances to customers	2	131,244	120,693
Investment securities	4	184	397
Interests in jointly controlled entities	5	85	2
Interests in associates	5	4	67
Investments in subsidiaries	6	2,498	2,493
Goodwill and other intangible assets	7	192	174
Property and equipment	8	259	270
Current tax asset			146
Deferred tax asset	9	166	205
Other assets		426	328
Prepayments and accrued income		335	507
<b>Total Assets</b>	10	<b>198,053</b>	<b>180,209</b>
<b>Liabilities</b>			
Deposits by banks		105,615	92,194
Customer accounts		71,268	68,674
Items in course of transmission		377	350
Derivative liabilities	1	85	55
Notes in circulation		859	857
Current tax liabilities		27	
Other liabilities		292	42
Accruals and deferred income		501	756
Provisions	11	3	3
Debt securities in issue	12	1,036	1,046
Other borrowed funds	13	7,977	7,427
<b>Total Liabilities</b>	10	<b>188,040</b>	<b>171,404</b>

**Balance Sheet (continued)**

	Notes	30 June 2007 £m	31 December 2006 £m
<b>Shareholders' Equity</b>			
Issued share capital	14	458	436
Share premium account	15	4,884	3,926
Other reserves	15	575	571
Retained earnings	15	4,096	3,872
<b>Shareholders' Equity</b>	15	<b>10,013</b>	<b>8,805</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>198,053</b>	<b>180,209</b>

Approved by the Board on 6 September 2007 and signed on its behalf by

  
 C Matthew  
 Director

  
 H F Baines  
 Company Secretary

## Notes to the Balance Sheet

### 1 Derivatives

The Bank uses derivatives to hedge and reduce the interest rate and currency exposures that are inherent in any banking business. The hedge accounting strategy adopted by the Bank is to utilise a macro cash flow hedge approach.

The Bank's trading derivative transactions are either customer driven and generally matched or are carried out for proprietary purposes within limits approved by the Board. Some derivatives are held for economic hedging purposes. Where a derivative does not meet the criteria for hedge accounting as defined under IAS 39 they are accounted for and classified below in the same way as derivatives held for trading.

	30 June 2007		31 December 2006	
	Fair value		Fair value	
	Asset	Liability	Asset	Liability
	£m	£m	£m	£m
<b>Derivatives held for trading</b>				
Currency rate related contracts				
Forward foreign currency	2	10	6	2
	2	10	6	2
Interest rate related contracts				
Interest rate swaps	60	61	31	44
	60	61	31	44
<b>Total derivatives held for trading</b>	<b>62</b>	<b>71</b>	<b>37</b>	<b>46</b>
<b>Derivatives held for hedging</b>				
Designated as cash flow hedges				
Forward rate agreements	22	14	10	9
<b>Total derivatives held for hedging</b>	<b>22</b>	<b>14</b>	<b>10</b>	<b>9</b>
<b>Total derivatives</b>	<b>84</b>	<b>85</b>	<b>47</b>	<b>55</b>

**Notes to the Balance Sheet (continued)****2 Loans and Advances to Customers**

Lending exposure before deduction of impairment provisions or taking account of collateral is analysed below

	30 June 2007 £m	31 December 2006 £m
Gross loans and advances to customers	132,435	121,841
Impairment losses on loans and advances (Note 3)	(1,191)	(1,148)
<b>Net loans and advances to customers</b>	<b>131,244</b>	<b>120,693</b>
Included in the above are loans to		
Subsidiary undertakings	3,367	3,017
Fellow subsidiary undertakings		150
Jointly controlled entities and associated undertakings	68	6,605

The Bank's lending exposure before impairment provisions and before taking account of collateral is analysed below

	30 June 2007 £m	31 December 2006 £m
Agriculture, forestry and fishing	634	618
Energy	1,184	832
Manufacturing industry	4,446	3,822
Construction and property	30,433	25,353
Hotels, restaurants and wholesale and retail trade	8,023	7,356
Transport, storage and communication	1,903	1,381
Financial	5,701	6,130
Other services	19,290	19,494
Individuals		
Home mortgages	31,035	29,923
Other personal lending	4,275	5,796
Overseas residents	25,511	21,136
	<b>132,435</b>	<b>121,841</b>

Loans and advances to customers include advances of £2,302m (31 December 2006 £2,362m) which have been sold by the Bank to bankruptcy remote special purpose subsidiaries, which are funded by the issue of commercial paper. The terms of these arrangements typically include the provision by the Bank of basis rate swaps and subordinated loans as well as entitlement to residual income. As some of the risks and the residual rewards of the portfolio have been retained by the Bank these advances have been retained on the balance sheet and the related loans from the subsidiaries are carried at amortised cost.

