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**IMPORTANT NOTICE**

**IMPORTANT:** You must read the following before continuing. The following applies to the following Offering Circular. You must read this disclaimer carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

THE OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE OFFERING CIRCULAR MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS, AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

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Confirmation of your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities described therein (the "**Perpetual Capital Securities**"), you must not be in the United States or be, or be acting on behalf of, a U.S. person (within the meaning of Regulation S under the Securities Act). By accepting the email and accessing the Offering Circular, you shall be deemed to have represented to Coventry Building Society (the "**Society**") and to each of Barclays Bank PLC, Merrill Lynch International and The Royal Bank of Scotland plc (together, the "**Joint Lead Managers**") that:

- (1) you are outside the United States and are not a U.S. person, as defined in Regulation S under the Securities Act, nor acting on behalf of a U.S. person and, to the extent you purchase any Perpetual Capital Securities you will be doing so pursuant to Regulation S under the Securities Act;
- (2) the electronic mail address to which the Offering Circular has been delivered is not located in the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and its possessions include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands, and
- (3) you consent to delivery of the Offering Circular and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Society, the Joint Lead Managers and their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling any of the foregoing accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version available to you upon request from the Society.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular, electronically or otherwise, to any other person. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to ensure that it is free from viruses and other items of a destructive nature. Any materials relating to the potential offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the potential offering be made by a licensed broker or dealer and any Joint Lead Manager any affiliate of any Joint Lead Manager is a licensed broker or dealer in that jurisdiction, any offering shall be deemed to be made by such Joint Lead Manager or such affiliate, as the case may be, on behalf of the Society in such jurisdiction.

Under no circumstances shall the Offering Circular constitute an offer to sell or the solicitation of an offer to buy any Perpetual Capital Securities in any jurisdiction in which such offer or solicitation would be unlawful. No action has been or will be taken in any jurisdiction by the Society or the Joint Lead Managers that would, or is intended to, permit a public offering of the securities, or possession or distribution of the Offering Circular or any other offering or publicity material relating to the securities, in any country or jurisdiction where action for that purpose is required.

Recipients of the Offering Circular who intend to subscribe for or purchase any Perpetual Capital Securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the Offering Circular.

The Offering Circular is being distributed only to and directed only at (i) persons who are outside the United Kingdom, or (ii) persons who are in the United Kingdom who are (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or (b) otherwise, persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as "**relevant persons**"). The Offering Circular is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which the Offering Circular relates is available only to relevant persons and will be engaged in only with relevant persons. The Offering Circular may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 would not, if the Society was not an authorised person, apply to the Society.

No public offer of Perpetual Capital Securities is being made in Switzerland. Neither the Offering Circular nor any other offering or marketing material relating to the Perpetual Capital Securities constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither the Offering Circular nor any other offering or marketing material relating to the Perpetual Capital Securities may be publicly distributed or otherwise made publicly available in Switzerland.



## Coventry Building Society

*(Incorporated in England under the Building Societies Act 1986, as amended)*

### **£400,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities**

**Issue price: 100 per cent.**

Coventry Building Society (the "**Society**") will issue £400,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the "**Perpetual Capital Securities**") at an issue price of 100 per cent. of their nominal amount. The Perpetual Capital Securities are expected to be provisionally admitted to trading on the main standard of the SIX Swiss Exchange AG ("**SIX Swiss Exchange**") from 26 June 2014. Application will be made to the SIX Swiss Exchange for listing of the Perpetual Capital Securities in accordance with the Standard for Bonds of the SIX Swiss Exchange. It is anticipated that the Perpetual Capital Securities will be issued on or about 26 June 2014 (the "**Issue Date**").

The Perpetual Capital Securities will bear interest on their nominal amount from (and including) the Issue Date at the applicable Interest Rate described below. Subject as set out in the conditions of issue of the Perpetual Capital Securities (the "**Conditions**"), interest shall be payable on the Perpetual Capital Securities semi-annually in arrear in equal instalments on 1 May and 1 November in each year, except that the first payment of interest, to be made on 1 November 2014, will be in respect of the period from and including the Issue Date to but excluding 1 November 2014. For each Interest Period which commences prior to 1 November 2019 (the "**First Call Date**"), the Interest Rate shall be 6.375 per cent. per annum. For each Interest Period which commences on or after the First Call Date, the Interest Rate shall be the sum of: (a) the 5-year Mid-Swap Rate in relation to that period; and (b) the initial credit spread of 4.113 per cent. per annum. Any payment of interest may be cancelled (in whole or in part) at the sole discretion of the Board of Directors (the "**Board**") of the Society, and shall be cancelled (in whole or in part) in certain circumstances described herein, including (without limitation) if the Society has insufficient Distributable Items available for paying interest or for other reasons required by the Capital Regulations (as defined herein).

If the Common Equity Tier 1 ratio of the Society calculated on either an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation (as defined herein)) or a consolidated basis (each ratio, as further defined in the Conditions, a "**CET1 Ratio**") falls below 7.00 per cent. (the "**Conversion Trigger**"), the Society will: (a) cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date (as defined in the Conditions) (whether or not such interest has become due for payment); (b) irrevocably (without the need for the consent of holders of the Perpetual Capital Securities (the "**Securityholders**")) write down the Perpetual Capital Securities by reducing the nominal amount of each Perpetual Capital Security to zero; and (c) issue to each Securityholder such number of Core Capital Deferred Shares ("**CCDS**") as is equal to the aggregate nominal amount of that Securityholder's Perpetual Capital Securities divided by the Conversion Price (such write-down and issue of CCDS being referred to as a "**Conversion**", and "**Converted**" being construed accordingly). Such cancellation of interest, write-down of the Perpetual Capital Securities and (subject as provided in the Conditions) issue of CCDS to Securityholders shall occur on the Conversion Date specified in the Conversion Notice (as defined in the Conditions). Once the nominal amount of a Perpetual Capital Security has been written down, the nominal amount will not be restored in any circumstances, including where the relevant Conversion Trigger ceases to continue.

The CCDS will be consolidated and form a single series with the CCDS (if any) of the Society which are outstanding on the Conversion Date. The write-down and cancellation of the Perpetual Capital Securities and cancellation of interest shall be independent of the issue of CCDS to Securityholders and, accordingly, shall be effective as of the Conversion Date whether or not the CCDS to be issued to Securityholders are so issued on the Conversion Date. The indicative terms of, and other provisions relating to, the CCDS which the Society would expect to issue in the event of a Conversion of the Perpetual Capital Securities are set out in the Annex to this Offering Circular.

The Prudential Regulation Authority (the "**PRA**") or other relevant authority may also require the Perpetual Capital Securities to be written off or converted to Common Equity Tier 1 capital in certain circumstances, with a view to preserving or restoring the viability of the Society, pursuant to an applicable statutory loss absorption regime.

The Perpetual Capital Securities have no fixed repayment date. The Society may, subject as provided herein, elect to repay all, but not some only, of the Perpetual Capital Securities at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions): (i) on the First Call Date or each date that falls five, or a whole multiple of five, years following the First Call Date (the First Call Date and each such date, each a "**Reset Date**"); or (ii) at any time following the occurrence of certain tax events described herein or in the event that the entire nominal amount of the Perpetual Capital Securities fully ceases (or would fully cease) to be part of the Society's Tier 1 Capital (as defined in the Conditions) (whether on an individual consolidated or a consolidated basis).

**Investing in the Perpetual Capital Securities involves significant risks.** For a discussion of these risks see "*Risk Factors*".

Attention is drawn to the description in "*Certain Provisions of the Act and Requirements of the Supervisory Authority*" of the ways in which a building society can, without the consent of Securityholders, amalgamate with or transfer its rights and obligations to another building society or a company pursuant to the relevant legislation.

**As at the date of this Offering Circular, no CCDS have been issued by the Society or listed or admitted to trading on any stock exchange.**

The Perpetual Capital Securities are expected to be rated BB+ by Fitch Ratings Ltd. ("**Fitch**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Perpetual Capital Securities will be issued in registered form in denominations of £200,000 and integral multiples of £1,000 in excess thereof and will initially be represented by a global certificate in registered form (the "**Global Certificate**") registered in the name of a nominee for a common depository for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") (together, the "**Clearing Systems**") on or about the Issue Date. The Global Certificate will only be exchangeable for definitive Certificates in certain limited circumstances as described under "*Summary of Provisions Relating to the Perpetual Capital Securities while Represented by the Global Certificate*".

*Structuring Adviser and Joint Lead Manager*  
**The Royal Bank of Scotland**

*Joint Lead Managers*

**Barclays**

**BofA Merrill Lynch**

The date of this Offering Circular is 24 June 2014.

**The Perpetual Capital Securities will be deferred shares in the Society for the purposes of section 119 of the Building Societies Act 1986, as amended, and will not be protected deposits for the purposes of the Financial Services Compensation Scheme ("FSCS") established under the Financial Services and Markets Act 2000 (the "FSMA").**

This Offering Circular comprises an offering circular for the purposes of giving information with regard to the Society and its subsidiary undertakings (the Society together with its subsidiary undertakings, the "**Group**") and the Perpetual Capital Securities. The Society (the principal office of which is Economic House, PO Box 9, High Street, Coventry, CV1 5QN, United Kingdom) accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Society (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

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

The Perpetual Capital Securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered, sold or delivered, directly or indirectly, within the United States of America (the "**United States**" or "**U.S.**") or to U.S. persons (as defined in Regulation S under the Securities Act) otherwise than in accordance with applicable United States securities laws and regulations.

This Offering Circular may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 would not, if the Society was not an authorised person, apply to the Society.

No public offer of Perpetual Capital Securities is being made in Switzerland. This Offering Circular does not constitute a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and may not be publicly distributed or otherwise made publicly available in Switzerland.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Society or the Joint Lead Managers to subscribe for or purchase, any Perpetual Capital Securities. The distribution of this Offering Circular and the offering of the Perpetual Capital Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Society and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offering and sales of the Perpetual Capital Securities and on distribution of this Offering Circular, see "*Subscription and Sale*".

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

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Perpetual Capital Securities, the merits and risks of investing in the Perpetual Capital Securities and the information contained or incorporated by reference in this Offering Circular or any applicable supplement and sufficient knowledge of emerging regulatory developments and future requirements regarding capital eligibility;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Perpetual Capital Securities and the impact the Perpetual Capital Securities will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Perpetual Capital Securities, including where sterling (the currency for interest payments) is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Perpetual Capital Securities and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

**IN CONNECTION WITH THE ISSUE OF THE PERPETUAL CAPITAL SECURITIES, THE ROYAL BANK OF SCOTLAND PLC AS STABILISING MANAGER (THE "STABILISING MANAGER") (OR PERSON(S) ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT PERPETUAL CAPITAL SECURITIES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE PERPETUAL CAPITAL SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE PERPETUAL CAPITAL SECURITIES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE PERPETUAL CAPITAL SECURITIES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE PERPETUAL CAPITAL SECURITIES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

## PRESENTATION OF INFORMATION

In this Offering Circular, all references to:

- the "**Act**" are to the Building Societies Act 1986, as amended;
- "**pounds**", "**penny**", "**sterling**", "**£**" and "**p**" are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland (the "**United Kingdom**" or "**UK**");
- "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended;
- the "**Rules**" are to the Rules of the Society;
- the "**Memorandum**" are to the Memorandum of the Society; and
- Perpetual Capital Securities being "**listed**" (and all related references) shall mean that such Perpetual Capital Securities have been admitted to trading on the SIX Swiss Exchange and have been listed on the SIX Swiss Exchange.

Terms used in this Offering Circular shall, unless otherwise defined, or as the context otherwise requires, have the same meanings as are given to them in the Act or, as the case may be, the Rules or the Memorandum.

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## OVERVIEW OF THE PERPETUAL CAPITAL SECURITIES

*This overview must be read as an introduction to this Offering Circular and any decision to invest in the Perpetual Capital Securities should be based on a consideration of this Offering Circular as a whole, including the documents incorporated by reference.*

*Words and expressions defined in "Conditions of Issue of the Perpetual Capital Securities" shall have the same meanings in this section.*

<b>Issuer of the Perpetual Capital Securities:</b>	Coventry Building Society (the " <b>Society</b> ")
<b>Description of the Perpetual Capital Securities:</b>	£400,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the " <b>Perpetual Capital Securities</b> ") to be issued by the Society on 26 June 2014 (the " <b>Issue Date</b> ").
<b>Joint Lead Managers:</b>	Barclays Bank PLC  Merrill Lynch International  The Royal Bank of Scotland plc
<b>Registrar and Principal Paying Agent:</b>	Citibank, N.A., London Branch
<b>Issue Date:</b>	26 June 2014.
<b>Status of the Perpetual Capital Securities:</b>	The Perpetual Capital Securities will constitute direct, unsecured and subordinated investments in the Society (subordinated in the manner set out below) which will at all times rank <i>pari passu</i> without any preference among themselves, and are subject to conversion as provided under " <i>Conversion</i> " below.
<b>Subordination of the Perpetual Capital Securities:</b>	On a winding-up or dissolution of the Society prior to the Conversion Date (other than an Excluded Dissolution (as defined below)), the rights and claims of Securityholders in respect of their Perpetual Capital Securities shall rank: <ul style="list-style-type: none"><li>• junior to the claims of all creditors (including all subordinated creditors) and Shareholding Members (as regards the principal and interest due on such Shareholding Members' shares) of the Society including, (without limitation) claims in respect of obligations of the Society which constitute Tier 2 Capital but in each case excluding claims in respect of (i) any PIBS of the Society, (ii) any other Deferred Shares (as defined in the Rules) outstanding of the Society ranking, or expressed to rank, <i>pari passu</i> with or junior to any such PIBS or the Perpetual Capital Securities and (iii) any other Parity Obligation or Junior Obligation ("<b>Senior Obligations</b>");</li><li>• <i>pari passu</i> among themselves and with any claims ranking, or expressed to rank, <i>pari passu</i> therewith,</li></ul>

including (without limitation) all claims in respect of PIBS (as regards the principal and interest due thereon) of the Society ("**Parity Obligations**"); and

- senior to all claims under any Core Capital Deferred Share (as defined in the Rules) of the Society and any other claims ranking, or expressed to rank, junior to either the Perpetual Capital Securities or any Parity Obligations ("**Junior Obligations**").

"**Excluded Dissolution**" means a dissolution of the Society by virtue of the amalgamation and transfer provisions set out in sections 93, 94 and 97 of the Act, or by virtue of a transfer pursuant to an order made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, as amended.

"**PIBS**" means permanent interest bearing shares of the Society from time to time outstanding including (without limitation, and for so long as any of the same shall remain outstanding) the £120,000,000 6.092 per cent. Permanent Interest Bearing Shares (ISIN GB00B177CL57) and the £40,000,000 12<sup>1</sup>/<sub>8</sub> per cent. Permanent Interest Bearing Shares (ISIN GB0002290764).

**Claim on a winding-up or dissolution:**

Subject to the above, holders of the Perpetual Capital Securities shall, in a winding-up or dissolution of the Society (other than an Excluded Dissolution) which commences prior to any Conversion Date determined in accordance with Condition 8, be entitled to claim for the nominal amount of their Perpetual Capital Securities together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions). Such claim shall be conditional upon all sums due in respect of claims in such winding-up or dissolution in relation to Senior Obligations having been paid in full.

**Solvency Test:**

No payment of principal or interest in respect of the Perpetual Capital Securities shall become due and payable unless, and to the extent that, the Society is able to make such payment and still be solvent (within the meaning given in Condition 4.4) immediately thereafter, in each case except in the winding-up or administration of the Society (the "**Solvency Test**").

The Society shall be considered to be "solvent" for these purposes if (x) it is able to pay its debts which rank senior to the Perpetual Capital Securities as they fall due and (y) its assets exceed its liabilities.

See also Condition 4 of "*Conditions of Issue of the Perpetual Capital Securities*".

**Conversion:**

If the CET1 Ratio (calculated on either an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) or a consolidated basis) of the Society falls below 7.00 per cent. (the "**Conversion Trigger**"), the Society will: (a) cancel any interest which has accrued and remains unpaid up to



(and including) the relevant Conversion Date (whether or not such interest has become due for payment); (b) irrevocably (without the need for the consent of Securityholders) write down the Perpetual Capital Securities by reducing the nominal amount of each Perpetual Capital Security to zero; and (c) issue to each Securityholder such number of CCDS as is equal to the aggregate nominal amount of that Securityholder's Perpetual Capital Securities divided by the Conversion Price (such write-down and issue of CCDS being referred to as a "**Conversion**", and "**Converted**" being construed accordingly).

Once the nominal amount of a Perpetual Capital Security has been written down, the nominal amount will not be restored in any circumstances, including where the relevant Conversion Trigger ceases to continue.

