

**SUMMARY OF THE PROPOSED SCHEME
FOR THE TRANSFER OF PART OF THE BANKING BUSINESS OF
EGG BANKING PLC TO THE YORKSHIRE BUILDING SOCIETY**

1. INTRODUCTION

This summary sets out the proposed terms for the transfer of part of the banking business of Egg Banking plc ("**Egg**"), as described in paragraph 3 below (the "**Business**"), to the Yorkshire Building Society ("**the Yorkshire**"). The transfer of the Business (the "**Transfer**") is to be implemented through the statutory process available under Part VII of the Financial Services and Markets Act 2000 (the "**FSMA**") for the transfer of banking businesses.

The Transfer is subject to the approval of the High Court of Justice in London. The Court hearing at which the Transfer will be considered and, if thought fit, approved is due to be held on 25 October 2011. Anyone who believes that they will be adversely affected by the Transfer can object or otherwise make representations, and if they wish, can appear at the Court hearing to raise objections or make representations. If you do wish to appear in Court, or if you wish to raise an objection/make a representation without appearing in Court, we would request that you write to Hogan Lovells International LLP, Atlantic House, Holborn Viaduct, London EC1A 2FG, quoting reference C4JDB or email them at eggscheme@hoganlovells.com by 19 October 2011 (three business days before the Court hearing).

This document provides a summary of the details of the terms of the scheme (the "**Scheme**") under which the Transfer will be implemented.

The information in this document is only a summary of the Transfer and the Scheme. If you require further information or if you require a copy of the Scheme free of charge, please visit the Egg website at www.egg.com or contact us by telephone on 0845 366 5609, or by using the Egg secure message service or by writing to FAO Egg Scheme Team, Egg Banking plc, Riverside Road, Pride Park, Derby, DE99 3GG.

2. EFFECTIVE DATE OF THE TRANSFER

Assuming the Court approves the Transfer, the Scheme will become effective at 00.01 (UK time) on 31 October 2011, or on such other date and time as the Court may allow on the application of Egg and the Yorkshire (the "**Effective Date**"). Unless the Scheme becomes effective before 1 April 2012, it will lapse.

3. THE BUSINESS TO BE TRANSFERRED

The Business to be transferred from Egg to the Yorkshire is the "Egg" and "Pi" branded mortgage and deposit-taking business of Egg. The Business to be transferred consists of the Business Assets and Assumed Liabilities (both as defined in schedule 1 of the Scheme) and includes, most notably, the following:

- (a) The rights and obligations of Egg relating to its deposit agreements (including savings accounts, cash ISAs, Fixed Rate Bonds and Guaranteed Equity Bonds), and mortgages originated under the 'Egg' and 'Pi' brands either by Egg or any predecessor including related agreements in respect of these mortgages such as indemnities and guarantees and any rights or obligations of Egg arising from applications in relation to deposit agreements and mortgages.
- (b) Agreements with customers relating to the use of the Egg Money Manager service.

- (c) Any rights of Egg under insurance policies issued in respect of the Egg Agreements as defined in schedule 1 of the Scheme.
- (d) The benefit of all consents given to Egg by its customers for use of their personal data, insofar as that data relates to the Business. The Yorkshire will become data controller (under the Data Protection Act 1998) in respect of the transferred consents.
- (e) Any rights of Egg against valuers, conveyancing solicitors and licensed conveyancers, who have acted in relation to transferred mortgages.
- (f) Egg's books and records relating to the Business.

As a result of the Transfer, customers will have the same rights against the Yorkshire as they had against Egg before the Transfer took effect. Conversely, the Yorkshire will have the same rights against customers as Egg had against customers before the Transfer took effect. Egg will cease to have any rights or obligations in respect of the Business as a result of the Transfer except as described below.

The Transfer will not transfer any rights or obligations of Egg in respect of payment protection insurance policies in respect of the mortgages.

4. **WIDENING OF RIGHTS**

With the exception of changes to terms and conditions listed in paragraph 8 below, Egg's rights under the agreements between it and deposit and/or mortgage customers will not change as a result of the Transfer, but the circumstances in which certain of those rights could be exercised by the Yorkshire would be extended as a result of the Transfer, unless the Scheme provides otherwise. The Scheme will therefore impose a general restriction against this happening, as well as the specific restrictions described below.

However, these restrictions will not affect rights that the Yorkshire or customers would otherwise have had, or may in future obtain, outside the Scheme.