The Bank's lending exposure before impairment provisions and before taking account of collateral is further analysed below

	30 June 2007 £m	31 December 2006 £m
Loans and advances neither past due nor impaired	122,891	111,317
Loans and advances that are past due but not impaired	5,446	7,187
<b>Impaired loans</b>	<b>4,098</b>	<b>3,337</b>
	<b>132,435</b>	<b>121,841</b>

**Notes to the Balance Sheet (continued)****2. Loans and Advances to Customers (continued)**

The internal credit rating of the Bank's lending exposure other than UK retail lending is set out below

	30 June 2007	31 December 2006
	%	%
Internal rating – better than satisfactory risk	23	26
Internal rating – satisfactory risk	57	51
Internal rating – viable but monitoring	17	20
Internal rating – high risk	3	3
	100	100

The loan to value analysis of the Bank's UK home mortgage lending exposure is set out below

	30 June 2007	31 December 2006
	%	%
Less than 70%	63	53
70% to 80%	24	29
80% to 90%	11	15
Over 90%	2	3
	100	100

The aged analysis of the Bank's loans and advances that are past due but not impaired is set out below

	30 June 2007	31 December 2006
	£m	£m
Past due up to three months	5,242	5,486
Past due three to six months	52	538
Past due six months to one year	151	1,161
Past due over one year	1	2
	5,446	7,187

The Bank's impaired gross lending exposure is analysed below

	30 June 2007	31 December 2006
	£m	£m
UK retail home mortgages	1,057	1,076
UK retail unsecured lending	640	658
Other lending without loss	981	555
Other lending with loss	1,420	1,048
	4,098	3,337

**Notes to the Balance Sheet (continued)****2. Loans and Advances to Customers (continued)**

The Bank's impairment provisions are analysed below

	30 June 2007 £m	31 December 2006 £m
UK retail home mortgages	52	65
UK retail unsecured lending	469	446
Other lending with loss	670	637
	<b>1,191</b>	<b>1,148</b>

The Bank's mortgage lending is secured by a charge over the borrower's property. The average loan to value of UK retail home mortgages that were past due but not impaired was 68.9% (2006 69.6%) and the average loan to value of impaired mortgages was 65.7% (2006 70.6%). The Bank's corporate lending is generally secured by fixed and floating charges. These charges generally allow the Bank a first ranking claim on the borrower's assets in the event that a default situation occurs. The value of collateral described above has been calculated as the amount equal to the net carrying value determined as the outstanding balance less impairment provisions. This value is based on the assessment of the underlying cash flows and assets of the borrower that would be attributable to the Bank in settlement of the loans.

**3 Impairment losses on loans and advances**

	30 June 2007 £m	31 December 2006 £m
<b>At 1 January</b>	<b>1,148</b>	<b>1,227</b>
New impairment provisions less releases	352	647
Amounts written off	(284)	(685)
Acquisitions	1	1
Discount unwind on impaired loans and advances to customers	(26)	(42)
<b>At period end</b>	<b>1,191</b>	<b>1,148</b>

**4. Investment Securities**

	30 June 2007 £m	31 December 2006 £m
Unlisted		
Debt securities	162	374
Equity securities	22	23
<b>Total</b>	<b>184</b>	<b>397</b>

For investment securities that are classified as available for sale and recorded at fair value, the fair value movement during the period is £2m (year to 31 December 2006 £9m)

**Notes to the Balance Sheet (continued)****5. Interests in Jointly Controlled Entities and Associates**

Interests in	Jointly controlled entities	Associates
	£m	£m
At 1 January 2006 and 31 December 2006	2	67
Acquisitions (a)	20	
Transfer (a)	63	(63)
<b>At 30 June 2007</b>	<b>85</b>	<b>4</b>

(a) On 8 February 2007 the Bank's acquired an additional 5% interest in Sainsbury's Bank plc increasing its holding to 50%. At that time Sainsbury's Bank became a jointly controlled entity.