The "**Conversion Price**" shall be £67, subject to adjustment in certain circumstances provided in Condition 8.5.

See also Condition 8 of "*Conditions of Issue of the Perpetual Capital Securities*".

#### **Core Capital Deferred Shares (CCDS):**

If a Conversion Trigger were to occur, the CCDS to be issued to Securityholders are expected to have the same terms as, and to be consolidated and form a single series with, any outstanding CCDS of the Society that may be in issue at the date of Conversion.

As at the date of this Offering Circular, no CCDS have been issued by the Society or listed or admitted to trading on any stock exchange.

The CCDS are expected to be registered securities comprising Core Capital Deferred Shares of the Society within the meaning of the Rules. The CCDS are expected to be cleared in Euroclear and Clearstream, Luxembourg and traded in a minimum transfer amount to be specified upon the first issue of CCDS by the Society (which specified minimum transfer amount may, with regulatory consent, be reduced by the Society in its discretion in the future). The CCDS may be admitted to trading and listed on a stock exchange or market but there can be no assurance that the CCDS will be so admitted and/or listed.

The indicative terms of, and other provisions relating to, the CCDS which the Society would expect to issue in the event of a Conversion of the Perpetual Capital Securities are set out in the Annex to this Offering Circular as follows:

- in Part I: the indicative Overview of Certain Provisions of the Rules of the Society and the Act relating to the Core Capital Deferred Shares;
- in Part II: the indicative Conditions of Issue of the Core Capital Deferred Shares; and
- in Part III: the indicative Overview of Provisions Relating

to the CCDS while represented by the Global CCDS Certificate.

Such terms and other provisions are indicative only and are subject to amendment, including (without limitation) in the circumstances referred to in the introduction to the Annex.

## **Repayment and Purchase:**

The Perpetual Capital Securities will constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no fixed repayment date.

### Society's Option to Repay

Subject to the "*Conditions to Repayment and Purchase*" below, the Society may elect to repay all, but not some only, of the Perpetual Capital Securities then outstanding on 1 November 2019 (the "**First Call Date**") or on any fifth anniversary of the First Call Date thereafter at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions).

### Purchases

Subject to the "*Conditions to Repayment and Purchase*" below and the Capital Regulations, the Society or any other member of the Group may at any time purchase or otherwise acquire Perpetual Capital Securities in any manner and at any price.

### Conditions to Repayment and Purchase

Any repayment or purchase by the Society of the Perpetual Capital Securities is subject to:

- (i) the Society obtaining such approval, consent or non-objection from, or making such notification required within prescribed periods to, the Regulator, or obtaining such waiver of the then prevailing Capital Regulations from the Regulator, as is required under the then prevailing Capital Regulations;
- (ii) if and to the extent then required under prevailing Capital Regulations, either: (A) the Society having replaced the Perpetual Capital Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Society; or (B) the Society having demonstrated to the satisfaction of the Regulator that the own funds of the Society would, following such repayment or purchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Regulator considers necessary at such time; and
- (iii) if, at the time of such repayment or purchase, the prevailing Capital Regulations permit the repayment or purchase only after compliance with one or more

alternative or additional pre-conditions to those set out in paragraphs (i) and (ii) above and, where applicable, the second paragraph under "*Optional Repayment for Tax Reasons or Regulatory Reasons*" below, the Society having complied with such other pre-condition(s).

#### Optional Repayment for Tax Reasons or Regulatory Reasons

In addition, the Society may elect to redeem, in whole but not in part, the Perpetual Capital Securities at any time upon the occurrence of a Tax Event or a Regulatory Event (each as defined in Condition 7), in each case at their nominal amount and together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions).

Such repayment is subject, in each case, to the same conditions as set out above under "*Conditions to Repayment and Purchase*" and also, in the case of a repayment prior to the fifth anniversary of the Issue Date only, the Regulator is satisfied that the circumstances giving rise to the repayment were not reasonably foreseeable as at the Issue Date and, in the case of a Tax Event, the change in tax treatment being material.

#### Impact of Solvency Test and Conversion Trigger on Repayment

If the Society has elected to repay the Perpetual Capital Securities but the Solvency Test is not satisfied in respect of the relevant payment on the date scheduled for repayment, the relevant repayment notice shall be automatically rescinded and shall be of no force and effect and, accordingly, no repayment of the nominal amount of the Perpetual Capital Securities or any interest thereon will be due and payable on the scheduled repayment date, and the Perpetual Capital Securities will continue to remain outstanding on the same basis as if no repayment notice had been given.

Further, if the Society has elected to repay the Perpetual Capital Securities but, prior to the repayment of the nominal amount, a Conversion Trigger occurs, the relevant repayment notice shall be automatically rescinded and shall be of no force and effect, no repayment of the nominal amount of the Perpetual Capital Securities or any interest thereon will be due and payable on the scheduled repayment date and, instead, a Conversion shall occur in respect of the Perpetual Capital Securities as described in "*Conversion*" above.

See also Condition 7 of "*Conditions of Issue of the Perpetual Capital Securities*".

#### **Interest:**

The Perpetual Capital Securities will bear interest from (and including) the Issue Date on their nominal amount, in accordance with the provisions of Condition 5 (i) for each Interest Period which commences prior to the First Call Date, at the Initial Interest Rate of 6.375 per cent. per annum and (ii) for each Interest Period which commences on or after the First Call Date, at the applicable Reset Interest Rate, as calculated by the Principal

Paying Agent.

**"Reset Interest Rate"** means, in relation to a Reset Period, the sum of: (a) the 5-year Mid-Swap Rate in relation to that Reset Period; and (b) the Margin of 4.113 per cent. per annum.

Subject to Conditions 4.4, 6 and 8, interest shall be payable on the Perpetual Capital Securities semi-annually in arrear in equal instalments on each Interest Payment Date as provided in Condition 5, except that the first payment of interest, to be made on 1 November 2014, will be in respect of the period from and including the Issue Date to but excluding 1 November 2014.

**Interest Payment Dates:**

1 May and 1 November in each year, commencing on (and including) 1 November 2014.

**Interest Cancellation:**

Optional Cancellation of Interest

The Society may, at the discretion of the Board but subject at all times to the requirements for mandatory cancellation of Interest Payments referred to below, elect to cancel any Interest Payment, in whole or in part, which is scheduled to be paid on an Interest Payment Date.

The Regulator also has the power to require the Society to cancel interest payments, in whole or in part. The Society expects that the Regulator would be most likely to use this power in circumstances where the Society is failing, or is expected to fail, to meet its capital adequacy requirements.

Mandatory Cancellation of Interest

An Interest Payment shall be cancelled mandatorily if and to the extent that the amount of such Interest Payment otherwise due on an Interest Payment Date, together with any interest payments or distributions which have been paid or made or which are required to be paid or made during the then current Financial Year on other own funds items (but excluding any such interest payments or distributions which (i) are not required to be made out of Distributable Items or (ii) have already been provided for, by way of deduction, in the calculation of Distributable Items), shall, in aggregate, exceed the amount of Distributable Items of the Society as at such Interest Payment Date.

**"Distributable Items"** means, in respect of any Interest Payment, those profits and reserves (if any) of the Society which are available, in accordance with applicable law and regulation for the time being, for payment of the relevant Interest Payment.

In addition, the Society shall not pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the payment of such Interest Payment would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the Capital Requirements Directive (or any provision of applicable law transposing or implementing Article

141(2) of the Capital Requirements Directive, as amended or replaced), the Maximum Distributable Amount (if any) then applicable to the Society to be exceeded. "**Maximum Distributable Amount**" means any applicable maximum distributable amount relating to the Society required to be calculated in accordance with Article 141 of the Capital Requirements Directive (or as the case may be, any provision of applicable law transposing or implementing the Capital Requirements Directive, as amended or replaced). See further the risk factor entitled "*CRD IV introduces capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Society from making interest payments on the Perpetual Capital Securities in certain circumstances, in which case the Society will automatically cancel such interest payments*" in this Offering Circular.

#### Consequences of Interest Cancellation

Any Interest Payment (or part thereof) not paid on any relevant Interest Payment Date by reason of Condition 4.4, 6.1, 6.2 or 8 shall be cancelled and shall not accumulate or be payable at any time thereafter. Non-payment of any Interest Payment (or part thereof) in accordance with any of Condition 4.4, 6.1, 6.2 or 8 will not constitute an event of default by the Society for any purpose, and the Securityholders shall have no right thereto whether in a winding-up or dissolution of the Society or otherwise.

See also Condition 6 of "*Conditions of Issue of the Perpetual Capital Securities*".

#### **Enforcement:**

The Conditions will contain no express events of default and as such the ability of a Securityholder to enforce the terms of the Perpetual Capital Securities will be very limited. See also "*Conversion*", "*Repayment and Purchase*" and "*Interest Cancellation*" above.

#### **Additional Amounts:**

All payments in respect of the Perpetual Capital Securities shall be made free and clear of, and without withholding or deduction for, or on account of, any Taxes of the United Kingdom, unless such withholding or deduction is required by law.

If any such withholding or deduction for or on account of any Taxes is required by law, additional amounts will be payable by the Society subject to certain exceptions as are more fully described in Condition 10 of "*Conditions of Issue of the Perpetual Capital Securities*". See also "*Repayment and Purchase – Optional Repayment for Tax Reasons or Regulatory Reasons*" above.

#### **Form:**

The Perpetual Capital Securities will be issued in global registered form.

The Perpetual Capital Securities (a) will be deferred shares for the purposes of section 119 of the Act, (b) will not be protected

deposits for the purpose of the FSCS established under the FSMA, (c) will not be withdrawable and (d) will be Deferred Shares (but not Core Capital Deferred Shares) for the purposes of the Rules.

**Denomination:**

The Perpetual Capital Securities will be issued in denominations of £200,000 and higher integral multiples of £1,000 in excess thereof.

**Governing Law:**

The Perpetual Capital Securities and any non-contractual obligations arising out of or in connection with them will be governed by, and shall be construed in accordance with, English law.

**Rating:**

The Perpetual Capital Securities are expected to be rated BB+ by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

**Listing and Admission to Trading:**

The Perpetual Capital Securities are expected to be provisionally admitted to trading on the main standard of the SIX Swiss Exchange from 26 June 2014. Application will be made to the SIX Swiss Exchange for listing of the Perpetual Capital Securities in accordance with the Standard for Bonds of the SIX Swiss Exchange.

**Successions and Transfer:**

Condition 13 contains provisions applicable to the Perpetual Capital Securities upon an amalgamation by the Society with another building society under section 93 of the Act, a transfer of all or substantially all of its engagements to another building society under section 94 of the Act or a transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company.

Those provisions enable (in the context of such amalgamation or transfer only) certain amendments to be made to the terms of the Perpetual Capital Securities without the consent of the Securityholders, subject to certain restrictions. Such provisions could potentially result in amendments to the Conversion provisions of the Perpetual Capital Securities, including the nature of the instrument into which the Perpetual Capital Securities would convert upon the occurrence of a Conversion Trigger and, in circumstances where the entity resulting from such amalgamation or transfer does not have a viable instrument which could be delivered upon Conversion, the Conversion feature of the Perpetual Capital Securities may be replaced with a permanent write-down feature.

**Selling and Transfer Restrictions:**

The United States, the United Kingdom and Switzerland (see below).

The Perpetual Capital Securities have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). The Perpetual Capital

Securities are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

This Offering Circular may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 would not, if the Society was not an authorised person, apply to the Society.

No public offer of Perpetual Capital Securities is being made in Switzerland. This Offering Circular does not constitute a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and may not be publicly distributed or otherwise made publicly available in Switzerland.

For a further description of restrictions on offers, sales and transfers of the Perpetual Capital Securities and distribution of this Offering Circular, see "*Subscription and Sale*".

**Use of Proceeds:**

The net proceeds of the issue of the Perpetual Capital Securities (estimated to be approximately £396,800,000) will be used by the Society to strengthen its regulatory capital base and for general business purposes consistent with the Society's principal purpose as a UK building society.

**Risk Factors:**

Prospective investors should carefully consider the information set out in "*Risk Factors*" in conjunction with the other information contained in or incorporated by reference in this Offering Circular.

**Clearing Systems:**

The Perpetual Capital Securities have been accepted for clearing through the facilities of Euroclear and Clearstream, Luxembourg.

*Perpetual Capital Securities held through an account with Euroclear and/or Clearstream, Luxembourg (the "**Clearing Systems**") will be registered in the name of Citivic Nominees Limited as nominee (the "**Nominee**") who shall be the Securityholder for those Perpetual Capital Securities for the purposes of the Conditions, and not the investors holding the beneficial interests in the Perpetual Capital Securities through the Clearing Systems. An investor holding beneficial interests in the Perpetual Capital Securities through a Clearing System will not be a member of the Society by virtue of its investment in the Perpetual Capital Securities and (without prejudice to any rights or obligations that such person may have as a member of the Society in some other capacity) will be only indirectly subject to the Rules, the Memorandum and the Act with respect to its holding of Perpetual Capital Securities in the manner provided above. Investors holding beneficial interests in the Perpetual Capital Securities through a Clearing System shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of that Clearing Systems.*

**ISIN:**

XS1079786239

**Common Code:** 107978623

**Swiss Security Number:** 24.732.035

**Swiss Paying Agent:** Citibank N.A., Zurich Branch will act as Swiss paying agent. The Swiss paying agent will not have a role in facilitating or making payments under the Perpetual Capital Securities for so long as the Perpetual Capital Securities are represented by a Global Certificate. The Swiss paying agent is being appointed solely to fulfil the listing requirements of the SIX Swiss Exchange.



## **RISK FACTORS**

*Investors should ensure that they understand the risks of investing in the Perpetual Capital Securities before they make their investment decision. They should make their own independent decision whether to invest in the Perpetual Capital Securities and decide whether an investment in such Perpetual Capital Securities is appropriate or proper based upon their own judgement and upon advice from such advisers as they consider necessary.*

*The Society believes that the following factors may affect its ability to fulfil its obligations under the Perpetual Capital Securities. All of these factors are contingencies which may or may not occur and the Society is not in a position to express a view on the likelihood of any such contingency occurring.*

*Factors which the Society believes may be material for the purpose of assessing the market risks associated with the Perpetual Capital Securities and the CCDS (if any) in issue are also described below.*

*The Society believes that the factors described below represent the principal risks inherent in investing in Perpetual Capital Securities, but the Society may be unable to pay interest or other amounts on or in connection with any Perpetual Capital Securities or CCDS for other reasons and the Society does not represent that the statements below regarding the risks of holding any Perpetual Capital Securities and/or CCDS are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular (including the documents incorporated by reference herein) and reach their own views prior to making any investment decision.*

*Perpetual Capital Securities held through an account with the Clearing Systems will be registered in the name of the Nominee. For so long as the Perpetual Capital Securities are so held, the Nominee shall be the sole legal holder of those Perpetual Capital Securities for the purposes of the Conditions, rather than the investors holding the beneficial interests in the Perpetual Capital Securities through the Clearing Systems (see "Summary of Provisions Relating to the Perpetual Capital Securities while Represented by the Global Certificate").*

*Such investors will be subject to the same risks set out below as the Securityholder (as defined in the Conditions) save where their rights are more restricted as a result of their holding Perpetual Capital Securities through the Clearing Systems (see paragraph "Summary of Provisions Relating to the Perpetual Capital Securities while Represented by the Global Certificate – Meetings; Membership rights whilst the Perpetual Capital Securities are held through the Clearing Systems", below). Other than where defined in the Conditions, references in this Offering Circular to Securityholders shall include references to such investors holding beneficial interests in the Perpetual Capital Securities through the Clearing Systems, as well as holders of Perpetual Capital Securities in definitive form.*

### **Factors that may affect the Society's ability to fulfil its obligations under the Perpetual Capital Securities**

***The Group's business and financial performance has been and will continue to be affected by general economic conditions in the UK, the Eurozone and elsewhere, and adverse developments in the UK or global financial markets could cause the Group's earnings and profitability to decline***

The Group is directly and indirectly subject to inherent risks arising from general economic conditions in the UK and other economies and the state of the global financial markets both generally and as they specifically affect financial institutions. Since 2007, the global economy and the global financial system, and the Eurozone in particular, have experienced a period of significant turbulence and uncertainty. The severe dislocation of the financial markets around the world severely impacted general levels of liquidity, the availability of credit and the terms on which credit was available. This crisis in the financial markets led the UK government (the "**Government**") and other governments to inject liquidity into the financial system and take other forms of action relating to financial institutions, including bank recapitalisations and the provision

of government guarantees for certain types of funding, aimed at both supporting the sector and providing confidence to the market.