References in this paragraph 4 and in paragraph 5 to accounts or agreements held with the Yorkshire include accounts or agreements held with Norwich & Peterborough Building Society ("**N&P**"), subject to the merger of the Yorkshire and N&P being confirmed by the FSA.

4.1 **Bank/Building Society set-off rights**

This is the right of a bank or a building society, in certain circumstances, to use money deposited with them (for example in a savings account) towards payment of a debt (such as under a mortgage) that becomes payable to them.

For example, if a customer has both a savings account and mortgage with Egg, and falls behind with his mortgage repayments, Egg may have the right to use money in the customer's savings account to help pay the mortgage debt.

In the same way, the Yorkshire may be able to use money in, for example, a savings account with the Yorkshire to help pay a debt overdue to the Yorkshire.

The Scheme (at paragraph 13) therefore provides that the current scope of each bank/building society's existing rights will be maintained, by stating that after the Transfer the Yorkshire will not be able to:

- use money in transferred Egg savings accounts to help pay debts on accounts with the Yorkshire which were opened before the Transfer (i.e. existing accounts); or

- use money in existing deposit accounts with the Yorkshire to help pay debts on transferred Egg mortgages.

This will be the case unless the Yorkshire acquires set-off rights outside of the Scheme, for example if new contractual rights of set off are introduced.

These restrictions will last until the date 3 months after the Effective Date, except in relation to deposits made for a fixed term or which are subject to a promotional rate if the deposit is maintained for a certain period, in which case the restrictions will last until 3 months after the end of that fixed term or promotional period.

4.2 **Cross default rights**

Some Egg mortgages state that if the customer breaches another agreement with Egg, the customer may be asked to repay the mortgage more quickly. Some existing agreements with the Yorkshire may contain similar provisions, meaning that one agreement is affected by breach of another.

The Scheme (at paragraph 18) states that, after the Transfer, where someone currently has accounts at both the Yorkshire and Egg:

- breach in relation to an existing account with the Yorkshire will not lead to a customer being asked to repay his transferred Egg mortgage more quickly; and
- breach of a transferred Egg account will not lead to a customer being asked to repay an existing mortgage or other debt with the Yorkshire more quickly.

4.3 **All monies rights**

Some Egg and Yorkshire mortgages may contain an 'all monies' clause, allowing the mortgage to be used as security for all debts a customer owes the same lender, not just that mortgage loan.

The Scheme (at paragraph 14) states that all monies clauses:

- in existing mortgages with the Yorkshire will not apply to transferred Egg mortgages; or
- in transferred Egg mortgages will not apply to any existing lending by the Yorkshire, or to any new unsecured lending by the Yorkshire.

4.4 **Consolidation rights**

If a customer has mortgages on more than one property with the same bank or building society and wants to repay one (or some) of them but not all, a consolidation condition provides that a bank or building society has the right to maintain its mortgages over all the properties until all the mortgages have been repaid (a 'consolidation right'). Typically this is used to protect against a customer moving a mortgage loan for which payments are up-to-date to another lender while leaving behind a mortgage that is in arrears.

The Scheme (at paragraph 15) states that if a customer or guarantor has obligations under an existing agreement with the Yorkshire, this will not (following the Transfer) trigger consolidation rights under a transferred Egg mortgage, or vice versa.

5. **ENTIRE AGREEMENT CLAUSES**

Some customer agreements state that the terms of those agreements apply to all accounts of a certain type that a customer holds with Egg or with the Yorkshire. The Scheme (at paragraph 17) provides that, from the Effective Date, those customer agreements will continue to apply to the same accounts as immediately prior to the Effective Date so that:

- (a) accounts that have transferred to the Yorkshire from Egg will continue to be governed by the same Egg customer agreement;
- (b) existing accounts with the Yorkshire will continue to be governed by the same customer agreement with the Yorkshire; and
- (c) the terms of new customer agreements with the Yorkshire that are entered into on or after the Effective Date will only apply to accounts that have transferred to the Yorkshire from Egg if explicitly agreed in such new customer agreement.

6. **MARKETING PREFERENCES**

Where a transferred savings or mortgage customer has agreed to receive direct marketing from Egg but has declined direct marketing from the Yorkshire, or vice versa, the preference he has given to the Yorkshire will apply instead of the transferred marketing preference the customer has given to Egg (see paragraph 8 of the Scheme).