The main entity included in jointly controlled entities and associates is as follows

The main entity included in jointly controlled entities and associates is as follows						
	Nature of Business	Issued Share and Loan Capital		Group's Interest	Year end	Principal area of operation
Jointly controlled entities						
Sainsbury's Bank plc	Banking	ordinary	£140,000,000	50.0%	31 March	UK
		loan	£100,000,000	50.0%		

All interests in jointly controlled entities and associates are unlisted and incorporated in the UK.

**6. Investments in Subsidiaries**

	30 June 2007			31 December 2006		
	Banks	Others	Total	Banks	Others	Total
	£m	£m	£m	£m	£m	£m
At 1 January	863	1,630	2,493	863	1,058	1,921
Additions					714	714
Disposals					(32)	(32)
Write down of investments					(87)	(87)
Currency translation		5	5		(23)	(23)
<b>At period end</b>	<b>863</b>	<b>1,635</b>	<b>2,498</b>	<b>863</b>	<b>1,630</b>	<b>2,493</b>

The main directly held subsidiaries are as follows

	Bank's interest in ordinary share capital and voting rights	Principal business	Incorporated
HBOS Treasury Services plc	100%	Banking	UK
Scotland International Finance BV	100%	Holding company	The Netherlands
Uberior Investments Ltd	100%	Investment company	UK
CAPITAL BANK plc	100%(a)	Banking and personal finance	UK

(a) Bank of Scotland holds 100% of the issued preference share capital.

## Notes to the Balance Sheet (Continued)

## 7 Goodwill and Other Intangible Assets

	30 June 2007 £m	31 December 2006 £m
Goodwill	70	66
Other intangibles	122	108
	192	174

	30 June 2007 £m	31 December 2006 £m
<b>Goodwill</b>		
At 1 January	66	66
Additions and transfers	4	
At 30 June	70	66

**Goodwill impairment testing**

Goodwill has arisen on the acquisition of businesses. It is subject to a six monthly impairment review by comparing the value in use with the carrying value. When this indicates that the carrying value is not recoverable it is written down through the income statement. The goodwill is allocated to the cash generating units or groups of cash generating units that are expected to benefit from the acquisitions concerned. In most cases, the cash generating units represents the actual company or business acquired.

The recoverable amount of each cash generating unit is based upon value in use calculations. The calculations use cash flow projections based upon the five year business plan with cash flows thereafter being extrapolated using growth rates in the range of 2.25% - 2.50% reflecting the long term nature of the businesses concerned and the long term trend in growth rate of the respective economies. The pre tax discount rates used in discounting projected cash flows lie in the range of 10.0% - 12.2% reflecting the perceived risk within those businesses.

Other intangible assets	30 June 2007 £m	31 December 2006 £m
<b>Software</b>		
<b>Cost</b>		
At 1 January	270	217
Additions	31	53
<b>At period end</b>	<b>301</b>	<b>270</b>
<b>Amortisation</b>		
At 1 January	162	136
Amortisation expense	17	26
<b>At period end</b>	<b>179</b>	<b>162</b>
<b>Carrying value at period end</b>	<b>122</b>	<b>108</b>

**Notes to the Balance Sheet (continued)****8 Property and Equipment**

	<b>30 June</b>			<b>31 December</b>		
	<b>2007</b>			<b>2006</b>		
	<b>Property</b>	<b>Equipment</b>	<b>Total</b>	<b>Property</b>	<b>Equipment</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Cost</b>						
At 1 January	222	362	584	208	362	570
Additions	11	9	20	25	12	37
Disposals	(10)	(9)	(19)	(5)	(6)	(11)
Transfers and other movements				(6)	(6)	(12)
<b>At period end</b>	<b>223</b>	<b>362</b>	<b>585</b>	<b>222</b>	<b>362</b>	<b>584</b>
<b>Depreciation</b>						
At 1 January	44	270	314	38	255	293
Depreciation expense	5	11	16	9	23	32
Disposals	(1)	(3)	(4)	(1)	(4)	(5)
Transfers and other movements				(2)	(4)	(6)
<b>At period end</b>	<b>48</b>	<b>278</b>	<b>326</b>	<b>44</b>	<b>270</b>	<b>314</b>
<b>Carrying value at period end</b>	<b>175</b>	<b>84</b>	<b>259</b>	<b>178</b>	<b>92</b>	<b>270</b>