These market dislocations were also accompanied by recessionary conditions and trends in the UK and many economies around the world. The widespread deterioration in these economies adversely affected, among other things, consumer confidence, levels of unemployment, the state of the housing market, the commercial real estate sector, bond markets, equity markets, counterparty risk, inflation, the availability and cost of credit, transaction volumes in wholesale and retail markets, the liquidity of the global financial markets and market interest rates.

Although market conditions have generally improved in recent years, there have been periods of significant volatility in financial markets around the world. The financial turbulence since 2007 and its after-effects on the wider economy have led to generally more difficult earning conditions for the financial sector and, at the time, resulted in the failures of a number of financial institutions in the United States, the UK and elsewhere in Europe and unprecedented action by governmental authorities, regulators and central banks around the world. The impact of such global stresses on the UK economy could adversely affect the Group by exposing it to potential losses on its portfolio of treasury assets and to redenomination risks if one or more individual countries were to introduce new currencies. In addition, there could be an adverse impact to the cost and availability of wholesale funding, thereby increasing competition for retail funds and adversely impacting the Group's net interest margin.

The UK economic recovery is expected to remain modest by historic standards in 2014-2015, with the International Monetary Fund (in its January 2014 World Economic Outlook update) predicting UK real GDP growth of 2.4 per cent. in 2014. Uncertainty surrounding the Eurozone recovery presents a risk of a renewed slowdown in economic activity in the UK's principal export markets which would have a corresponding effect on the broader UK economy. Domestically, both public and household spending are being constrained by austerity measures and an ongoing compression of real household incomes, and there is the additional risk that levels of unemployment could increase and there could be further declines in real disposable incomes.

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

If margin compression were to result from the withdrawal of Government funding support and/or in the face of increased competition, there remains the possibility of further downward pressure on profitability and growth depending on a number of external influences, such as the consequences of a more austere economic environment, which could significantly affect the ability of the Society to satisfy its obligations under the Perpetual Capital Securities. See "*UK residential housing market risks may adversely impact the Group's business*" and "*Competition in the UK personal financial services markets may adversely affect the Group's operations*" below.

***Negative fair value adjustments could have a material adverse effect on the Group's operating results, financial condition and prospects***

The dislocations in the financial markets have resulted in the Group recording in its results impairment charges and negative fair value adjustments with respect to securities and other investments that it holds. Whilst the impact to date has been modest, asset valuations in future periods, reflecting prevailing market conditions, may result in further negative changes in the fair values of the Group's investment assets and these may also translate into increased impairments, including with respect to the Group's exposure through its liquidity and investment portfolios to UK Treasury paper. In addition, the value that the Group ultimately realises for its securities and other investments may be lower than the current fair value. Any of these factors could require the Group to record further negative fair value adjustments, which may have a material adverse effect on its operating results, financial condition or prospects.

### ***UK residential housing market risks may adversely impact the Group's business***

The UK residential mortgage market performance is closely correlated to the UK economic cycle. As well as fluctuations at a national level, the UK residential mortgage market is subject to significant regional variations. The Group's retail mortgage lending is only secured against properties in the UK. The Group's natural concentration in the UK market, whilst currently well diversified, could then be exacerbated by over-exposure to one geographical location, or reliance on particular product types (e.g. buy-to-let) within the portfolio.

A downturn in the UK economy, either regionally or nationally, would reduce demand for housing or consequently reduce house price growth and sales, which could result in lower levels of lending, the Group's core activity. The recent downturn in the United Kingdom economy had a negative effect on the housing market. The fall in property prices resulting from a deterioration in the housing market and increased unemployment could lead to increased numbers of borrowers defaulting on their mortgage loans and result in losses being incurred by the Group where the net recovery proceeds are insufficient to redeem the outstanding loans. There can be no assurance that the housing market will not deteriorate and the United Kingdom's economic environment may affect the rate at which the new mortgage loans are originated and may also affect the level of attrition of the Group's existing borrowers. Approximately one-third of the Group's lending is to the buy-to-let market. Whilst this market has performed strongly over recent years with the growth in the UK private rental sector, there can be no guarantee that this will continue (see "*The performance of the buy-to-let market may have a material impact on the future performance of the Group and its ability to fulfil its obligations under the Perpetual Capital Securities*" below).

There has been some recovery in the UK housing market with prices reaching pre-crisis highs in some regions, although significantly lower in real terms after adjusting for inflation. The recovery is tempered by fears that the comparatively cheap funding available to lenders via policy measures such as the Help to Buy scheme could lead to another 'housing price bubble'. There is a risk that house price growth will continue to accelerate faster than earnings, stretching affordability and leaving households more vulnerable to shocks, such as unexpectedly early or large increases in interest rates that could ultimately lead to higher retail loan losses. There is potential for activity and prices to decline should the labour market situation deteriorate markedly, or if strains in the financial system re-emerge and impair the flow of credit to the wider economy. The housing price bubble bursting, accompanied by a reversal in the UK economy, could increase credit losses significantly.

### ***The performance of the buy-to-let market may have a material impact on the future performance of the Group and its ability to fulfil its obligations under the Perpetual Capital Securities***

Approximately one-third of the Group's mortgage book is buy-to-let, representing a relatively large share of this market. These advances have been secured on residential properties within the UK. In recent years the rental market has been particularly strong in the UK and rental yields have in some parts of the country reached record highs as the lack of credit supply to, amongst others, borrowers with smaller deposits has led to increased demand for rental housing.

Whilst the Group's buy-to-let book has performed well to date and is subject to prudent loan-to-value limits, there can be no assurance that, in the event of a material downturn in the private rental market, the performance of the Group would not be adversely affected. Such a downturn could be precipitated by a range of factors, which may include (but are not limited to) an expansion of owner-occupied lending should credit conditions continue to loosen and/or legislative changes affecting the sector, such as the introduction of rental caps.

### ***Worsening economic and market conditions and/or increasing interest rates could result in increased retail loan losses which would adversely impact the Group's financial and operational performance***

Despite some deleveraging, consumers in the UK remain heavily indebted and vulnerable to increases in unemployment, rising interest rates and/or falling house prices. Increased unemployment could lead to borrowers who lose their jobs being unable to service the loan payments in a timely fashion which would result in higher levels of arrears both in the Group's secured residential mortgage loan and unsecured

consumer loan portfolios which, in turn, would lead to an increase in the Group's impairment charges in respect of these portfolios.

Rising interest rates would put pressure on borrowers whose loans are linked to the base rate or otherwise variable in nature, and who may have become accustomed to the current low interest rate environment. A significant portion of the Group's outstanding mortgage loan products are potentially subject to changes in interest rates. Accordingly, borrowers with a mortgage loan that is subject to a variable rate of interest or where the interest rate adjusts following an initial fixed rate or low introductory rate are exposed to increased monthly payments as and when their mortgage interest rate adjusts upward. In an increasing interest rate environment, borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates (and any decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance), which could lead to an increase in arrears in the Group's retail lending portfolios as well as an increase in the Group's retail loan impairment charges. These events, alone or in combination, may contribute to higher delinquency rates and losses for the Group, and significantly impact the Society's ability to satisfy its obligations under the Perpetual Capital Securities.

***The Group's business is subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding such as retail deposits or its access to wholesale funding markets becomes limited and/or becomes more expensive, and this may have an adverse effect on its business and profitability***

Financial institutions such as the Group are subject to liquidity risk as an inherent part of their business given the maturity mismatch between relatively short-dated funding and mortgage assets. Liquidity risk is the risk that an institution may not have sufficient funds at any time to make full payment in respect of liabilities falling due at that time.

The Group raises funds principally through accepting retail deposits and in the wholesale funding market. It also has a core portfolio of liquid investments as well as a range of other assets which are a further source of liquidity to it. However, if access to liquidity is constrained for a prolonged period of time, the Group's cost of funding would increase as competition for retail deposits would intensify and the cost of accessing the wholesale markets would rise. This would adversely affect the Group's profitability.

These risks can be exacerbated by enterprise-specific factors, including an over-reliance on a particular source of funding, changes in credit ratings, or market-wide phenomena such as market dislocation and major disasters. There is also a risk that the funding structure employed by the Group may prove to be inefficient, giving rise to a level of funding cost that is not sustainable in the long term for the Group to grow its business or even maintain it at current levels. The Group's ability to access retail and wholesale funding sources on satisfactory economic terms is subject to a variety of factors, including a number of factors outside of its control, such as liquidity constraints, general market conditions, regulatory requirements and loss of confidence in the UK banking system.

The ongoing availability of retail deposit funding is dependent on a variety of factors outside the Group's control, such as general economic conditions and market volatility, the confidence of retail depositors in the economy in general and in the Group in particular, the financial services industry specifically and the availability and extent of deposit guarantees. These or other factors could lead to a reduction in the Group's ability to access retail deposit funding on appropriate terms in the future. Given the relative size of the Group's retail deposit base, it is particularly exposed to any serious loss of confidence by its retail depositors which results in significant withdrawals of deposits over a sustained period.

The maintenance and growth of the level of the Group's lending activities depends in large part on the availability of retail deposit funding on appropriate terms, for which there has been increased competition since the severe disturbances in the financial markets began. Investors should note that extreme circumstances market-wide, such as the severe dislocation experienced in credit markets following the onset of the global financial crisis, a prolonged and severe restriction on the Group's access to liquidity (including

to government and central bank funding and liquidity support) and a prolonged and severe decline in consumer confidence which results in high levels of withdrawals from the Group's retail deposit base, could affect the Group's ability to meet its financial obligations as they fall due, to meet its regulatory minimum liquidity requirements, or to fulfil its commitments to lend. In such extreme circumstances, the Group may not be in a position to continue to operate without additional funding support and any inability to access such support could have a material impact on the Group's solvency.

***In past years the Government has provided significant support to UK financial institutions, including Funding for Lending which commenced on 1 August 2012 and to which an extension was announced on 24 April 2013. Any significant reduction or withdrawal of Funding for Lending could increase competition for other sources of funding which could adversely impact the Group.***

In past years the Government, acting through the Bank of England (the "BoE") or otherwise, has provided significant support to UK financial institutions, including through the Special Liquidity Scheme, which was introduced in April 2008 to improve the liquidity position of the banking system by allowing banks and building societies to swap their high quality mortgage-backed and other securities for UK Treasury Bills for up to three years, and the Credit Guarantee Scheme, which was introduced in October 2008 and under which the Government guaranteed eligible bank and building society debt securities for a limited period.

On 1 August 2012, Funding for Lending became operational. The aim is to boost the incentive for banks and building societies to lend to UK households and non-financial companies. Funding for Lending is designed to reduce funding costs for participating institutions so that they can make loans cheaper and more easily available. Access to Funding for Lending is directly linked to how much each institution lends to the real economy. Those that increase lending are able to borrow more and at a lower cost than those that scale back their lending. Under Funding for Lending, participating financial institutions are, for a period of 18 months to the end of January 2014, able to borrow funds with a maturity of up to four years. On 24 April 2013, the scheme was extended for a further 12 months, with drawings now permitted until the end of January 2015 and the funding under the scheme now running until January 2019. In November 2013, it was announced that the terms of the Funding for Lending scheme extension were to be changed, to further re-focus lending to small and medium sized enterprises during the course of 2014.

The availability of Government support for UK financial institutions, to the extent that it provides access to cheaper and more attractive funding than other sources, reduces the need for those institutions to fund themselves in the retail or wholesale markets. By participating in the Funding for Lending scheme, the Group reduces the need to fund itself in the wholesale markets and there is a risk that if it ceases to remain sufficiently active in those markets its access to them could be prejudiced in the future when Government support is reduced or no longer available to it when Funding for Lending ends, currently scheduled at the end of January 2015. Any significant reduction or withdrawal of Government support will increase funding costs for those institutions which have previously utilised that support. In the case of the Group, this may result in an increase in its funding costs and a reduction in its net interest margin. In addition, financial institutions which have relied significantly on Government support to meet their funding needs will also need to find alternative sources of funding when that support is reduced or withdrawn and, in such a scenario, the Group also expects to face increased competition for funding, particularly retail deposit funding on which it is reliant, although that competition is expected to be driven by increased mortgage lending volumes rather than the cessation of Funding for Lending. This competition could further increase its funding costs and so adversely impact its results of operations and financial position.

***The unwinding of unprecedented monetary policy may result in pressure on net interest margin or negative fair value adjustments.***

Since 2008 there has been unprecedented monetary policy activity within the UK. The BoE has purchased £375 billion of Gilts as part of its Quantitative Easing Programme ("QE") and the BoE's base rate has remained at 0.5 per cent. for over 5 years. Any unwinding of QE may result in falls in Gilt prices which in turn could lead to valuation adjustments within the liquidity book the Group holds, in turn impacting capital levels. Similarly, as interest rates begin to rise, depositors with the Society will expect any variable rates to

increase, and the extent to which the Group is able to maintain its interest margin will depend upon the availability of variable rate mortgage assets where rates can also be increased. Insufficient availability of rates that the Group can administer at its discretion may lead to margin compression and, even in circumstances where such flexibility exists, a material rapid increase in interest rates could lead to significant increases in arrears levels were this discretion to be exercised, or an erosion of the Group's relative competitiveness which may have wider consequences for the business. Variation of interest rates is also a matter which the Financial Conduct Authority (the "FCA") may look to challenge or intervene in – see also *"The Group is exposed to risks relating to the mis-selling of financial products, product regulation, acting in breach of legal or regulatory principles or requirements and giving negligent advice"*.

Whilst the Group has to date maintained sufficient capacity to respond to changes in the base rate, there can be no assurance that it will continue to do so in the future.

### ***Scottish independence could result in significant consequences for the financial sector***

If Scotland were to become independent from the rest of the United Kingdom it is likely that there would be some significant consequences, particularly for the financial sector. Some of these may be 'first order' associated with dealing in a different currency and the impacts that this may have on the Group's borrowers across the border. Second order effects may arise from the impacts that any split would have on both the Scottish and UK economies, both of which might be anticipated to suffer initially. While the Group's focus on low loan-to-value business affords it some protection, assessing the full extent and likelihood of impacts from independence is difficult to determine.

### ***Rating downgrades of the sector or the Group may have an adverse effect on the marketability and liquidity of the Perpetual Capital Securities***

If sentiment towards the financial institutions operating in the United Kingdom residential mortgage market (including the Group) were to deteriorate, or if the ratings of the sector were to be adversely affected, this could have a materially adverse impact on the Group. In addition, such change in sentiment or reduction in ratings could result in an increase in the costs and a reduction in the availability of wholesale market funding across the financial services sector which could have a material adverse effect on the liquidity and funding of all UK financial services institutions, including the Group.

### ***Competition in the UK personal financial services markets may adversely affect the Group's operations***

Developments in the Group's industry and increased competition could have a material adverse effect on its operations. The Group operates in the UK personal financial services market, which has historically been very competitive. The Group competes mainly with other providers of personal financial services, including banks and other building societies.

The margin available on new mortgages is higher than that available before the global financial crisis, but competition for the highest quality mortgages is increasing and this is likely to continue, putting downward pressure on returns available for the lowest risk-weighted mortgage assets. At the same time, price comparison websites have become more popular and widely used, allowing customers more easily to compare products and make buying decisions based on price.

For a number of years, the retail savings market has been under pressure from restrictions on households' ability and propensity to save, historically low interest rates and severe competition from banks seeking to lower their loan to deposit ratios and to reduce their reliance on wholesale funding. The net result of these pressures was an increase in the relative price for retail savings, adversely impacting the Group's ability to manage its net interest margin. However, most financial institutions have now succeeded in reducing their reliance on wholesale funding. In addition, Funding for Lending has reduced competition for retail deposits by providing financial institutions with cheap funding. See *"In past years the Government has provided significant support to UK financial institutions, including Funding for Lending which commenced on 1 August 2012 and to which an extension was announced on 24 April 2013. Any significant reduction or*

*withdrawal of Funding for Lending could increase competition for other sources of funding which could adversely impact the Group" above.*

Competitors, particularly the large banking groups, may disrupt the Group's ability to grow market share through cross subsidising products from other parts of their businesses or develop economies of scale or other competitive advantage (including regulatory) that require building societies to adapt their business models or reduce rates of growth.

The Group has historically attracted the necessary retail and wholesale funding to support its growth but there is no guarantee that it will continue to be able to do so.

***The Group is reliant on third party intermediaries for the distribution of its mortgage products and any change to the availability or cost of this distribution channel may adversely impact the Group's performance***

The Group operates a multi-channel distribution channel including through its own branches and online. However the largest distribution channel is intermediary distribution, whereby the Group pays intermediaries a procurement fee to introduce new members to the Group. If the cost of this fee were to increase significantly, or if the capacity of this channel were to reduce, this could adversely impact the ability of the Group to grow or maintain its interest margins. Such changes could result from a number of factors, including (but not limited to) regulatory changes or a shift in consumer preferences. Given the Group's relatively small branch network compared with other national lenders, any such change could have a more significant impact on the Group's business than some of its competitors.