7. **DIRECT DEBITS AND OTHER PAYMENT INSTRUCTIONS**

Any direct debit mandate, standing order or other instruction relating to the payment of any amount to Egg in relation to the Business shall take effect after the Transfer as if it had provided for and authorised such payment to the Yorkshire. Any direct debit mandate, standing order or other instruction relating to payment by Egg of any sum payable in relation to the Business shall continue in force as an effective authority for the Yorkshire.

8. **CHANGES TO CUSTOMER TERMS AND CONDITIONS**

Change in standard variable mortgage interest rates for Egg and Pi standard variable rate mortgages from the Effective Date

For "Egg" branded mortgages where the interest rate applicable to the mortgage account is set at the standard variable rate (**SVR**) of Egg, the Scheme (at paragraph 12.1) provides that from the Effective Date the rate charged on these accounts will automatically become set at the Yorkshire's SVR. The Yorkshire's current SVR is 4.99% (as at 15 August 2011) which is 0.30% lower than Egg's current standard variable interest rate of 5.29% (as at 15 August 2011).

For "Pi" branded mortgages where the interest rate applicable to the mortgage account is set at the Pi SVR, the Scheme (at paragraph 12.1) provides that from the Effective Date the rate charged on these accounts will also automatically become set at the Yorkshire's SVR. The Yorkshire's current SVR is 4.99% (as at 15 August 2011) which is 1.01% lower than the current Pi SVR of 6% (as at 15 August 2011).

Change in product and interest rates for Pi discounted rate mortgages from the Effective Date

For "Pi" branded mortgages where the interest rate applicable to the mortgage account is set at a discount to the Pi SVR, the Scheme (at paragraph 12.2) provides that from the Effective Date the rate payable will automatically become set at the Yorkshire's SVR of 4.99% (as at 15 August 2011) with no discount applied. Additionally, the Scheme (at paragraph 12.2) provides that in relation to any Pi mortgages where the effective rate immediately prior to the Effective Date is lower than 4.99%, the rate on that account will be set at a discount to the Yorkshire's SVR to ensure that the interest rate payable at the Effective Date is no more than the rate applicable immediately before the Effective Date.

Changes to mortgage terms and conditions

In order to transfer mortgage and savings accounts onto the Yorkshire's IT systems, there will be a number of changes to terms and conditions to reflect the way in which those IT systems operate. These changes are set out below, and will take effect from the date on which accounts are migrated to the Yorkshire, which is expected to be late 2012. The Yorkshire will write to affected customers prior to that time to confirm the exact date and to re-confirm the changes being made.

(a) Changes to how mortgage interest is calculated

Currently interest is calculated on a daily basis from one monthly payment date to the next on the outstanding amount of the loan and is collected in arrears on the relevant payment date. From the day on which a mortgage account is moved onto the Yorkshire's computer systems the manner in which interest is applied will change so that interest is calculated daily on the entire loan and is charged at the end of each day. This means the interest is added to the loan daily and compounded daily.

The Scheme (at paragraph 12.3(a)) also provides that the interest calculation will be amended to align it with the Yorkshire's current method. This method assumes that mortgage payments are made on the 15th of every month.

(b) Mortgage Account Review

The Scheme (at paragraph 12.3(b)) provides that, following a change in interest rate applicable on a mortgage, the monthly mortgage payments will be recalculated once a year, rather than on the next payment date following the date of a change in interest rates. Each account will be reviewed on 1 January each year from 2013, and each year thereafter, with the new payment taking effect from March of that year.

The Scheme (at paragraph 12.3(c)) also provides that mortgage account statements will be sent once each year rather than on a six-monthly basis to tie in with the timing on the notification of changes in monthly mortgage payments.

(c) Additional change to Bank of England base rate tracker mortgages

The Yorkshire will apply any change in interest rates on Bank of England base rate tracker accounts resulting from a change to Bank of England base rate by the 15th of the month following the relevant change in Bank of England base rate.

(d) Other changes to terms and conditions required as a result of the Transfer

In addition to any changes made in the ordinary course of business in accordance with the existing terms and conditions of the mortgage accounts, the Scheme (at paragraph 12.5(a)) provides that at any time within the period of two years following the Effective Date, the Yorkshire may, by giving not less than 30 days' prior written notice, make such changes to the terms and conditions of any mortgage account as are reasonably required by the Yorkshire for either of the following purposes:

(i) to allow the operation and administration of the mortgage account to be migrated from the administration and computer systems operated by Egg to the administration and computer systems operated by the Yorkshire; or

(ii) to allow the mortgage account to be operated in a manner which is consistent with the Yorkshire's administration and computer systems (including payment systems and process requirements) and its rules.