Included within property and equipment are assets in the course of construction amounting to £15m (31 December 2006 £44m) which are not depreciated until the assets are brought into use

**Notes to the Balance Sheet (continued)****9. Deferred Tax**

	30 June 2007 £m	31 December 2006 £m
Deferred tax liabilities	32	31
Deferred tax assets	(198)	(236)
<b>Net position</b>	<b>(166)</b>	<b>(205)</b>

The movement in the net position is as follows

	30 June 2007 £m	31 December 2006 £m
At 1 January	(205)	(464)
Charge to income	20	26
Charge to equity	8	14
Change in rate of UK Corporation tax	11	
Other movements		219
<b>At period end</b>	<b>(166)</b>	<b>(205)</b>

Analysed as follows

Deferred tax liabilities	Capital allowances on other assets £m	Available for sale investments £m	Other £m	Total £m
At 1 January 2006	(1)	2	21	22
Charge/(credit) to income	11		(3)	8
Charge to equity		1		1
At 31 December 2006	10	3	18	31
Charge/(credit) to income	1		(2)	(1)
Charge to equity		(2)	4	2
<b>At 30 June 2007</b>	<b>11</b>	<b>1</b>	<b>20</b>	<b>32</b>

Deferred tax assets	Employee benefits £m	Provisions £m	Effective interest rate adjustment £m	Other £m	Total £m
At 1 January 2006	(247)	(128)	(93)	(18)	(486)
Charge/(credit) to income	(7)	(9)	34		18
Charge/(credit) to equity	30			(17)	13
Other movements	219				219
At 31 December 2006	(5)	(137)	(59)	(35)	(236)
Charge/(credit) to income		8	3	10	21
Charge to equity				6	6
Change in tax rate		8	3		11
<b>At 30 June 2007</b>	<b>(5)</b>	<b>(121)</b>	<b>(53)</b>	<b>(19)</b>	<b>(198)</b>

At 30 June 2007, a deferred tax liability of £155m (31 December 2006 £155m) relating to an investment in a subsidiary has not been recognised because the Bank controls whether the liability will be incurred and is satisfied that it will not be incurred in the foreseeable future

**Notes to the Balance Sheet (continued)****10. Segmental Analysis****Business Sector**

30 June 2007	Retail	Corporate	Insurance & Investment	International	Treasury & Asset Management	Group Items	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Total assets</b>	<b>52,705</b>	<b>105,189</b>	<b>2</b>	<b>11,172</b>		<b>28,985</b>	<b>198,053</b>
Included in total assets							
Interests in jointly controlled entities and associates undertakings	85	4					89
<b>Total liabilities</b>	<b>53,247</b>	<b>106,203</b>	<b>37</b>	<b>6,183</b>		<b>22,370</b>	<b>188,040</b>
31 December 2006	Retail	Corporate	Insurance & Investment	International	Treasury & Asset Management	Group Items	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Total assets</b>	<b>52,390</b>	<b>98,047</b>	<b>2</b>	<b>9,754</b>		<b>20,016</b>	<b>180,209</b>
Included in total assets							
Interests in jointly controlled entities and associates undertakings	65	4					69
<b>Total liabilities</b>	<b>46,396</b>	<b>98,859</b>	<b>2</b>	<b>4,853</b>		<b>21,294</b>	<b>171,404</b>

**Geographical**

The table below analyses the Bank's assets by the geographical area in which the business is generated. The geographical analysis is prepared in accordance with the location of the relevant company or branch.