***Failure by the Group to manage its financial, market, liquidity and credit risks may result in adverse effects to its business, financial condition and/or reputation***

The Group's success depends on its ability to manage and control its financial risk, which includes liquidity, market and credit risk. The Group is exposed to liquidity risk as a result of mismatches in cash flows from balance sheet assets and liabilities and off-balance sheet financial instruments and changes in market sentiment. The Group has market risk exposure as a result of changes in interest rates, foreign currency prices, asset prices or other financial contracts. Credit risk is the risk that a customer or counterparty is unable to meet its obligations to the Group as they fall due.

The most significant market risks the Group faces are interest rate risks, along with relatively minor risks relating to foreign exchange and bond prices. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in currency rates, particularly in the sterling-euro exchange rates, affect the value of assets and liabilities denominated in foreign currencies. The performance of financial markets may also cause changes in the value of the Group's investment portfolios.

The Group has implemented risk management methods to mitigate and control these and other market risks to which the Group is exposed and exposures are constantly measured and monitored. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Group's financial performance and business operations.

Credit risk is controlled through exposure limits and underwriting practices. However, factors outside the Group's control may lead to increasing arrears. See also "*UK residential housing market risks may adversely impact the Group's business*", "*The performance of the buy-to-let market may have a material impact on the future performance of the Group and its ability to fulfil its obligations under the Perpetual Capital Securities*" and "*Worsening economic and market conditions and/or increasing interest rates could result in increased retail loan losses which would adversely impact the Group's financial and operational performance*" above.

If the Group fails to manage and control these risks, the Society could become unable to meet its own obligations, including those under the Perpetual Capital Securities, resulting in material adverse effects to its business, financial condition and reputation.

***Failure by the Group to control its operational risks may result in adverse effects to its business, financial condition and/or reputation***

The Group's business is dependent on the ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from financial crime, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, IT systems failures, natural disasters or the failure of external systems, for example, those of the Group's suppliers or counterparties. Although the Group has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to implement procedures which wholly eliminate each of the operational risks noted above. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Society will be unable to comply with its obligations as a building society with securities admitted to the SIX Swiss Exchange or as a supervised firm regulated under FSMA.

***Reputational risk could cause harm to the Group and its business prospects***

The Group's ability to attract and retain customers and conduct business with its counterparties could be adversely affected to the extent that its reputation or the reputation of its brand is damaged. Failure to address, or appearing to fail to address, various issues that could give rise to reputational risk could cause harm to the Group and its business prospects. Reputational issues include, but are not limited to: failing to appropriately address potential conflicts of interest; breaching or facing allegations of having breached legal and regulatory requirements (including money laundering and anti-terrorism financing requirements); acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices); failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record keeping; technology failures that impact upon customer services and accounts; failing to properly identify legal, reputational, credit, liquidity and market risks inherent in products offered; and generally poor company performance. A failure to address these or any other relevant issues appropriately could make customers, depositors and investors unwilling to do business with the Group, which could adversely affect its business, financial condition and results of operations and could damage its relationships with its regulators. The Group cannot ensure that it will be successful in avoiding damage to its business from reputational risk.

***The Group's success depends upon key members of its senior executive management and its business and prospects may change in accordance with changes in key personnel***

The Group depends on the continued contributions of key members of its senior executive management and other key personnel with the experience, knowledge and skills required for its success; however, key personnel will continue to change (as they have changed in the past) from time to time. Any failure to recruit, or delay in recruiting suitable members of the senior executive management team and other key personnel, or any loss of key personnel without finding suitable replacements, may have an adverse effect on the Group's business, prospects, results of operations and financial position. In addition, the strategy, business and prospects of the Group will depend in part on the management and contributions of key members of its senior executive management and other key personnel, and there can be no assurance that the Group will maintain the same business policies or strategies at all times.



***The Group is exposed to risks relating to the mis-selling of financial products, product regulation, acting in breach of legal or regulatory principles or requirements and giving negligent advice***

The Group is exposed to many forms of legal and regulatory risk, which may arise in a number of ways. In particular:

- certain aspects of its business may be determined by the BoE, the PRA, the FCA, HM Treasury, the Financial Ombudsman Service (the "**FOS**") or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the Ombudsman's opinion;
- the Group may be liable for damages to third parties harmed by the conduct of the manner in which it has conducted one or more aspects of its business; and
- an increased focus by regulators on the appropriateness of existing or proposed product lines and structures could restrict the range of products which the Society is able to make available to its customers.

For example, the FCA's Mortgage Market Review introduced rules that require relevant institutions, with effect from 26 April 2014, to obtain evidence (with permitted exceptions) that a borrower will have in place a clearly understood and credible payment strategy and that the payment strategy has the potential to repay the principal at the end of the term of an interest-only loan. Whilst the Group does not currently offer interest-only products, its ability to do so in the future will be subject to compliance with such rules. In addition, under the Financial Services Act 2012 (the "**FS Act**"), the FCA has the general rule-making power to render unenforceable contracts made in contravention of its rules on cost and duration of credit agreements or in contravention of its product intervention rules, whilst under the Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**") the FCA is required to introduce a price cap on 'high cost short term credit' (as yet undefined) by 2 January 2015.

No assurance can be given that financial institutions (including the Group) will be able to continue to offer the full range of products which they have historically offered, nor that any such institution will not be required to reduce its product offering or that it will not incur liability for past actions which are determined to have been inappropriate.

Failure to manage these risks adequately could lead to significant liabilities or reputational damage, which could have a material adverse effect on the Group's business, financial condition, results of operations and relations with customers.

The Group also faces both financial and reputational risk where legal or regulatory proceedings are brought against it or members of its industry generally in the High Court or elsewhere, or where complaints are made against it or members of its industry generally to the FOS or another relevant body. For example, a recent High Court judgment on the mis-selling of payment protection insurance ("**PPI**") has resulted in very significant provisions for customer redress in respect of PPI being made by several UK financial services providers.

No assurance can be given that the Group will not incur liability in connection with any past non-compliance with consumer credit legislation or with other similar legislation, and any withdrawal of products or non-compliance could be significant and adversely affect the Group's results of operations and financial position and its reputation.

***Risks relating to the Banking Act 2009 and the European Union recovery and resolution directive***

Under the Banking Act 2009 (the "**Banking Act**"), substantial powers have been granted to HM Treasury, the PRA, the FCA and the BoE as part of a special resolution regime (the "**SRR**"). These powers enable the authorities, among other things, to resolve a bank or building society in circumstances in which the authorities consider its failure has become highly likely, a threat is posed to the stability of the financial

systems of the United Kingdom and/or it is necessary to protect the public interest. There are a number of stabilisation options under the SRR, including options applicable to building societies which provide for: (i) private sector transfer of all or part of the business of the relevant building society; (ii) transfer of all or part of the business of the relevant building society to a "bridge bank" established by the BoE; and (iii) temporary public ownership (nationalisation) of the relevant building society. In each case, the Banking Act grants additional powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to disapply or modify laws (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively.

In addition, in accordance with the Banking Reform Act, the Banking Act is to be amended (by secondary legislation, where applicable) to, among other things:

- (i) introduce a further stabilisation option, in the form of a bail-in tool, as part of the SRR – see “*The value of the Perpetual Capital Securities may be materially adversely affected by any bail-in or similar power which takes effect in the UK*” below; and
- (ii) make provision for stabilisation tools to be used in respect of any “banking group company” (a definition that remains to be finalised following an HM Treasury consultation which closed on 21 November 2013, and could include Group members).

Similar recovery and resolution tools are also being introduced through European legislation. Among other things, the Bank Recovery and Resolution Directive ("**BRRD**") will introduce a package of minimum early intervention and resolution-related tools and powers for relevant authorities and provide for special rules for cross-border groups. The resolution tools and powers overlap in part with those available under the Banking Act and also include bail-in and similar tools as further discussed below under “*The value of the Perpetual Capital Securities may be materially adversely affected by any bail-in or similar power which takes effect in the UK*”. The UK will be required to implement BRRD, which may be by way of further amendments to the Banking Act.

If at any time the Society or any entity within the Group becomes (or is perceived to be likely to become) subject to the SRR or the resolution powers under the BRRD (as implemented in the UK) the market price or value of the Perpetual Capital Securities may be severely adversely affected, and/or the Securityholders may lose all or substantially all of their investment in Perpetual Capital Securities.

***The value of the Perpetual Capital Securities may be materially adversely affected by any bail-in or similar power which takes effect in the UK***

As referred to under “*Risks relating to the Banking Act 2009 and the European Union recovery and resolution directive*” above, the Government has, in the Banking Reform Act, introduced a bail-in tool as part of the SRR, to be given effect through secondary legislation (currently expected during 2014). In principle, a bail-in power allows an authority to impose losses on a borrower's creditors by forcing a write-off of a part or all of the debt owed to such creditors or requiring such debt to be converted to equity. A similar bail-in tool is provided for in the BRRD, as well as a separate (but similar) tool for writing down, or converting to equity, capital instruments (such as the Perpetual Capital Securities) of a relevant institution (such as the Society).

***Banking Reform Act***

The UK bail-in power will allow the BoE to write-down or convert to common equity tier 1 instruments (which could, potentially, include CCDS) any securities of UK deposit taking institutions (which could include the Perpetual Capital Securities). Such power could potentially be exercised separately from any other stabilisation option. Related amendments are also to be made to building societies legislation and HM Treasury has published and received comments on a consultation paper, which details draft secondary legislation modifying the application of the bail-in provisions in the context of building societies. A final policy statement is yet to be released.

In addition, the bail-in power includes the possibility that the authorities may require the Society to put in place a plan that contains specific measures designed to restore its long term viability and a timetable for their implementation.

The provisions of the Banking Reform Act which will introduce the bail-in stabilisation option under the Banking Act are not yet in force and (whilst secondary legislation is currently expected during 2014) it is not known when such provisions will come into force.

The SRR powers under the Banking Act are expected to be exercised in a manner which is broadly consistent with the principle of treating the liabilities of the institution in accordance with the priority they would have on a liquidation. The Perpetual Capital Securities are deeply subordinated instruments and are intended to qualify as Additional Tier 1 capital of the Society, and on a liquidation of the Society would be amongst the most junior-ranking liabilities of the Society. Accordingly, in the event of any actual or anticipated exercise of the SRR powers, the holders of the Perpetual Capital Securities could be amongst the first investors in the Group to suffer losses and/or may suffer proportionately higher losses (including losing the entire amount of their investment) than more senior-ranking creditors and members.

As with the exercise of any other stabilisation option under the SRR, this bail-in power will only be available to be used in respect of the Society in circumstances in which authorities consider that its failure has become highly likely, a threat is posed to the stability of the financial systems of the United Kingdom and/or it is necessary to protect the public interest.

#### *BRRD*

The BRRD will introduce a general bail-in tool which provides the relevant resolution authorities with the power to require the write-down or conversion to common equity tier 1 capital instruments of relevant subordinated obligations (which could include the Perpetual Capital Securities) and unsubordinated obligations of a relevant institution. In addition, the BRRD contains a separate (but similar) power enabling authorities to write down or convert capital instruments (which would include the Perpetual Capital Securities) to ensure that such instruments fully absorb losses at the point of non-viability of the institution. The BRRD requirements in respect of a capital write-down will cover instruments already in issue when the directive is implemented.

The BRRD contemplates that it will be implemented in EU Member States by 31 December 2014 and would become effective (including the power to write-down or convert capital instruments) as of 1 January 2015, save that the general bail-in power would become effective as of 1 January 2016 (although investors should note that the UK bail-in tool may become effective beforehand in any event).

The PRA has recognised that, as part of its transposition of the BRRD, the UK regulatory framework will need to be reviewed so as to ensure consistency with the BRRD.

#### *Implementation and exercise of a bail-in or capital write-down power*

The use of the powers afforded to the authorities under the SRR, and the further powers under the Banking Reform Act and BRRD when implemented and effective in the United Kingdom, could in each case result in the Securityholders losing their entire investment in the Perpetual Capital Securities, including potentially through:

- the transfer of Perpetual Capital Securities out of the hands of the holders;
- the write-down or conversion and/or cancellation of Perpetual Capital Securities, including in connection with a transfer of Perpetual Capital Securities out of the hands of holders; or

- transfers of the business or assets of the Society resulting in the Securityholders holding investments in an entity with reduced or no assets (and the authorities may request the Society to convert into or transfer its business to a company).

The bail-in power under the Banking Reform Act also permits the modification of liabilities owed by the Society, which could include modifications to the conditions of issue of the Perpetual Capital Securities or the effect of such conditions.

Accordingly, the existence of the current SRR powers, and implementation of a bail-in or similar power (whether under the Banking Reform Act or under BRRD as otherwise implemented in the UK), could have a significant adverse impact on the value or market price of the Perpetual Capital Securities even if any such power is not exercised. If any such power were to be exercised, this could result in the Securityholders losing some or the entire amount of their investment in the Perpetual Capital Securities, even if the use of such power enables the Society to continue as a going concern.

***The Group is subject to regulatory capital requirements which are subject to change***

The Group is subject to capital requirements that could have an impact on its operations. The implementation of Basel III, CRD IV (each as defined below) and the UK Independent Commission on Banking (the "ICB") recommendations may hinder growth.

The Basel III reform package (a regulatory capital and liquidity framework approved by the Basel Committee on Banking Supervision in 2011, commonly referred to as "**Basel III**") has been implemented in the European Economic Area (the "EEA") through a regulation (the "**Capital Requirements Regulation**") and an associated directive (Capital Requirements Directive (the "CRD")) (together, "**CRD IV**"), which were published in the Official Journal of the European Union on 27 June 2013. The regulation establishes a single set of harmonised prudential rules which will apply directly to all credit institutions in the EEA with the directive containing less prescriptive provisions which should be transposed into national law. The regulation gives express recognition for Common Equity Tier 1 capital instruments for mutual and co-operative entities and permits the use of a cap or restriction to safeguard the interests of members and reserves. Full implementation began from 1 January 2014, with particular elements being phased in over a period of time, to be fully effective by 2024.

The Group's capital is reported as a ratio of capital to risk-adjusted assets expressed as a percentage in different measures – Common Equity Tier 1 capital, Tier 1 capital and total capital. The Group is required to maintain certain minimum levels of regulatory capital referred to in Article 92 of the Capital Requirements Regulation (the "**Pillar 1 Requirement**") or, until at least 31 December 2017, a minimum level calculated on the basis of legacy (Basel I) risk-weighting approaches under Article 500(1)(b) of the Capital Requirements Regulation (the "**Basel I Floor**"), whichever is higher (see "*Basel I Floor*" below). The Group will also be required to meet certain capital buffer requirements above such minimum level. If the Group fails, or is perceived to be likely to fail, to meet its regulatory capital requirements, this may result in administrative actions or regulatory sanctions against it.

The Group's capital ratios may be adversely affected not only by a reduction in the Group's capital (including if the Group suffers financial losses) but also by changes in the manner in which the Group is required to calculate its capital and/or the risk-weightings applied to its assets. The Group is currently authorised to apply an Internal Ratings-Based ("**IRB**") approach to calculating its risk-weighted assets. An IRB approach enables an institution to more closely tailor risk-weights to its particular assets than standardised risk-weights, and accordingly in many cases can be expected to be lower than risk-weights which would apply under a standardised approach. If, in the future, the Group's authorisation to apply an IRB approach is withdrawn, or if for any other reason it is required to calculate its risk-adjusted assets on the basis of standardised risk-weights, or if minimum risk-weights are introduced for institutions applying an IRB approach, such change could significantly adversely impact the Group's capital ratios, even if the Group remains profitable. See also "*Other future legislative and regulatory changes could impose operational*

*restrictions on the Group, causing it to raise further capital, increase its expenses and/or otherwise adversely affect its business, results, financial condition or prospects” below.*

Effective management of the Group's capital is critical to its ability to operate and grow its business and to pursue its strategy. Any change that limits the Group's ability to effectively manage its balance sheet and capital resources (including, for example, reductions in profits and retained earnings as a result of credit losses, write-downs or otherwise, increases in risk weighted assets (which are pro-cyclical under the current Capital Requirements Regulation, resulting in risk weighting increasing in economic downturns), delays in the disposal of certain assets or the inability to raise capital or funding through wholesale markets as a result of market conditions or otherwise) could have a material adverse impact on its business, financial condition, results of operations, liquidity and/or prospects.