Within 90 days of receiving notice as described above of any change to the terms and conditions of a mortgage account which is, in the reasonable opinion of the Yorkshire significantly disadvantageous to customers (whether taken on its own or in combination with other changes under the above provisions), customers may repay the full amount owing on the account, and the Yorkshire will waive any early repayment charge or other additional charge that might otherwise have been payable under the terms applicable to the account. The Scheme requires the Yorkshire to notify the Financial Services Authority ("**FSA**") of any change proposed to be made to terms and conditions under this provision.

9. **BUILDING SOCIETY MEMBERSHIP**

The Scheme (at paragraph 4) provides that a savings accountholder whose account transfers to the Yorkshire will become a shareholding member of the Yorkshire on completion of the Transfer provided that they meet the requirements for shareholding membership in the Yorkshire's rules. A mortgage accountholder whose mortgage transfers to the Yorkshire will become a borrowing member of the Yorkshire on completion of the Transfer provided that they meet the requirements of borrowing membership in the Yorkshire's rules. The rules of the Yorkshire will apply to all transferring accountholders who become members.

Copies of the Yorkshire's rules are available from any of their branches, by email to ybsscheme@ybs.co.uk, by phone on 0845 166 9333, by writing to the Group Secretary of the Yorkshire at Yorkshire House, Yorkshire Drive, Bradford BD5 8LJ, or by visiting the Yorkshire's website, www.ybs.co.uk.

The following matters relating to membership of the Yorkshire should, in particular, be noted, as they differ from the position as an Egg accountholder (which does not itself confer any membership or shareholder rights in Egg):

- (a) In the event of a winding-up, shareholding members in a building society rank lower than depositors with a bank as they are members rather than creditors. Building societies, like banks, are required by the regulator, the FSA, to maintain a level of capital as a "buffer" against unexpected losses. If a building society were to become insolvent, then in relation to shareholding members' savings balances in excess of the FSCS limit (currently £85,000 per saver) the shareholding member (the saver) would have to wait until the society's general creditors had been paid before they received a share of any remaining money, whereas the depositors of an insolvent bank would be paid at the same time as its general creditors in relation to balances in excess of the FSCS limit.
- (b) It is possible for a building society to cease being a mutual building society and join the stock market as a bank, or if it is taken over by an existing bank it will also cease to be a mutual. When such conversions (known as demutualisations) have taken place in the past it has been common for cash or other benefits to be given to some or all of the members (often referred to as "windfalls"). The Scheme provides that transferring Egg customers who become members must give up any windfall rights they might otherwise receive in the first five years of their membership by assigning those rights to the Yorkshire Building Society Charitable Foundation. The terms of this

are captured in the declaration given automatically by deposit and mortgage account holders under the Scheme, set out at Schedule 1 to this Summary.

Customers who transfer to the Yorkshire will be treated the same as other members of the Yorkshire in this respect and so in the unlikely event of a conversion of the Yorkshire to a bank within five years from the Effective Date any such windfalls will pass to the Yorkshire Building Society Charitable Foundation. This does not apply to customers who are already a shareholding member or borrowing member of the Yorkshire immediately prior to the Effective Date, in which case their existing charitable assignment status with the Yorkshire will be unaffected by the Transfer.

Similarly, if a customer is a N&P member immediately prior to the Effective Date of the Transfer, then their existing N&P assignment status will not be affected by the Transfer even if the Effective Date is before completion of the merger between the Yorkshire and N&P. The merger between the Yorkshire and N&P is subject to confirmation by the FSA and is currently anticipated to take effect after the Transfer. Any such customers should refer to section B.2 (page 24) of the N&P merger booklet sent out in July 2011 as to the position which will apply to them, or visit the N&P website at www.nandp.co.uk for further details.

10. **LITIGATION (PARAGRAPH 5 OF THE SCHEME)**

Any proceedings which are issued or served in relation to the Business following the Transfer should be issued or served against the Yorkshire. The Yorkshire will be entitled to all defences, claims, counterclaims and rights of set-off (subject to paragraph 4.1 above) that would have been available to Egg in any such proceedings. Egg will continue any proceedings that are started prior to the Transfer unless it notifies the Court and the parties to such litigation otherwise.

11. **ASSETS AND LIABILITIES TO BE TRANSFERRED AFTER THE EFFECTIVE DATE**

If any asset to be transferred is not, or is not capable of being, transferred to the Yorkshire under the Scheme on the Effective Date (for example, because the Court does not have jurisdiction to order its transfer), Egg will hold such asset from the Effective Date on trust for the Yorkshire.