30 June 2007	UK	Rest of world	Total
	£m	£m	£m
<b>Total assets</b>	<b>186,881</b>	<b>11,172</b>	<b>198,053</b>
Included in total assets are interests in jointly controlled entities and associated undertakings	89		89
<b>Total liabilities</b>	<b>181,857</b>	<b>6,183</b>	<b>188,040</b>
31 December 2006	UK	Rest of world	Total
	£m	£m	£m
<b>Total assets</b>	<b>170,455</b>	<b>9,754</b>	<b>180,209</b>
Included in total assets are interests in jointly controlled entities and associated undertakings	69		69
<b>Total liabilities</b>	<b>166,551</b>	<b>4,853</b>	<b>171,404</b>

**Notes to the Balance Sheet (continued)****11 Provisions**

	30 June 2007 £m	31 December 2006 £m
At 1 January	3	2
Provision expense		1
At period end	3	3

Other provisions principally comprise property related costs on surplus leased space

**12 Debt Securities in Issue**

	30 June 2007 £m	31 December 2006 £m
Bonds and medium term notes	1,036	1,046
	1,036	1,046

Debt securities in issue are held at amortised cost

**13 Other Borrowed Funds**

Other borrowed funds	30 June 2007 £m	31 December 2006 £m
Preference shares	406	412
Subordinated liabilities		
Dated	4,761	4,204
Undated	2,810	2,811
	7,977	7,427
<b>Preference shares</b>	<b>30 June 2007 £m</b>	<b>31 December 2006 £m</b>
9 1/4% non cumulative irredeemable preference shares	300	300
9 3/4% non cumulative irredeemable preference shares	100	100
Accrued effective interest	6	12
	406	412

**Notes to the Balance Sheet (continued)****13. Other Borrowed Funds (continued)**

Dated subordinated liabilities	30 June	31 December
	2007	2006
	£m	£m
€500m 5 50% instruments 2009	337	335
US\$500m notes 2010	249	254
US\$150m notes 2011	75	76
€750m 5 5% notes 2012	505	503
US\$450m subordinated floating rate notes 2012	224	229
£330m floating rate subordinated notes 2012	330	330
£300m floating rate subordinated notes 2012	300	300
£700m floating rate subordinated notes 2012	700	700
£300m floating rate subordinated notes 2012	300	300
€325m 6 125% notes 2013	219	218
€1,000m subordinated callable fixed/floating rate instruments 2013	673	671
£250m 6 375% instruments 2019	250	250
£520m floating rate subordinated notes 2012 (a)	520	
Unamortised premiums, discounts and issue costs	(7)	(8)
Accrued interest	86	46
	<b>4,761</b>	<b>4,204</b>

(a) On 28 February 2007, £520m floating rate subordinated notes 2012 were issued by the Bank, at par, to its parent undertaking HBOS plc. The notes bear interest at three month libor plus 76 basis points.

No repayment, for whatever reason, of dated loan capital prior to its stated maturity, nor an exercise of any redemption option of its undated loan capital and no purchase by the Bank of its subordinated debt may be made without the consent of the Financial Services Authority. On a winding up of the Bank, the claims of the holders of dated and undated loan capital shall be subordinated in right of payment to the claims of all depositors and creditors of the Bank other than creditors whose claims are expressed to rank *pari passu* with or junior to the claims of the holders of the loan capital. The undated loan capital is junior in point of subordination to the dated loan capital.

**Notes to the Balance Sheet (continued)****13. Other Borrowed Funds (continued)**

<b>Undated subordinated liabilities</b>	<b>30 June 2007 £m</b>	<b>31 December 2006 £m</b>
US\$300m reset notes	150	153
£200m perpetual notes	200	200
£300 m perpetual regulatory tier one securities	300	300
€500m instruments	337	335
US\$250m floating rate primary capital notes	125	127
£150m instruments	150	150
JPY 17bn instruments	69	73
£100m instruments	100	100
£300m instruments	300	300
£250m perpetual preferred notes	250	250
£150m perpetual preferred notes	150	150
£150m floating rate subordinated notes	150	150
£500m floating rate subordinated notes	500	500
Unamortised premiums, discounts and issue costs	(4)	(3)
Accrued interest	33	26
	<b>2,810</b>	<b>2,811</b>

**14. Share Capital**

<b>Ordinary shares</b>	<b>30 June 2007 £m</b>	<b>31 December 2006 £m</b>
<b>Allotted, called up and fully paid</b>		
At 1 January	436	410
Shares issued	22	26
<b>At period end</b>	<b>458</b>	<b>436</b>