Key elements of CRD IV include the following:

- **Increased capital requirements** – higher minimum Common Equity Tier 1 ratios (a risk-based ratio calculated (on the basis set out in CRD IV) as Common Equity Tier 1 capital divided by risk weighted assets) and the introduction of conservation, countercyclical and systemic risk buffers, which are to be phased in over the period January 2014 to December 2018;
- **Definition of capital** – the Society's permanent interest bearing shares, and other subordinated debt which does not meet CRD IV recognition criteria, will be phased out over the period from 1 January 2014 to 31 December 2021;
- **Additional capital charges** – an additional capital charge for credit valuation adjustment ("CVA") risk is imposed. The majority of the Society's CVA charge relates to the use of derivative instruments (with highly-rated counterparties) to manage interest rate and foreign exchange risk;
- **Deductions from capital** – expected losses in excess of provisions are deducted in full from Common Equity Tier 1 capital, gross of tax. Under Basel II, only 50 per cent. of the deduction was from Core Tier 1 capital and was net of tax;
- **New liquidity metrics** – two new liquidity ratios will be introduced. These are a short-term liquidity stress ratio, referred to as the Liquidity Coverage Ratio, and a longer-term ratio, referred to as the Net Stable Funding Ratio. Both ratios are required to be maintained at levels in excess of 100 per cent., when fully implemented;
- **Basel I Floor** – Article 500(1) of the Capital Requirements Regulation requires institutions which calculate their risk-weighted exposures on the basis of IRB models or other advanced measurement approaches to meet minimum capital requirements calculated both (i) in respect of the Pillar 1 Requirement under Article 92 of the Capital Requirements Regulation (calculated on the basis of that institution's adopted risk-weighting model) and (ii) until at least 31 December 2017, in respect of the Basel I Floor under Article 500(1)(b) of the Capital Requirements Regulation by reference to legacy (Basel I) risk-weighting approaches, which are more prescriptive and less risk-sensitive than firms' own models. The PRA confirmed in Policy Statement PS7/13, supported by Supervisory Statement SS8/13 (each published in December 2013), that (until at least 31 December 2017) if an institution's capital requirement calculated in respect of the Basel I Floor is higher than the sum of its Pillar 1 Requirement plus any Pillar 2A individual capital requirement imposed on that institution by the PRA (subject to relevant adjustments), the institution must meet the Basel I Floor requirement. The PRA further confirmed that, in such case, the firm's additional capital buffers will sit on top of the Basel I Floor, and the institution may not meet its buffer requirement with any Common Equity Tier 1 capital maintained to meet the Basel I Floor. The Society's Basel I Floor is reported to the PRA and is not publicly disclosed;
- **New leverage ratio** – a new ratio (the leverage ratio), calculated by dividing Tier 1 capital by total assets (as defined by Basel III), is required to be maintained at a level of at least 3 per cent. This

requirement will be harmonised at EU level from 1 January 2018, until which date the UK regulators may apply such measures as they consider appropriate;

- ***Additional valuation adjustments*** – these are deductions from Common Equity Tier 1 capital required for all assets (including derivatives) measured at fair value. The Society intends to follow the simplified approach to this requirement, recognising the beneficial impact of hedge accounting treatment of derivatives; and
- ***Available For Sale reserve*** – this reserve records the unrealised gains and losses on assets measured at fair value. CRD IV brought this within the scope of own funds included in Common Equity Tier 1 capital.

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

Recognition as capital of the legacy Tier 1 capital and Tier 2 capital instruments (for example, certain permanent interest bearing shares and subordinated debt instruments) is subject to grandfathering in accordance with the provisions in CRD IV. At present, the Society's Pillar 2A requirements can be met by any form of capital. However, from 1 January 2015, the PRA expects firms to meet Pillar 2A with at least 56 per cent. in Common Equity Tier 1 capital, no more than 44 per cent. in Additional Tier 1 capital and at most 25 per cent. in Tier 2 capital.

There are still some areas of the PRA's intended approach which are not yet finalised. In particular, as part of the PRA consultation during the course of 2014 on its approach to Pillar 2, the PRA will consider its approach to setting Pillar 2A capital and the extent to which firms should disclose Pillar 2A guidance and its approach to the Pillar 2B PRA buffers which are likely to replace the existing capital "planning buffers". Accordingly there is a risk that the Society will be required to hold higher levels of or better quality capital than is currently anticipated or planned for. If and to the extent that the PRA adopts capital or other requirements which exceed those proposed under Basel III, this could lead to a cancellation, in whole or in part, of interest payable under the Perpetual Capital Securities (see "*Interest Payments may be cancelled on a discretionary or mandatory basis*" below).

***Other future legislative and regulatory changes could impose operational restrictions on the Group, causing it to raise further capital, increase its expenses and/or otherwise adversely affect its business, results, financial condition or prospects***

The Group conducts its business subject to ongoing regulation by the FCA and the PRA. The current market environment is witnessing increased levels of Government intervention in the banking, personal finance and real estate sectors. Future changes in regulation, fiscal or other policies are unpredictable and beyond the Group's control and could materially adversely affect its business or operations.

Regulators and other bodies in the UK and worldwide have produced a range of proposals for future legislative and regulatory changes which could impose operational restrictions on the Group, causing it to raise further capital, increase its cost base and/or otherwise adversely affect its business results, financial condition or prospects. These include, among others:

- on 19 June 2013, the Parliamentary Commission on Banking Standards ("**PCBS**") published its final report ("*Changing banking for good*"). This was followed by the publication of the Government's response on 8 July 2013, accepting the overall conclusions of the final report and all of its principal recommendations. Among other things, this included proposals for: (i) a new senior persons regime governing the conduct of bank staff; (ii) the introduction of a criminal offence for reckless misconduct by senior bank staff; and (iii) steps to improve competition in the banking sector. On 18

December 2013, the Banking Reform Act which includes provisions to address certain of the PCBS's recommendations received royal assent; further detail in respect of matters covered in the Banking Reform Act will be provided by way of secondary legislation. From 1 March 2014, the PRA has had a secondary objective in respect of competition; otherwise, the relevant provisions of the Banking Reform Act are not yet in force and it is not known when such provisions will come into force. The Banking Reform Act and future related secondary legislation may have a substantial impact on banks and building societies in the UK generally;

- other measures contained in the Banking Reform Act, but which are not yet in force (and the date on which they will come into force is presently unknown), include: (i) ring-fencing domestic retail banking services of UK banks; (ii) introduction of a power for the UK authorities to bail in debt issued by UK banks and building societies (see “*The value of the Perpetual Capital Securities may be materially adversely affected by any bail-in or similar power which takes effect in the UK*” above); (iii) elevating the ranking of FSCS insured depositors on a winding-up to rank ahead of all other unsecured creditors; and (iv) a cap on the cost of pay day loans. Building societies (including the Society) will be subject to the bail-in powers and will be affected by proposals to change creditor hierarchy;
- the Government intends to transpose the provisions in the BRRD early which will have the effect of granting: (i) preference to eligible deposits (i.e. deposits and share accounts which qualify for FSCS protection) over the claims of ordinary unsecured creditors in the event of an insolvency; and (ii) a "super-preference" to those deposits and share accounts which are actually protected by the FSCS, i.e. up to the limit of £85,000. At European Union level, structural reform measures that are similar to some of those contained in the Banking Reform Act are also under consideration, following the report of the European Commission's high level expert group on reforming the structure of the EU Banking Sector (the "**Liikanen Report**"). On 29 January 2014 the European Commission published a proposal on structural measures improving the resilience of EU credit institutions which reflects some of the recommendations of the Liikanen Report;
- consumer credit regulation was transferred to the FCA from 1 April 2014 in accordance with provisions under the FS Act. Following the transfer, the carrying on of certain credit-related activities (including in relation to servicing credit agreements) otherwise than in accordance with permission from the FCA will render the credit agreement unenforceable without FCA approval and the FCA will have power to render unenforceable contracts made in contravention of its rules on cost and duration of credit agreements or in contravention of its product intervention rules. The FS Act also provides for formalised co-operation to exist between the FCA and the FOS (which determines complaints by eligible complainants in relation to authorised financial services firms, consumer credit licensees and certain other businesses), particularly where issues identified potentially have wider implications with a view to the FCA requiring firms to operate consumer redress schemes;
- in June 2013, the PRA undertook a stress test on the eight largest UK banks and building societies. This involved an assessment of capital levels with 15% minimum risk weightings attached, together with a requirement to meet a 3% leverage ratio. The Society was not part of this review. The criteria applied to stress tests are not intended to be indicative of prospective changes to the capital requirements. However, if the PRA or BoE were to formally introduce a minimum risk weighting measure across all UK lenders, whether generally or in respect of exposures to specified sectors, this could have a significant adverse impact on the Group's CET1 and overall capital ratios. Given the composition of the Group's loan book and its relatively low historic impairments, the average risk weighting applied to the Group's book may be lower relative to many of the large high-street lenders, in which case the impact of an introduction of minimum risk weights may have a comparatively greater impact on its capital ratios than its competitors'. Whilst the Society is not aware of any current proposal by the UK authorities to introduce minimum risk weights generally, the Financial Policy Committee, in its policy statement entitled “*The Financial Policy Committee's powers to supplement capital requirements*” published in January 2014, discusses the use of

increased risk weights in other jurisdictions and expressly recognises the possibility of amending risk weights as one of the macro-prudential tools available to it within its oversight of sectoral capital requirements.

- following the 2013 stress tests, and in line with the UK Financial Policy Committee's recommendation for annual and concurrent stress-testing of the UK banking system, in April 2014 the Bank of England set out details of the UK scenario for the 2014 stress tests of the eight largest UK banks and building societies. In addition, the European Banking Authority is also conducting its own stress tests for certain European financial institutions. Whilst the Society is not the subject of such stress tests at present, if it were to become subject to future stress tests of this nature there is a risk that it would be required to raise further capital, including if the stress test methodology included standardised or minimum risk weights, whether generally or in respect of exposures to specified sectors, which afford higher risk-weightings to the Society's assets than the Society's own internal ratings-based model; and
- the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers in March 2011. The proposal requires, among other things, standardised pre-contractual information, adherence to business conduct rules, a ban on certain tying practices (i.e. offering or selling a credit agreement in a package of products) and a right of the borrower to make early repayment. Until the final form of the proposed directive is formally adopted by the European Council and it together with UK implementing legislation is published, it is not certain what effect the adoption and implementation of the proposed directive would have on the Group's mortgage business.

There is also a risk that the recent restructuring of regulatory bodies, in particular, the creation of multiple regulators in the UK and the transfer of the responsibility for regulation of consumer credit in the UK from the OFT to the FCA in April 2014, could lead to a lack of co-ordination and the emergence of inconsistencies between the different regulatory bodies. Any such development could adversely impact the Group's ability to manage its business efficiently and subject it to increased costs through managing an increasingly complex compliance burden.

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

#### ***Implementation of the ICB's recommendations regarding loss-absorbing capacity may impact on the Group's overall capital requirements***

In June 2010, the Government established the ICB to consider structural and related non-structural reforms to the UK banking sector to promote financial stability and competition. The ICB's reform recommendations, published in September 2011, and the Government's response supporting such recommendations (as set out in HM Treasury White Paper entitled "Sound banking: delivering reform") includes proposals to increase capital and loss-absorbency to levels that exceed the proposals under Basel III. These requirements, as well as the other recommendations of the ICB, are expected to be introduced between 2015 and 2019. The Banking Reform Act has given effect to the ICB's recommendations insofar as they have been accepted by HM Treasury. However the Banking Reform Act is, effectively, enabling legislation only and, as such, much of the detailed implementation of the ICB's recommendations (where supported by Parliament) will be set out in secondary legislation which is expected before the end of the current parliament. Draft secondary legislation was published in July 2013, including legislation to establish the framework through which non-capital primary loss-absorbing capacity requirements will be imposed on systemically important UK banks



and building societies. This could take the form of a liabilities based measure (Minimum Requirement for Eligible Liabilities) implemented in accordance with the BRRD. For further information, please refer to the section entitled "*Other future legislative and regulatory changes could impose operational restrictions on the Group, causing it to raise further capital, increase its expenses and/or otherwise adversely affect its business, results, financial condition or prospects*" above.

Until the legislation is finalised, the Group cannot predict the impact such rules will have on its overall capital requirements or how they will affect its compliance with the capital and loss absorbency requirements of Basel III. However, the introduction of the new rules and proposals could require the Group to increase its capital, liquidity and funding requirements or otherwise adversely affect its business or profitability.

### ***Demutualisation and consequences of the Act for Securityholders***

The Society's Board is committed to maintaining the mutual status of the Society. Notwithstanding the above, subject to regulatory confirmation, the Society's members and its Board may determine whether it remains a building society or if it demutualises (save in circumstances where a direction is given under Section 42B of the Act or a UK authority makes an instrument or order under the Banking Act (as amended by section 56 of the FS Act) which results in a demutualisation taking place or, subject to HM Treasury making an order under section 17(3) of the Banking Reform Act (which section came into force on 1 March 2014), the BoE requires the conversion or transfer of the Society's business to a company in relation to the exercise of the bail-in stabilisation option).

The Act includes provisions under which a building society may demutualise by transferring the whole of its business to a company. In addition, the Act (as modified by the Mutual Societies (Transfers) Order 2009 made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (commonly known as the "**Butterfill Act**") includes provisions under which a building society may transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the Butterfill Act). At present, the claims of the Society's depositors and other unsecured and unsubordinated creditors would rank ahead of share accounts (which term excludes any deferred shares) and the Society's members' rights to any surplus in the event of its liquidation, and the claims of its subordinated creditors would rank behind share accounts but ahead of members' rights to any surplus in the event of its liquidation. If, however, the Society transfers its business to a specially formed company or an existing company (as defined in the Act) or to a subsidiary of another mutual society, all of its liabilities which immediately prior thereto were classified as share accounts will thereafter rank at least *pari passu* with all other unsecured and unsubordinated liabilities of its successor. The position relating to the relative hierarchy of share accounts and ordinary unsecured creditors is likely to change in the near future with the introduction of the bail-in tool provided for in the Banking Reform Act. This is described above under "*Other future legislative and regulatory changes could impose operational restrictions on the Group, causing it to raise further capital, increase its expenses and/or otherwise adversely affect its business, results, financial condition or prospects*".

Under section 90B of the Act (which was inserted by the Butterfill Act, although not yet in force), HM Treasury may, by order, make provision for the purpose of ensuring that, on the winding up, or dissolution by consent, of a building society, any assets available for satisfying such society's liabilities to creditors (other than liabilities in respect of subordinated deposits, liabilities in respect of preferential debts, or any other category of liability which HM Treasury specifies in the order for these purposes) or to members (other than liabilities in respect of deferred shares) are applied in satisfying those liabilities *pari passu*. The power to make an order under section 90B of the Act will, when it is in force, be exercisable by statutory instrument but may not be made unless a draft of it has been laid before and approved by a resolution of each House of Parliament. As at the date of this Offering Circular, no date has been appointed for this provision to come into force. The Government had announced that it may be appropriate to commence these powers in connection with the introduction of the bail-in tool provided for in the Banking Reform Act. However it has since announced that it may deal with creditor hierarchy by the early transposition of relevant parts of the BRRD.

Following a transfer of the Society's business to a company (including where the transfer is to a subsidiary of another mutual society), its obligations under the Perpetual Capital Securities would rank (a) in priority to both the rights of the holders of the equity share capital in the company to any repayment of capital or surplus on a liquidation and any obligations of the company (whether or not created prior to such transfer) expressed to rank junior to such Perpetual Capital Securities, (b) equally with Parity Obligations (as defined in the Conditions of the Perpetual Capital Securities) including permanent interest bearing shares (or, if applicable, any instruments issued in replacement of Parity Obligations upon the transfer of the Society's business) and (c) behind other unsecured subordinated and unsubordinated creditors (including inter-bank lenders and retail depositors) and any statutorily preferential creditors.

***The Group may be adversely affected by increased levies payable under the Financial Services Compensation Scheme***

The FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them.

An institution's FSCS levy is linked to its share of the UK deposit market. The Society is, and continues to be, a member of the FSCS. As at 31 December 2013, the Group held a provision of £8.7 million with respect to the estimated FSCS levy for the period 2013/14. As at the date of this Offering Circular, a number of claims against the FSCS have been triggered. Claims on the FSCS are funded by loans from HM Treasury, and until such loans are repaid, increased levies on UK deposit taking institutions fund interest payments on such loans and any capital shortfalls that are identified. As a result of the various claims under the FSCS, the Group, in common with all regulated UK deposit takers, has recently been subject to significantly increased FSCS levies and there can be no assurance that there will not be further increases in the FSCS levy from time to time. Consequently, the FSCS levy may have a material impact on the profits of the Group.