Similarly, certain liabilities may not be transferred immediately under the Scheme. Creditors of Egg and the Yorkshire will not however be affected by any retention of liabilities by Egg, since the Yorkshire will indemnify Egg against any such liabilities under the terms of the agreement between them for the purchase of the Business.

The Scheme (at paragraph 3) provides that (i) a mortgage loan will only transfer if and when any related charge or other encumbrance can be transferred at the same time (and vice versa); (ii) an offset mortgage will only transfer if and when the connected offset deposit account can be transferred at the same time; and (iii) an agreement with a customer for the use of Egg Money Manager will only transfer if and when a deposit agreement or mortgage agreement with that customer transfers (or on the first such occasion if there is more than one date of transfer).

12. **TRANSITIONAL ARRANGEMENTS**

12.1 **Transitional agreements (paragraph 4.9 of the Scheme)**

The benefit of any customer applications in relation to deposit accounts or mortgage accounts made to Egg before the Effective Date will transfer to the Yorkshire.

Any agreements with customers that Egg enters into after the Effective Date (for example, where a customer applies before the Effective Date to transfer a mortgage to a different

property, but completes afterwards) will be deemed to be entered into by the Yorkshire, and any rights and interests of Egg under any related insurance policies will be deemed to be interests of the Yorkshire.

12.2 Subject Access Requests (paragraph 9 of the Scheme)

Where a customer has made a subject access request (under the Data Protection Act 1998) to Egg before the Transfer, which is actioned after the Transfer, the Yorkshire will be able to treat the request as limited to a request for information held by Egg before the Transfer.

Conversely, where a customer has made a subject access request to the Yorkshire before the Transfer, which is actioned after the Transfer, the Yorkshire will not need to provide information held by Egg before the Transfer.

13. MODIFICATIONS AND ADDITIONS (PARAGRAPH 21 OF THE SCHEME)

13.1 Egg and the Yorkshire can apply jointly, at any time before or after the Effective Date, to the Court for any amendment, variation, modification or addition to the Scheme provided that, if such application is made after the sanction of the Scheme, the FSA shall be notified of, and have the right to be heard at, any hearing of the Court at which such application is considered.

13.2 At any time after the sanction of the Scheme, in the case of minor amendments, the amendment may be made without the consent of the Court provided that the FSA has been notified of and has approved the amendment.

14. ASSETS AND LIABILITIES NOT TO BE TRANSFERRED TO THE YORKSHIRE UNDER THE SCHEME

The Scheme does not transfer any asset or liability that does not expressly fall within the definitions of "Business Assets" or "Assumed Liabilities" in the Scheme.

SCHEDULE 1

DECLARATION

Terms defined in the Scheme relating to the transfer of certain assets and liabilities from Egg to Yorkshire Building Society (the "Society") pursuant to Part VII of the Financial Services and Markets Act 2000 (as amended) shall have the same meaning when used herein.

1. I agree with the Society and Yorkshire Building Society Charitable Foundation ("the Foundation") that I will assign to the Foundation (or to any charity(ies) nominated by it but to no other person) the rights to any relevant conversion benefits which are defined below. This obligation will not apply to me or may apply to me for less than 5 years if I fall within any class of persons which, as at the Effective Date, the Society decides would be inappropriate to be bound by this assignment condition. This agreement is irrevocable and authorises the Society to give to the Foundation (or to any charity(ies) nominated by it) any such benefits without further notice to me. I understand that neither the Society nor the Foundation will release me from this agreement or vary its terms and I will continue to be bound by the above condition even if the Society decides at some time in the future (and announces any such decision by press release) that it is no longer in the best interests of the Society to continue with the above assignment condition generally in respect of new members.
2. "Relevant conversion benefits" means any benefits under the terms of any future transfer of the Society's business to a company (i.e. on a conversion or takeover) which I might become entitled to as a member or depositor with the Society at any time within 5 years immediately following the Effective Date. Relevant conversion benefits does not include the statutory right to have shares in the Society (including any balances on share accounts) converted into deposits with the company on a conversion or takeover. If the Society merges with any other society, after the date of such merger the "Society" includes such other society.
3. I authorise the Society to pass to the Foundation such information relating to me and all my accounts with the Society as the Foundation may reasonably require in order to administer this agreement to assign and for no other purpose.