On 28 February 2007 42,477,876 ordinary shares of 25p each were issued at £11.30 each and on 26 June 2007 £45,454,545 ordinary shares of 25p each were issued at £11.00 each

At 30 June 2007 the authorised share capital comprised

Ordinary Shares – 2,085m ordinary shares of 25 pence each

Preference Shares 150,000 7.754%, non cumulative perpetual preference shares of £10 each, 250,000 8.117% non cumulative perpetual preference shares of £10 each, 375,000,000 9.25% non cumulative irredeemable preference shares of £1 each, 125,000,000 9.75% non cumulative irredeemable preference shares of £1 each. The terms of some of the preference shares when issued are such that these shares are classified as other borrowed funds rather than as issued share capital

**Notes to the Balance Sheet (continued)****15 Reconciliation of Shareholders' Equity**

2007	Share capital	Share premium	Cash flow hedge reserve	Available for sale reserve	Other reserves	Retained earnings	Total
Bank	£m	£m	£m	£m	£m	£m	£m
At 1 January	410	2,951	(7)	4	62	3,386	6,806
Foreign currency translation					(13)	(1)	(14)
Actuarial loss from retirement benefit plan						71	71
Capital contribution					515		515
Available for sale investments							
Net change in fair value				3			3
Cash flow hedges							
Effective portion of changes in fair value taken to equity			7				7
Profit after tax						1,818	1,818
Total recognised income and expense			7	3	502	1,888	2,400
Dividends paid						(1 425)	(1,425)
Movements in respect of tax on employee benefits						23	23
Issue of new shares	26	975					1,001
At 31 December 2006	436	3,926		7	564	3,872	8,805
Foreign currency translation						2	2
Available for sale investments							
Net change in fair value				(8)			(8)
Cash flow hedges							
Effective portion of changes in fair value taken to equity			12				12
Profit after tax						741	741
Total recognised income and expense			12	(8)		743	747
Dividends paid						(525)	(525)
Movements in respect of tax on employee benefits						6	6
Issue of new shares	22	958					980
At 30 June	458	4,884	12	(1)	564	4,096	10,013

In February 2007 42,477,876 ordinary shares of 25p each were issued at £11 30 each and in June 2007 £45,454,545 ordinary shares of 25p each were issued at £11 00 each

Other reserves comprise a capital contribution reserve of £515m (31 December 2006 £515m) and a foreign currency translation reserve of £49m (31 December 2006 £49m)

The Bank is regulated by the Financial Services Authority and is regulated at a Solo consolidated and Consolidated level rather than on a non consolidated basis which is the method of presentation used in this document. Shareholders' equity represents the capital of the Bank and the capital is managed through the group's capital and dividend policy that requires subsidiaries to remit surplus reserves to the Bank, through the issue of new shares to the parent undertaking and by the retention and/or distribution of distributable reserves to maintain adequate capital for the group.

**Notes to the Balance Sheet (continued)****16 Fair Value of Financial Instruments**

The fair values of financial instruments are based on market prices where available, or are estimated using other valuation techniques. Where they are short term in nature or re-price frequently, fair value approximates to carrying value. The classification adopted by the Bank is shown in the following table.

30 June 2007	Derivatives		Available for sale		Loans and receivables	
	Carrying	Fair	Carrying	Fair	Carrying	Fair
	amount	value	amount	value	amount	value
	£m	£m	£m	£m	£m	£m
<b>Assets</b>						
Cash and balances with central banks					1,084	1,084
Items in course of collection					729	729
Derivative assets	84	84				
Loans and advances to banks					60,763	60,763
Loans and advances to customers					131,244	131,240
Investment securities			125	125	59	59
Other financial assets					45	45
	84	84	125	125	193,924	193,920
<b>31 December 2006</b>						
31 December 2006	Derivatives		Available for sale		Loans and receivables	
	Carrying	Fair	Carrying	Fair	Carrying	Fair
	amount	value	amount	value	amount	value
	£m	£m	£m	£m	£m	£m
<b>Assets</b>						
Cash and balances with central banks					1,059	1,059
Items in course of collection					667	667
Derivative assets	47	47				
Loans and advances to banks					53,154	53,154
Loans and advances to customers					120,693	120,689
Investment securities			397	397		
Other financial assets					66	66
	47	47	397	397	175,639	175,635