There can also be no assurance that there will not be any actions taken under the Banking Act that may lead to further claims against the FSCS, and concomitant increased FSCS levies payable by the Group (and other regulated UK deposit takers). Following a review by the former Financial Services Authority of the FSCS funding model, the revised FSCS funding arrangements took effect on 1 April 2013. The FCA is responsible for the new arrangements which require contributions from firms according to their funding class. There are three PRA funding classes and five FCA funding classes; a particular class will meet compensation claims up to the threshold limit for that class, but FCA funding classes may receive additional support from other classes up to the amount of the relevant FCA 'retail pool'. A failure of a firm in one of the FCA intermediation funding classes may entail contributions from the wider retail pool (comprising contributions from each of the five FCA funding classes and additional FCA 'provider' funding classes) who would pay towards the costs. This alternative funding model was introduced to acknowledge the joint responsibilities of providers and distributors, but this may mean that the Group, as a provider, may incur higher contributions to the FSCS as a result of the failure of distributors.

In December 2013, political agreement was reached on the new EU directive on deposit guarantee schemes, which introduces financing requirements targeting ex ante deposit guarantee scheme funds of 0.8 per cent. of covered deposits to be collected from deposit-taking entities over a ten year period (the UK currently operates an ex post financing where fees are required after a payment to depositors has occurred). In case of insufficient ex ante funds, the deposit guarantee scheme will collect immediate ex post contributions from the banking sector, and, as a last resort, they will have access to alternative funding arrangements such as loans from public or private third parties. The political agreement is subject to technical finalisation and formal approval by the co-legislators and as such it is unclear the impact the new directive will have on the levies paid by the Group; it is possible, as a result of the new directive, that future FSCS levies on the Group may differ from those at present, and such reforms could result in the Group incurring additional costs and liabilities, which may adversely affect its business, financial conditions and/or results of operations.

## **Factors which are material for the purpose of assessing the market risks associated with the Perpetual Capital Securities**

In making an investment decision, potential investors should carefully consider the risks of an investment in the Perpetual Capital Securities. In particular, potential investors should be aware of the following:

***Upon the occurrence of a Conversion Trigger, the Securityholders will lose all of their investment in the Perpetual Capital Securities and receive CCDS that may not be of the same value as their original investment in the Perpetual Capital Securities***

Investors may lose all of their investment in the Perpetual Capital Securities if the Common Equity Tier 1 ratio of the Society calculated on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) or the Common Equity Tier 1 ratio of the Society calculated on a consolidated basis (each such ratio, a "**CET1 Ratio**") falls below 7.00 per cent. (a "**Conversion Trigger**" (see further the definitions of such terms set out in Condition 8 of "*Conditions of Issue of the Perpetual Capital Securities*")). Upon the occurrence of a Conversion Trigger, the Society shall: (a) cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date (whether or not such interest has become due for payment); (b) irrevocably (without the need for the consent of Securityholders) write down the Perpetual Capital Securities by reducing the nominal amount of each Perpetual Capital Security to zero; and (c) issue to each Securityholder such number of CCDS as is equal to the aggregate nominal amount of that Securityholder's Perpetual Capital Securities divided by the Conversion Price.

A Conversion shall be deemed effective with effect from the relevant Conversion Date stated in the Conversion Notice to be given by the Society and without the requirement for any further formality. Once the nominal amount of a Perpetual Capital Security has been written down, the nominal amount of such Perpetual Capital Security will not be restored in any circumstances (including where the relevant Conversion Trigger ceases to continue), the Perpetual Capital Security will be cancelled and no further interest will accrue or be payable on such Perpetual Capital Security at any time thereafter. Any interest which is accrued and unpaid to the date of the relevant Conversion Trigger shall be immediately cancelled (whether or not such interest has become due for payment). A Securityholder will not be entitled to (i) receive, other than the relevant number of CCDS as is equal to the aggregate nominal amount of that holder's Perpetual Capital Securities divided by the Conversion Price, any shares or other participation rights in the Society or be entitled to any other participation in the upside potential of any equity or debt securities issued by the Society or any other member of the Group or (ii) any subsequent re-transfer or any other compensation in the event of any change in either CET1 Ratio.

The occurrence of a Conversion Trigger is inherently unpredictable and depends on a number of factors, which may be outside the control of the Society. Accordingly, investors may be unable to accurately predict if and when a Conversion Trigger may occur. See "*The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect either CET1 Ratio*" and "*The two CET1 Ratios may be affected by different factors*" below.

Further, the Conditions provide that the Securityholders, and not the Society, shall be responsible for paying any taxes and capital, stamp, issue, registration and transfer taxes and duties arising on Conversion as a consequence of any disposal or deemed disposal of their Perpetual Capital Securities (or any interest therein) and/or the issue or delivery to them of any CCDS (or any interest therein) upon Conversion.

In addition to Conversion of the Perpetual Capital Securities in accordance with Condition 8, the Perpetual Capital Securities may also be written off, written down, converted to CCDS or otherwise modified in a manner which is materially adverse to investors in circumstances where the BoE or other resolution authorities exercise powers under EU and UK recovery and resolution regimes. See "*Risks relating to the Banking Act 2009 and the European Union resolution and recovery directive*" above and "*Factors which are material for the purpose of assessing the market risks associated with CCDS, in the event that any are issued*" below.

***As the Conversion Price is fixed at the time of issue of the Perpetual Capital Securities, Securityholders will bear the risk of fluctuations in either CET1 Ratio and the price of any CCDS in issue***

The market price and liquidity of the Perpetual Capital Securities is expected to be affected by fluctuations in either CET1 Ratio and, where applicable, the market price of any CCDS in issue. Fluctuations in either CET1 Ratio may be caused by changes in the amount of Common Equity Tier 1 capital and/or Risk Weighted Assets, each calculated on either an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) or a consolidated basis, as well as changes to definitions under the capital adequacy standards, methods of calculating Risk Weighted Assets and guidelines of the relevant authority. Any indication that either CET1 Ratio is moving towards the level of a Conversion Trigger may have an adverse effect on the market price of the Perpetual Capital Securities and any trading market for the Perpetual Capital Securities may be severely limited. In addition, the market price of the Perpetual Capital Securities may be more sensitive generally to adverse changes in the Society's and the Group's financial condition than the market prices of securities without a similar conversion or write-down feature, and may become increasingly volatile as either CET1 Ratio falls. The level of either CET1 Ratio may significantly affect the trading price and liquidity of any trading market in the Perpetual Capital Securities and also of any CCDS (if any) in issue. In addition, any decline in the market price of any such CCDS may have an adverse effect on the market price of the Perpetual Capital Securities. Therefore, investors may not be able to sell their Perpetual Capital Securities easily or at prices that will provide them with a yield comparable to more conventional investments. These adverse effects can be expected to become increasingly pronounced as either CET1 Ratio approaches 7.00 per cent.

In addition, because a Conversion Trigger will only occur at a time when either CET1 Ratio has deteriorated significantly, a Conversion Trigger may be accompanied by a deterioration in the market price of the CCDS (if any) in issue, which may be expected to continue after the occurrence of the Conversion Trigger. Therefore, following a Conversion Trigger, the realisable value of the CCDS may be significantly below the Conversion Price. The Conversion Price is fixed at the time of issue of the Perpetual Capital Securities at £67, and is subject to only limited anti-dilution adjustments which will apply from the time, if any, that the Society issues any CCDS prior to Conversion of the Perpetual Capital Securities and so long as any such CCDS remain in issue (and, for the avoidance of doubt, no adjustment will be made upon the first issue of CCDS by the Society), as described under "*Securityholders have limited anti-dilution protections with respect to the Conversion Price, which protections will apply from the time, if any, that the Society issues any CCDS prior to the Conversion of the Perpetual Capital Securities*" below. As a result, the Conversion Price may not reflect the market price of CCDS (if any) in issue at the time of conversion (or at any other time), and any such market price could be significantly lower than the Conversion Price.

In addition, there may be a delay in a holder receiving its CCDS following a Conversion Trigger, during which time the market price of CCDS (if any) in issue may further decline. As a result, the realisable value of the CCDS received upon a Conversion Trigger could be substantially lower than that implied by the price paid for the Perpetual Capital Securities at the time of their purchase.

***The obligations of the Society under the Perpetual Capital Securities are unsecured and deeply subordinated, and the rights of the holders of any CCDS to be issued will be further subordinated***

The Perpetual Capital Securities constitute direct, unsecured and subordinated investments in the Society and, on a winding-up or dissolution of the Society, rank (a) junior to the claims of all creditors (including all subordinated creditors) and Shareholding Members (as regards the principal and interest due on such Shareholding Members' shares) of the Society, including (without limitation) claims in respect of obligations of the Society which constitute Tier 2 Capital but in each case excluding claims in respect of (i) any PIBS of the Society, (ii) any other Deferred Shares (as defined in the Rules) outstanding of the Society ranking, or expressed to rank, *pari passu* with or junior to any such PIBS or the Perpetual Capital Securities and (iii) any other Parity Obligation or Junior Obligation ("**Senior Obligations**"); (b) *pari passu* among themselves and with any claims ranking, or expressed to rank, *pari passu* therewith, including (without limitation) all claims in respect of PIBS (as regards the principal and interest due thereon) of the Society ("**Parity Obligations**"); and (c) senior to all claims under any Core Capital Deferred Share (as defined in the Rules) of the Society

and any other claims ranking, or expressed to rank, junior to either the Perpetual Capital Securities or any Parity Obligations ("**Junior Obligations**"), all as more particularly described in Condition 4.

The claims of the holders of the Perpetual Capital Securities in a winding-up or dissolution of the Society (other than an Excluded Dissolution) which commences prior to any Conversion Date determined in accordance with Condition 8, will be for the nominal amount of their Perpetual Capital Securities together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions). However, such claims shall be deeply subordinated as provided above, and Securityholders will only be eligible to recover any amounts in respect of their claims if all claims in respect of more senior-ranking obligations of the Society have first been paid in full. If, on a winding-up or dissolution of the Society which commences prior to any Conversion Date, the assets of the Society are insufficient to enable the Society to repay the claims of more senior-ranking creditors in full, the Securityholders will lose their entire investment in the Perpetual Capital Securities. If there are sufficient assets to enable the Society to pay the claims of senior-ranking creditors in full but insufficient assets to enable it to pay claims in respect of the Perpetual Capital Securities and all Parity Obligations in full, Securityholders will lose some (which may be substantially all) of their investment in the Perpetual Capital Securities.

For the avoidance of doubt, the holders of the Perpetual Capital Securities shall, in a winding-up or dissolution of the Society which commences prior to any Conversion Date, have no claim in respect of the surplus assets (if any) of the Society remaining in any winding-up or dissolution following payment of all amounts due in respect of the liabilities of the Society.

As described above under "*Upon the occurrence of a Conversion Trigger, the Securityholders will lose some or all of their investment in the Perpetual Capital Securities and receive CCDS that may not be of the same value as their original investment in the Perpetual Capital Securities*", the Perpetual Capital Securities will, in certain circumstances, be irrevocably (without the need for the consent of Securityholders) written-down to zero and converted into CCDS. The claims of CCDS holders in a winding-up or dissolution of the Society are the most junior-ranking of all claims. Claims in respect of CCDS are not for a fixed nominal amount, but rather are limited to a proportionate and capped share of the surplus assets (if any) remaining following payment of all amounts due in respect of the liabilities of the Society.

Therefore, if a winding-up or dissolution of the Society occurs following the Conversion Date, each Securityholder will be effectively further subordinated from being the holder of a subordinated investment to being the holder of CCDS, will not have a claim for a fixed amount in the winding-up and there is an enhanced risk that holders will lose all or some of their investment.

Furthermore, the proportionate (or capped) share of surplus assets (if any) which a CCDS holders would be eligible to receive in a winding-up or dissolution of the Society will depend upon a range of factors, including the number of CCDS in issue, the price at which such CCDS have been issued from time to time and the relative contribution to the common equity tier 1 capital deemed to have been made by the CCDS holders as a class at the relevant times for determining the rights of CCDS holders to share in any surplus assets. In particular, other issues of CCDS, whether issued before, simultaneously with, or after the CCDS issued upon conversion of the Perpetual Capital Securities, and whether issued by way of new investment in the Society or upon conversion of other securities, may have a significant dilutive impact on the proportion of surplus assets (if any) which an investor would be eligible to receive in a winding-up or dissolution. If the Group's common equity tier 1 ratio or total tier 1 ratio are eroded over time, the Society may elect, or may be required, to raise further tier 1 capital through issues of CCDS or instruments which convert into CCDS in the same or similar circumstances in which the Perpetual Capital Securities would convert. In addition, other liabilities of the Group may, in certain circumstances, become subject to bail-in by way of conversion to CCDS (see further "*Risks relating to the Banking Act 2009 and the European Union recovery and resolution directive*" and "*The value of the Perpetual Capital Securities may be materially adversely affected by any bail-in or similar power which takes effect in the UK*").

Given the possible variables, it is not possible to predict, as at the date of this Offering Circular, the share of surplus assets which would be attributable to each CCDS in the event of a winding-up or dissolution of the

Society in the future. See also “*Securityholders have limited anti-dilution protections with respect to the Conversion Price, which protections will apply from the time, if any, that the Society issues any CCDS prior to the Conversion of the Perpetual Capital Securities*” and “*The Society will be entitled, without the consent of the CCDS holders, to issue further CCDS and other instruments ranking in priority to the CCDS at any time. Any such further issue of CCDS and/or such other instruments may have a dilutive effect on existing CCDS*” below.

***The rights of Securityholders will be limited between the occurrence of a Conversion Trigger and the Conversion Date***

Although the Society currently expects that beneficial interests in the Perpetual Capital Securities will be transferrable between the occurrence of a Conversion Trigger and the Conversion Date, there is no guarantee that an active trading market will exist for the Perpetual Capital Securities following the occurrence of a Conversion Trigger. Accordingly, the price received for the sale of any beneficial interest under a Perpetual Capital Security during this period may not reflect the market price of such Perpetual Capital Security or the CCDS (if any) in issue.

Furthermore, transfers of beneficial interests in the Perpetual Capital Securities may be restricted following the occurrence of a Conversion Trigger, for example if the clearance and settlement of transactions in the Perpetual Capital Securities is suspended by the Clearing Systems at an earlier time than currently expected. In such a situation it may not be possible to transfer beneficial interests in the Perpetual Capital Securities in such Clearing Systems and trading in the Perpetual Capital Securities may cease through such Clearing Systems. In addition, the Clearing Systems will each suspend all clearance and settlement of transactions in the Perpetual Capital Securities on a specific date (the “**Suspension Date**”) to be notified to Securityholders in the Conversion Notice. As a result, holders of the Perpetual Capital Securities will not be able to settle the transfer of any Perpetual Capital Securities through the Clearing Systems following the Suspension Date, and any sale or other transfer of the Perpetual Capital Securities that a holder of the Perpetual Capital Securities may have initiated prior to the Suspension Date with respect to the Clearing System that is scheduled to match or settle after the Suspension Date will be rejected by such Clearing System and will not be matched or settled through such Clearing System.

The Perpetual Capital Securities will cease to be admitted to trading on the SIX Swiss Exchange after the Suspension Date.

Moreover, although it is the Society's current intention that the Securityholders will become beneficial owners of the CCDS upon the issuance of such CCDS to the Nominee (in its capacity as nominee holder of the CCDS), no holder will be able to sell or otherwise transfer any CCDS until such time as they are finally delivered to the Clearing System securities account of such holder.

***Upon Conversion, it is intended that the CCDS will be delivered to the Nominee for and on behalf of the Clearing Systems. There can be no assurance that the CCDS will be accepted for clearing***

While the Perpetual Capital Securities and the CCDS (if any) in issue are each represented by global certificates registered in the name of the Nominee, upon Conversion the aggregate number of CCDS to be issued pursuant to the Conditions are expected to be issued directly to the Nominee for and on behalf of the Clearing Systems. In that case, investors will receive beneficial interests only in the CCDS and will only be entitled to the rights in respect of such beneficial interests in CCDS as prescribed by the rules of the Clearing Systems, as the case may be. Registration of book-entry interests in the CCDS will be effected through the records of the Clearing Systems and their respective participants in accordance with the rules and procedures of the Clearing Systems and their respective direct and indirect participants. There is no guarantee that such book-entry interests will be registered within any specific time period or that such method of issuance of CCDS will be the most appropriate process at any given time.

Further, there can be no assurance that CCDS will be accepted for clearing in the Clearing Systems, in which case definitive certificates representing each holder's entitlement may be delivered directly to the holders –

see “*Risks related to the listing and clearing of the CCDS to be issued upon Conversion*” below. Whether CCDS are delivered to the Clearing Systems or issued in definitive form could result in different UK tax treatment upon issue and subsequent transfers of CCDS – see “*Dealings in the CCDS may in certain circumstances be liable to UK stamp taxes*” below.

***Interest Payments may be cancelled on a discretionary or mandatory basis***

Payment of interest on any Interest Payment Date is at the sole discretion of the Board. The Society may elect not to pay interest, in whole or in part, on any Interest Payment Date. The Society may make such election for any reason. The Perpetual Capital Securities will be senior in ranking to any CCDS which may be issued by the Society in the future. It is the Board’s current intention that, if exercising its discretion to declare distributions in respect of CCDS in future, or its discretion to cancel interest on the Perpetual Capital Securities whilst any CCDS are outstanding, the Board would take into account the relative ranking of these instruments in its capital structure. However, the Board would be fully entitled at any time depart from this policy at its sole discretion.

Additionally, the Regulator has the power under Article 104 of CRD to restrict or prohibit payments of interest by the Society to holders of Additional Tier 1 instruments. The risk of any such intervention by the Regulator is most likely to materialise if at any time the Society is failing, or is expected to fail, to meet its capital requirements – see also “*The Society is subject to regulatory capital requirements which are subject to change*” above. Any interest not paid will be cancelled, and Securityholders will have no right to receive such cancelled interest (or any amount in respect thereof) in any circumstances.

In addition, payment of interest will be prohibited if and to the extent that (i) payment cannot be made in compliance with the Solvency Test, (ii) the Society has insufficient Distributable Items, (iii) payment would result in a breach of any maximum distributable amount then applicable to the Society, (iv) payment is prohibited by the conditions of issue of any PIBS of the Society; and/or (v) following the occurrence of a Conversion Trigger, each as further described below.

*Solvency Test*

The Conditions provide that no payment of principal or interest in respect of the Perpetual Capital Securities shall become due and payable unless, and to the extent that, the Society is able to make such payment and still be solvent immediately thereafter (except in the winding-up or administration of the Society) (the “**Solvency Test**”). For these purposes, the Society shall be considered to be solvent if (x) it is able to pay its debts which are Senior Obligations as they fall due and (y) its Assets exceed its Liabilities.

If and to the extent that, on any Interest Payment Date, the Society is unable to make an Interest Payment and still be solvent immediately thereafter, such Interest Payment shall not become due and will be cancelled.

*Insufficient Distributable Items*

Payments of interest due on any Interest Payment Date will be prohibited and will not be paid if and to the extent that the amount of such Interest Payment otherwise due, together with any interest payments or distributions which have been paid or made or which are required to be paid or made during the then current Financial Year (as defined in Condition 19) on other own funds items (excluding any such interest payments or distributions which (i) are not required to be made out of Distributable Items or (ii) have already been provided for, by way of deduction, in the calculation of Distributable Items) shall, in aggregate, exceed the amount of Distributable Items (as defined in Condition 19) of the Society as at such Interest Payment Date. See further “*The level of the Society’s Distributable Items is affected by a number of factors and insufficient Distributable Items may restrict the Society’s ability to make interest payments on the Perpetual Capital Securities*” below.

### *Maximum Distributable Amount*

The Society shall not be permitted to pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the payment of such Interest Payment would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the Capital Requirements Directive (or any provision of applicable law transposing or implementing Article 141(2) of the Capital Requirements Directive, as amended or replaced), the Maximum Distributable Amount (if any) then applicable to the Society (as calculated in accordance with Article 141 or any applicable law transposing or implementing that Article) to be exceeded. See further "*CRD IV introduces capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Society from making interest payments on the Perpetual Capital Securities in certain circumstances, in which case the Society will automatically cancel such interest payments*" below.

### *Conditions of issue of the 6.092 per cent. PIBS of the Society*

Pursuant to the conditions of issue of the Society's £120,000,000 6.092 per cent. Permanent Interest Bearing Shares (ISIN GB00B177CL57) (the "**6.092% PIBS**"), if the Society elects to reduce or cancel an interest payment on the 6.092% PIBS in circumstances other than an actual or anticipated failure to comply with applicable regulatory capital requirements, the Society will be required to deliver additional 6.092% PIBS to holders of the 6.092% PIBS in lieu of the cash distribution (or part thereof) which is not paid. If, however, the Society is unable to deliver such additional 6.092% PIBS to the holders, it will be prohibited from paying discretionary distributions on any other deferred shares for a period of 12 months. The Perpetual Capital Securities are deferred shares for these purposes and, accordingly, the Society would be required to exercise its discretion to cancel Interest Payments on the Perpetual Capital Securities during such 12 month period.

### *Conversion Trigger*

Upon the occurrence of a Conversion Trigger, the Society will cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date, whether or not such interest has become due for payment. See further "*Upon the occurrence of a Conversion Trigger, the Securityholders will lose all of their investment in the Perpetual Capital Securities and receive CCDS that may not be of the same value as their original investment in the Perpetual Capital Securities*" above.

### *Consequences of cancellation*

Any interest payment (or part thereof) cancelled and not paid on any relevant Interest Payment Date or repayment date by reason of any of Conditions 4.4, 6 or 8 shall be cancelled and shall not accumulate or be payable at any time thereafter, and Securityholders will have no claim for any amount in respect of interest not paid in such circumstances and no right to receive any additional interest or compensation as a result of such non-payment. Non-payment of any Interest Payment (or part thereof) will not constitute an event of default by the Society for any purpose, and the Securityholders shall have no right thereto whether in a winding-up or dissolution of the Society or otherwise. Thus, any Interest Payment not paid as a result of the Society's election to cancel interest or as a result of the mandatory restrictions described above will be lost and the Society will have no obligation to make payment of such interest or to pay interest thereon.

If the Society elects to cancel, or is prohibited from paying, interest on the Perpetual Capital Securities at any time, there is no restriction (other than any restriction imposed by any applicable law or regulation) on the Society from otherwise making distributions or any other payments to the holders CCDS (if any) in issue or any other securities of the Society, including securities ranking *pari passu* with or junior to the Perpetual Capital Securities.

If at any time the Perpetual Capital Securities are Converted in accordance with the Conditions or in circumstances described under "*Any change in English law or administrative practice that affects the Perpetual Capital Securities could be prejudicial to the interests of holders of the Perpetual Capital*



*Securities*" below, no interest shall accrue from that time on the Perpetual Capital Securities. Consequently, no interest will be payable after the Conversion of the Perpetual Capital Securities.

Any actual or anticipated cancellation or reduction of interest payments can be expected to have a significant adverse effect on the market price of the Perpetual Capital Securities and any trading market for the Perpetual Capital Securities could be severely restricted. In addition, as a result of the interest cancellation and reduction provisions of the Perpetual Capital Securities, the market price of the Perpetual Capital Securities may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such cancellation or reduction and may be more sensitive generally to adverse changes in the Society's financial condition.

***The level of the Society's Distributable Items is affected by a number of factors and insufficient Distributable Items may restrict the Society's ability to make interest payments on the Perpetual Capital Securities***

The level of the Society's Distributable Items is affected by a number of factors. The Society's future Distributable Items, and therefore its ability to make interest payments under the Perpetual Capital Securities, are a function of its existing Distributable Items and its future profitability. In addition, the Society's Distributable Items may also be adversely affected by the servicing of more senior instruments.

The level of the Society's Distributable Items may be affected by changes to regulation or the requirements and expectations of applicable regulatory authorities. Any such potential changes could adversely affect the Society's Distributable Items in the future.

Further, the Society's Distributable Items, and therefore its ability to make interest payments under the Perpetual Capital Securities, may be adversely affected by the performance of its business in general, factors affecting its financial position (including capital and leverage), the economic environment in which the Group operates and other factors outside of the Society's control. In addition, adjustments to earnings, as determined by the Board, may fluctuate significantly and may materially adversely affect Distributable Items.

The Society shall not make an interest payment on the Perpetual Capital Securities on any Interest Payment Date or repayment date (and such Interest Payment shall therefore be cancelled) if the level of Distributable Items is insufficient to fund that payment, as discussed in the risk factor "*Interest Payments may be cancelled on a discretionary or mandatory basis*" above and as provided in Condition 6.2.

***CRD IV introduces capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Society from making interest payments on the Perpetual Capital Securities in certain circumstances, in which case the Society will automatically cancel such interest payments***

Under CRD IV, institutions are required to hold a minimum amount of regulatory capital equal to 8 per cent. of risk weighted assets. In addition to these so-called "own funds" requirements under CRD IV, supervisors may add extra capital to cover other risks (thereby increasing the regulatory minimum required under CRD IV) and the Society may also decide to hold an additional amount of capital. CRD IV also introduces capital buffer requirements that are in addition to the minimum capital requirement and required to be met with Common Equity Tier 1 capital. It introduces five new capital buffers: (i) the capital conservation buffer, (ii) the institution-specific countercyclical buffer, (iii) the global systemically important institutions buffer, (iv) the other systemically important institutions buffer and (v) the systemic risk buffer. Some or all of these buffers may be applicable to the Society as determined by the Regulator.

Under Article 141 (*Restrictions on distributions*) of the Directive that is part of CRD IV, EU Member States must require that institutions that fail to meet the "combined buffer requirement" (broadly, the combination of the capital conservation buffer, the institution-specific counter-cyclical buffer and the higher of (depending on the institution), the systemic risk buffer, the global systemically important institutions buffer

and the other systemically important institution buffer, in each case as applicable to the institution) will be subject to restricted "discretionary payments" (which are defined broadly by CRD IV as payments relating to Common Equity and Additional Tier 1 instruments and variable remuneration). The restrictions will be scaled according to the extent of the breach of the "combined buffer requirement" and calculated as a percentage of the profits of the institution since the last distribution of profits or "discretionary payment". Such calculation will result in a "maximum distributable amount" in each relevant period. As an example, the scaling is such that in the bottom quartile of the "combined buffer requirement", no "discretionary distributions" will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement it may be necessary to reduce discretionary payments, including potentially exercising the discretion to cancel (in whole or in part) interest payments in respect of the Perpetual Capital Securities.

The Society currently intends to maintain an internal management buffer comprising Common Equity Tier 1 capital over the combined buffer requirement. There can be no assurance, however, that the Society will continue to maintain such internal management buffer or that any such buffer would be sufficient to protect against a breach of the combined buffer requirement resulting in restrictions on payments on the Perpetual Capital Securities. See further "*Interest Payments may be cancelled on a discretionary or mandatory basis – Maximum Distributable Amount*" above.

The PRA announced on 29 November 2013 that it had decided that firms can meet any future Pillar 2A requirement with a blend of regulatory capital, at least 56 per cent. of which must be Common Equity Tier 1 from 1 January 2015 onwards. For further information, please refer to the section entitled "*The Society is subject to regulatory capital requirements which are subject to change*" above.

The Society's capital requirements are, by their nature, calculated by reference to a number of factors, any one of which or combination of which may not be easily observable or capable of calculation by investors. In addition, the PRA, in Policy Statement PS7/13 (*Strengthening capital standards: implementing CRD IV, feedback and final rules, December 2013*), reaffirmed its view (originally expressed in consultation paper CP5/13) that, with respect to the relationship between Pillar 2A individual capital guidance and the combined buffer requirement, Pillar 2A capital should sit below the CRD IV buffers and that capital used to meet the Pillar 2A requirement cannot be counted towards meeting the buffers. In addition, Policy Statement PS7/13 confirmed that if an institution's Basel I Floor capital requirement is higher than the sum of its Pillar 1 Requirement plus any Pillar 2A individual capital requirement imposed on that institution by the PRA (subject to relevant adjustments), the firm's additional capital buffers will sit on top of the Basel I Floor, and the institution may not meet its buffer requirements with any Common Equity Tier 1 capital maintained to meet the Basel I Floor (see further "*The Society is subject to regulatory capital requirements which are subject to change*" above). The Society does not currently disclose its Pillar 2A individual capital guidance or its Basel I Floor, and accordingly this method of 'stacking' the CRD IV buffer capital may result in reduced transparency to investors as to the point at which the Society would cease to comply with its buffer capital requirement. Accordingly, investors in the Perpetual Capital Securities may not be able to assess or predict accurately the proximity of the risk of Interest Payments being prohibited from time to time as a result of the operation of Article 141 of CRD IV.

The PRA noted in PS7/13 that it was reviewing its approach to setting Pillar 2A capital and, as part of that review, the PRA would consider whether and, if so, to what extent firms should disclose Pillar 2A capital guidance.

***Securityholders may be subject to disclosure obligations and/or may need approval from the Society's regulator under certain circumstances***

As the holders of the Perpetual Capital Securities may receive CCDS if a Conversion Trigger occurs, an investment in the Perpetual Capital Securities may result in holders having to comply with certain disclosure and/or regulatory approval requirements pursuant to applicable laws and regulations, and/or under the terms of issue of the CCDS, following a Conversion. Non-compliance with such disclosure and/or approval requirements may lead to the incurrence of substantial fines or other criminal and/or civil penalties. Accordingly, each potential investor should consult its legal advisers as to the terms of the Perpetual Capital

Securities, in respect of its existing holding and the level of holding it would have if it receives CCDS following a Conversion Trigger.

***Securityholders will bear the risk of changes in the market price of the Perpetual Capital Securities due to changes in either CET1 Ratio***

The market price of the Perpetual Capital Securities is expected to be affected by changes in either CET1 Ratio. Changes in the CET1 Ratio calculated on either an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) or a consolidated basis may be caused by changes in the amount of Common Equity Tier 1 capital and/or Risk Weighted Assets (each of which shall be calculated by the Society on a fully loaded basis (i.e. on an end-point CRD IV basis without taking into account any transitional, phasing in or similar provisions) and such calculations shall be binding on the holders of the Perpetual Capital Securities), as well as changes to their respective definition and interpretation under the Capital Regulations. See "*The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect either CET1 Ratio*" and "*The two CET1 Ratios may be affected by different factors*" below.

The Society is not required to publicly report either CET1 Ratio. However, the Society currently intends to publicly report its CET1 Ratio (calculated both on a consolidated basis and on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation)) on a half-yearly basis, for so long as any Perpetual Capital Security remains outstanding. During each such half-yearly period there may be no published updating of either CET1 Ratio and there may be no prior warning of adverse changes in either or both CET1 Ratios. However, any indication that either CET1 Ratio is moving towards the level of a Conversion Trigger may have an adverse effect on the market price of the Perpetual Capital Securities. A decline or perceived decline in either CET1 Ratio may significantly affect the trading price of the Perpetual Capital Securities.

***The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect either CET1 Ratio***

The occurrence of a Conversion Trigger is inherently unpredictable and depends on a number of factors, which may be outside the control of the Society. Moreover, because the relevant authority may instruct the Society to calculate either CET1 Ratio as at any date, a Conversion Trigger could occur at any time, including if the Society is subject to recovery and resolution actions by the relevant United Kingdom resolution authority, or the Society might otherwise determine to calculate such ratio in its own discretion. Moreover, the relevant United Kingdom resolution authority is likely to allow a Conversion Trigger to occur rather than to resort to the use of public funds.

Both of the CET1 Ratios can be expected to fluctuate on an ongoing basis. The calculation of such ratios could be affected by one or more factors, including, among other things, changes in the mix of the Group's business, major events affecting its earnings, distributions payments by the Society, regulatory changes (including changes to definitions and calculations of regulatory CET1 Ratios and their components, including Common Equity Tier 1 and Risk Weighted Assets, in each case on either an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) or a consolidated basis) and the Group's ability to manage Risk Weighted Assets in both its ongoing businesses and those which it may seek to exit. In addition, the Group has risk weighted assets denominated in foreign currencies, and changes in foreign exchange rates will result in changes in the pound sterling equivalent value of foreign currency denominated risk weighted assets. As a result, the CET1 Ratios are exposed to foreign currency movements. The calculation of either CET1 Ratio may also be adversely affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules. Moreover, even if changes in applicable accounting rules, or changes to regulatory adjustments which modify accounting rules, are not yet in force as of the relevant calculation date, the PRA could require the Society to reflect such changes in any particular calculation of either of its CET1 Ratios.

It will be difficult to predict when, if at all, a Conversion Trigger and subsequent Conversion may occur. Accordingly, the trading behaviour of the Perpetual Capital Securities is not necessarily expected to follow the trading behaviour of other types of securities. Any indication that a Conversion Trigger and subsequent Conversion may occur can be expected to have a material adverse effect on the market price of the Perpetual Capital Securities.