**Notes to the Balance Sheet (continued)****16. Fair Value of Financial Instruments (continued)**

30 June 2007	Derivatives		Financial liabilities at amortised cost	
	Carrying amount	Fair value	Carrying amount	Fair value
	£m	£m	£m	£m
<b>Liabilities</b>				
Deposits by banks			105,615	105,615
Customer accounts			71,268	71,279
Derivative liabilities	85	85		
Debt securities in issue			1,036	1,036
Other borrowed funds			7,977	7,977
Other financial liabilities			93	93
	85	85	185,989	186,000
<hr/>				
31 December 2006	Derivatives		Financial liabilities at amortised cost	
	Carrying amount	Fair value	Carrying amount	Fair value
	£m	£m	£m	£m
<b>Liabilities</b>				
Deposits by banks			92,194	92,194
Customer accounts			68,674	68,685
Derivative liabilities	55	55		
Debt securities in issue			1,046	1,046
Other borrowed funds			7,427	7,427
Other financial liabilities			131	131
	55	55	169,472	169,483

**Notes to the Balance Sheet (continued)****17. Commitments and contingencies**

	30 June 2007 £m	31 December 2006 £m
<b>Contingent Liabilities</b>		
Acceptances and endorsements	39	53
Guarantees and irrevocable letters of credit	63,152	54,066
	<b>63,191</b>	<b>54,119</b>
Amounts included above in respect of guarantees to subsidiary undertakings	<b>58,667</b>	<b>49,768</b>
<b>Commitments</b>		
Short term trade related transactions	112	105
Undrawn formal standby facilities, credit lines and commitments to lend		
Up to and including one year	22,341	19,295
Over one year	19,678	17,118
	<b>42,131</b>	<b>36,518</b>
Amounts included above in respect of commitments to subsidiary undertakings	<b>90</b>	<b>81</b>

**18 Related Party Transactions**

The ultimate parent of the Bank is HBOS plc. Banking transactions are entered into with its subsidiaries, including the subsidiaries of the Bank, in the normal course of business. These include loans, deposits and foreign currency transactions. The balances due to and due from HBOS plc subsidiaries are shown in the notes to the Balance Sheet.

Included within loans and advances to banks are amounts due to subsidiary undertakings of £58,542m (31 December 2006 £71,270m) and amounts due to fellow subsidiary undertakings of £2,110m (31 December 2006 £9,885m).

Included within deposits by banks are amounts due from subsidiary undertakings of £94,362m (31 December 2006 £107,882m), amounts due from fellow subsidiary undertakings of £6,687m (31 December 2006 £8,737m) and amounts due from associated undertakings of £nil (31 December 2006 £16m).

**19. Ultimate Parent Undertaking and Activities**

HBOS plc is the ultimate parent undertaking of the Governor & Company of The Bank of Scotland.

The principal activity of the Bank is the provision of financial services. Under the HBOS Group Reorganisation Act 2006, it is expected that on 17 September 2007, Bank of Scotland will become registered as a public limited company under the Companies Act and will change its name to Bank of Scotland plc. On the same day, under the provisions of the Act, Bank of Scotland plc will succeed to the business, assets and liabilities of CAPITAL BANK plc, Halifax plc and HBOS Treasury Services plc (the "transferor banks").

**20 Contingent liabilities**

On 27 July 2007 it was announced that the Bank, as part of the HBOS Group (the "Group"), along with seven other major UK current account providers, had reached agreement with the Office of Fair Trading to start legal proceedings in the High Court of England and Wales for a declaration (or declarations) to resolve legal uncertainties concerning the level, fairness and lawfulness of unauthorised overdraft charges (the "test case"). It was also announced that the Group and those other providers will seek a stay of all current and future proceedings which are brought against them in the UK concerning these charges and have obtained the consent of the Financial Services Ombudsman not to proceed with consideration of the merits of any complaints concerning these charges that are referred to him prior to the resolution of the test case. A definitive outcome of the test case is unlikely to be known for at least 12 months. Given the very early stage of these proceedings and the uncertainty as to their outcome, it is not practicable at this time to estimate any potential financial effect.

**Notes to the Balance Sheet (continued)****21 Liquidity Analysis**

The tables below set out by maturity the contractual cash flows attaching to the Bank's financial liabilities

30 June 2007	On demand	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years
	£m	£m	£m	£m	£m
<b>Liabilities</b>					
Deposits by banks	6,811	99,298	370	33	17
Customer accounts	59,955	10,164	1,239	27	
Derivative liabilities		29	28	74	13
Debt securities in issue		38	262	767	
Other borrowed funds		122	778	3,426	8,791
Other financial liabilities		93			
31 December 2006	On demand	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years
	£m	£m	£m	£m	£m
<b>Liabilities</b>					
Deposits by banks	2,046	50,389	42,103	31	25
Customer accounts	61,319	6,463	887	80	
Derivative liabilities		12	18	44	20
Debt securities in issue		48	12	1,027	
Other borrowed funds		88	915	3,207	7,854
Other financial liabilities		131			

Inter company term balances between the Bank and the transferor banks are deemed to settle on 17 September 2007, the expected date of the merger of the banks under the HBOS Group Reorganisation Act 2006

**22. Market Risk**

The Bank's principal method of managing market risk is to transfer these risks to the Group's Treasury operations through inter-company funding and derivative transactions. The Bank also hedges its net investment in overseas operations with the Group's Treasury operations. In these unconsolidated accounts the hedges are ineffective as the Bank is not consolidating its overseas subsidiaries, so the Bank includes the impact of these in retained earnings through profit after tax. Consequently the Bank's Balance Sheet is not exposed to any material market risk.

---

**Independent auditors' report to The Governor & Company of the Bank of Scotland for the purpose of section 685(4)(c) of the Companies Act 1985**

We have audited the relevant Balance Sheet and the related notes of The Governor & Company of the Bank of Scotland (the "Bank") as at 30 June 2007 set out on pages 9 and 10 which have been prepared under the accounting policies set out on pages 3 to 8

This report is made solely to the Bank in accordance with section 685(4) (c) of the Companies Act 1985. Our work has been undertaken so that we as the Bank's auditors might state to the Bank those matters we are required to state to it in a report under section 685(4)(c) of that Act and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank for our work under section 685(4) (c) of that Act, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Balance Sheet in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out on page 2.

Our responsibility is to audit the Balance Sheet in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Balance Sheet and related notes, and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Balance Sheet is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Balance Sheet.

**Opinion**

In our opinion the Balance Sheet as at 30 June 2007 has been properly prepared in accordance with the provisions of the Companies Act 1985, which would have applied had the Balance Sheet been prepared for a financial year of the Bank.

KPMG Audit Plc

**KPMG Audit Plc**  
*Chartered Accountants*  
*Registered Auditor*  
*Edinburgh*

6 September 2007

---

**Statement of the independent auditors to The Governor & Company of the Bank of Scotland for the purpose of section 685(4)(b) of the Companies Act 1985**

We have examined the relevant Balance Sheet and the related notes of The Governor & Company of the Bank of Scotland as at 30 June 2007 which were prepared for the purpose of the proposed registration of The Governor & Company of the Bank of Scotland as a public company and audited by us

This statement is made solely to the Bank in accordance with section 685(4) (b) of the Companies Act 1985. Our work has been undertaken so that we as the Bank's auditors might state to the Bank those matters we are required to state to it in this statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank for our work under section 685(4) (c) of that Act, for this statement, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

The Bank's directors' responsibility for the preparation of the Balance Sheet is set out in the Statement of Directors' Responsibilities on page 2 of this document which is prepared for the purpose of the proposed registration of The Governor & Company of the Bank of Scotland as a public company.

It is our responsibility to form an independent opinion, based on our examination, and to report our opinion to you.

**Basis of opinion**

The scope of our work for the purpose of this statement was limited to an examination of the relationship between the Bank's net assets and its called up share capital and undistributable reserves as stated in the audited Balance Sheet.

**Opinion**

In our opinion the audited Balance Sheet at 30 June 2007 shows that the amount of the Bank's net assets (within the meaning given to that expression by section 264(2) of the Companies Act 1985) was not less than the aggregate of its called up share capital and undistributable reserves.



**KPMG Audit Plc**  
*Chartered Accountants*  
*Registered Auditor*  
*Edinburgh*

6 September 2007