***The two CET1 Ratios may be affected by different factors***

Although, as at the date of this Offering Circular, the CET1 Ratio, calculated on a consolidated basis, and the CET1 Ratio, calculated on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation), are the same, there is no assurance that the two ratios will remain the same. The factors that influence the CET1 Ratio as calculated on an individual consolidated basis may not be the same as the factors that influence the CET1 Ratio as calculated on a consolidated basis. For example, an event that has a negative impact on any of the Society's subsidiaries may have a greater or lesser relative impact on the CET1 Ratio calculated on an individual consolidated basis than on the CET1 Ratio calculated on a consolidated basis, depending on whether or not that subsidiary is included for the purposes of calculating the CET1 Ratio on an individual consolidated basis as well as on a consolidated basis.

Since a Conversion Trigger will occur if either the CET1 Ratio calculated on an individual consolidated basis or the CET1 Ratio calculated on a consolidated basis falls below 7.00 per cent., regardless of whether or not the other CET1 Ratio also falls below that threshold, the additional uncertainties resulting from differences in the factors affecting the two CET1 Ratios may have an adverse impact on the market price or the liquidity of the Perpetual Capital Securities.

***Each CET1 Ratio will be affected by the Group's business decisions and, in making such decisions, the Group's interests may not be aligned with those of the holders of the Perpetual Capital Securities***

As discussed in "*The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect either CET1 Ratio*" and "*The two CET1 Ratios may be affected by different factors*" above, either CET1 Ratio could be affected by a number of factors. Each CET1 Ratio will also depend on the Group's decisions relating to its businesses and operations, as well as the management of its capital position. The Group will have no obligation to consider the interests of the holders of the Perpetual Capital Securities in connection with its strategic decisions, including in respect of its capital management. Holders of the Perpetual Capital Securities will not have any claim against the Society or any other member of the Group relating to decisions that affect the business and operations of the Group, including the Group's capital position, regardless of whether they result in the occurrence of a Conversion Trigger. Such decisions could cause holders of the Perpetual Capital Securities to lose all or part of the value of their investment in the Perpetual Capital Securities.

***Securityholders have limited anti-dilution protections with respect to the Conversion Price, which protections will apply from the time, if any, that the Society issues any CCDS prior to the Conversion of the Perpetual Capital Securities***

The number of CCDS to be issued and delivered on Conversion to a Securityholder in respect of its Perpetual Capital Securities will be calculated by dividing the nominal amount of such Securityholder's Perpetual Capital Securities by the Conversion Price and rounding the resulting figure down to the nearest whole number of CCDS. The Conversion Price is £67, subject to only limited adjustments in accordance with Condition 8.5 which will apply from the time, if any, that the Society issues any CCDS prior to the Conversion of the Perpetual Capital Securities and for so long as any such CCDS remain in issue. See Condition 8 for the complete provisions regarding the Conversion Price.

The Conversion Price will be adjusted in the event of rights issues (i.e. issues of CCDS in compliance with any pre-emption rights afforded to CCDS holders under the terms of CCDS (if any) in issue) or grants of other subscription rights or certain other events which affect CCDS (if any) in issue, but only in the limited situations and to the extent provided in Condition 8.5. There is no requirement that there should be an

adjustment for every corporate or other event that may affect the value of CCDS (if any) in issue and the adjustment events that are included are less extensive than those often included in the terms of convertible securities.

Furthermore, the Conditions do not provide for certain undertakings from the Society which are sometimes included in securities that convert into the ordinary shares of an issuer to protect investors in situations where the relevant conversion price adjustment provisions do not operate to compensate for the dilutive effect of certain corporate events or actions on the economic value of the Conversion Price. For example, the Conditions contain neither an undertaking restricting the modification of rights attaching to CCDS (if any) in issue nor an undertaking restricting issues of new capital with preferential rights relative to CCDS (if any) in issue.

Accordingly, corporate events or actions in respect of which no adjustment to the Conversion Price is made may adversely affect the value of CCDS (if any) in issue and therefore the Perpetual Capital Securities.

In order to comply with increasing regulatory capital requirements imposed by applicable regulations, the Society may need to raise additional capital. Further capital raisings by the Society could result in the dilution of the interests of the Securityholders, subject only to the limited anti-dilution protections referred to above.

***The Society is entitled, without the consent of the holders of the Perpetual Capital Securities, to issue further Perpetual Capital Securities and to incur further Senior Obligations and Parity Obligations at any time***

The Society is entitled, without the consent or approval of Securityholders, to issue further Perpetual Capital Securities that are consolidated and form a single series with the Perpetual Capital Securities and/or other instruments ranking *pari passu* with, or in priority to, the Perpetual Capital Securities. An offering of such securities may adversely affect the amounts (if any) which holders of the Perpetual Capital Securities may be eligible to receive on a winding up or dissolution of the Society, and could have an adverse effect on the market price of the Perpetual Capital Securities as a whole.

In addition, the terms of the Perpetual Capital Securities do not contain any prohibition on the Society issuing other securities which are intended to qualify as Additional Tier 1 capital but on terms that such securities would be (i) written down or converted to CCDS at a CET1 Ratio which is lower than either 7.00 per cent. CET1 Ratio at which the Perpetual Capital Securities are to be converted into CCDS, (ii) converted to CCDS at a conversion price which is lower than the Conversion Price in respect of the Perpetual Capital Securities, (iii) written down or converted to CCDS in part only and/or (iv) ranked senior to the Perpetual Capital Securities on a winding-up or dissolution of the Society. Whilst the Society does not currently intend to issue any such Additional Tier 1 capital securities, the issue of any such securities in the future may have a significant adverse effect on the market price of the Perpetual Capital Securities, and could result in the Perpetual Capital Securities being converted into CCDS at a time when such other securities are not written down or converted (in whole or in part) and/or whilst other securities are converted to CCDS at a more favourable conversion price.

***The Perpetual Capital Securities are not protected liabilities of the Society and holders of the Perpetual Capital Securities will not benefit from a government compensation scheme***

The FSCS established under the Financial Services and Markets Act 2000 is the statutory fund of last resort for customers of authorised financial services firms, such as the Society, paying compensation to customers if the Society is unable, or likely to be unable, to pay certain claims (including in respect of deposits and insurance policies) made against it (together, "**Protected Liabilities**").

The Perpetual Capital Securities are not, however, Protected Liabilities of the Society and, moreover, are not guaranteed or insured by any government, government agency or compensation scheme of the United Kingdom or any other jurisdiction.

***Any change in English law or administrative practice that affects the Perpetual Capital Securities could be prejudicial to the interests of holders of the Perpetual Capital Securities***

The Conditions are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact on the holders of the Perpetual Capital Securities of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

In particular, such changes could impact the definitions of Common Equity Tier 1 and Risk Weighted Assets, each calculated on either an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) or a consolidated basis, and therefore the calculation of each CET1 Ratio, as described in further detail above. Any change in law that affects the calculation of either CET1 Ratio would also affect the determination of whether a Conversion Trigger may occur. Any such change which impacts the calculation of any of the aforementioned capital measures (or the anticipation of any such change), or any amendments or changes to Article 141 of the Directive or Pillar 2A requirements can be expected to have an adverse effect on the market value of the Perpetual Capital Securities or may affect the ability to make any Interest Payment. In addition, any change in law or regulation that would cause a Tax Event or a Regulatory Event (each as defined in Condition 7) may entitle the Society, at its option, to repay all, but not some only, of the Perpetual Capital Securities.

Further, changes in law could impact the regime for resolving banks and building societies in the event of a failure. As noted above under "*Other future legislative and regulatory changes could impose operational restrictions on the Group, causing it to raise further capital, increase its expenses and/or otherwise adversely affect its business, results, financial condition or prospects*", the amendments to the Banking Act required in order to transpose the BRRD remain unknown. Accordingly, it is not yet possible to assess the full impact of the BRRD on the Group, and there can be no assurance that, once it is implemented, the fact of its implementation or the taking of any actions currently contemplated in it would not adversely affect the rights of holders of the Perpetual Capital Securities, the price or value of an investment in the Perpetual Capital Securities and/or the ability of the Society to satisfy its obligations under the Perpetual Capital Securities.

Such legislative and regulatory uncertainty could affect an investor's ability to accurately value the Perpetual Capital Securities and, therefore, affect the trading price of the Perpetual Capital Securities given the extent of any impact on the Perpetual Capital Securities that one or more regulatory or legislative changes, including those described above, could have.

***The Perpetual Capital Securities are perpetual instruments and the Society has no obligation to redeem the Perpetual Capital Securities. As a result, an investor in the Perpetual Capital Securities should be prepared to hold its Perpetual Capital Securities for an indefinite period of time. Conversely, the Society, in its sole discretion, may elect to redeem the Perpetual Capital Securities at their nominal amount in certain circumstances, which may affect the market price of the Perpetual Capital Securities and holders may not be able to reinvest the amounts repaid to achieve a similar return***

The Perpetual Capital Securities constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no maturity date or fixed redemption date. The Society does not have an obligation to redeem the Perpetual Capital Securities at any time and Securityholders do not have any right to require the Society to redeem or purchase the Perpetual Capital Securities. The terms of the Perpetual Capital Securities do not provide for any events of default. The Society has, subject to supervisory consent, (a) the option to purchase the Perpetual Capital Securities in the open market or otherwise at any price, (b) the option to repay the Perpetual Capital Securities on the First Call Date or on any Reset Date thereafter at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions) and (c) the option to repay the Perpetual Capital Securities at any time upon the occurrence of a Tax Event or a Regulatory Event (each as defined in Condition 7), in each case at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions). Any such repayment will be effected only to the extent

permitted by applicable regulations at the relevant time. As a result, an investor in the Perpetual Capital Securities should be prepared to hold its Perpetual Capital Securities in perpetuity.

There can be no assurance that a Tax Event or a Regulatory Event will not occur. Whilst the Society is not aware of any proposed changes which are expected to affect the taxation of the Perpetual Capital Securities, there is currently significant international political scrutiny of the tax affairs of large organisations, and the OECD has, since July 2013, issued a number of papers relating to its *Action Plan on Base Erosion and Profit Shifting*. Whilst the Society does not expect the action plan, as currently proposed, to impact the taxation of the Perpetual Capital Securities, the proposals are at an early stage and there can be no assurance that any tax law changes ultimately effected as a result of the action plan will not affect the Perpetual Capital Securities.

If the Perpetual Capital Securities are repaid, there can be no assurance that Securityholders will be able to reinvest the amounts received upon repayment at a rate that will provide the same rate of return as their investment in the Perpetual Capital Securities.

In addition, the repayment features of the Perpetual Capital Securities are likely to limit their market value. During any period when the Society has the right to elect to repay the Perpetual Capital Securities, the market value of the Perpetual Capital Securities will generally not be expected to rise substantially above the price at which they can be repaid.

***Holders of the Perpetual Capital Securities have very limited rights in relation to the enforcement of payment of principal or interest on the Perpetual Capital Securities***

Any Interest Payment (or part thereof) cancelled and not paid on any relevant Interest Payment Date or repayment date shall not accumulate or be payable at any time thereafter. Non-payment of any Interest Payment (or part thereof) which is cancelled in accordance with the Conditions will not constitute an event of default by the Society for any purpose, and the Securityholders shall have no right thereto whether in a winding-up or dissolution of the Society or otherwise. There is no right of acceleration in the case of such non-payment of interest on the Perpetual Capital Securities or in the performance of any of the Society's other obligations under the Perpetual Capital Securities.

Subject also to the subordination of the Perpetual Capital Securities (as described in "*The obligations of the Society under the Perpetual Capital Securities are unsecured and deeply subordinated, and the rights of the holders of CCDS will be further subordinated*" above), holders of the Perpetual Capital Securities shall, in a winding-up or dissolution of the Society (other than an Excluded Dissolution) which commences prior to any Conversion Date determined in accordance with Condition 8, be entitled to claim for the nominal amount of their Perpetual Capital Securities together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions). Such claim shall be conditional upon all sums due in respect of claims in such winding-up or dissolution in relation to Senior Obligations having been paid in full. For the avoidance of doubt, on a winding-up or dissolution of the Society which commences prior to the Conversion Date, the holders of the Perpetual Capital Securities shall have no claim in respect of the surplus assets (if any) of the Society remaining in any winding-up or dissolution following payment of all amounts due in respect of Senior Obligations and Parity Obligations.

***The High Court has primary jurisdiction to hear and determine all disputes relating to the Society and the Perpetual Capital Securities***

Subject to the discretion of the High Court in England to transfer cases to a County Court, no court other than the High Court in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society or the Act.

***Investors in the Perpetual Capital Securities who hold beneficial interests in the Perpetual Capital Securities (and, upon Conversion, the CCDS) through an account in a Clearing System will not be members of the Society and must rely on that Clearing System's procedures***

Perpetual Capital Securities held through an account with a Clearing System will be registered in the name of the Nominee. The Nominee shall be the sole holder for those Perpetual Capital Securities for the purposes of the Rules and the Conditions.

Accordingly, an investor holding beneficial interests in the Perpetual Capital Securities through an account in a Clearing System will not be a member of the Society by virtue of its investment in the Perpetual Capital Securities and will not directly benefit from the Rules, the Memorandum or the Act. Such investor shall be entitled to rights in respect of its beneficial interest in the Perpetual Capital Securities, as prescribed by the rules of the relevant Clearing System and must rely on the procedures of such Clearing System to enforce its rights. The Society has no responsibility or liability for the records relating to beneficial interests in any Perpetual Capital Securities.

Upon Conversion, such investor would receive only beneficial interests in the CCDS through its account in a Clearing System and will not, through its holding of CCDS, be a member of the Society by virtue of its investment in the CCDS and will not directly benefit from the Rules, the Memorandum or the Act.

***Holders have limited or, if holding their Perpetual Capital Securities through the Clearing Systems, no voting rights at general meetings of the members of the Society***

In contrast to general meetings of shareholders of a limited company where shareholders may exercise voting rights proportionate to the number of shares they hold, at a general meeting of the members of the Society, each member is entitled to one vote regardless of the size of its investment or interest in the Society. Only a member of the Society is entitled to vote at general meetings.

For so long as any Perpetual Capital Securities are held by the Nominee for and on behalf of the Clearing Systems, the Nominee shall be the only member of the Society in respect of those Perpetual Capital Securities, and shall have one vote in total in respect of all Perpetual Capital Securities so held by it. Given the difficulty of casting its one vote attaching to all the Perpetual Capital Securities in a manner which reflects the view of all the investors holding Perpetual Capital Securities through the Clearing Systems and the relative insignificance of that vote in the context of all the votes which may be cast by members of the Society, the Nominee has informed the Society that it does not intend to exercise that vote.

Further, even if definitive Perpetual Capital Securities were to be issued in the limited circumstances described in "*Summary of Provisions Relating to the Perpetual Capital Securities while Represented by the Global Certificate*" under "*1. Exchange of the Global Certificate and Registration of Title*", each holder of definitive Perpetual Capital Securities would be entitled to exercise only one vote at a general meeting of the members of the Society (subject to qualifying as a voting member under the Society's rules), regardless of the amount of Perpetual Capital Securities held by such holder.

***Accountholders will not be entitled to Society Conversion Benefits arising on a demutualisation or other transfer of the Society's business to a company***

As Accountholders will not be members of the Society (see "*Investors in the Perpetual Capital Securities who hold beneficial interests in the Perpetual Capital Securities (and, upon Conversion, the CCDS) through an account in a Clearing System will not be members of the Society and must rely on that Clearing System's procedures*" above), they will also not be entitled to any Society Conversion Benefits (as defined in Condition 1.3) (including any rights to windfall payments) arising on a demutualisation or other transfer of the Society's business to a company. Any Society Conversion Benefits arising on any such transaction will belong instead to the Nominee, as the registered holder of the Perpetual Capital Securities in the Perpetual Capital Securities Register. The Nominee will, on or prior to the date of issue of the Perpetual Capital Securities, assign to Coventry Building Society Charitable Foundation (or other charities nominated by



Coventry Building Society Charitable Foundation) any Society Conversion Benefits to which it would otherwise become entitled at any time before, or within two years after, its membership of the Society comes to an end.

Further, even if definitive Perpetual Capital Securities were to be issued in the limited circumstances described in "*Summary of Provisions Relating to the Perpetual Capital Securities while Represented by the Global Certificate*" under "*1. Exchange of the Global Certificate and Registration of Title*", each holder of definitive Perpetual Capital Securities would have no right to retain any Society Conversion Benefits and would be required to assign any Society Conversion Benefits to (or waive its right to receive any Society Conversion Benefits in favour of) Coventry Building Society Charitable Foundation (or other charities nominated by Coventry Building Society Charitable Foundation).

***No assurance of a market in the Perpetual Capital Securities; the market price of the Perpetual Capital Securities may fluctuate which could lead to investors losing some or all of their investment***

The Perpetual Capital Securities represent a new security for which no secondary trading market currently exists and there can be no assurance that one will develop. Following admission to trading of the Perpetual Capital Securities on the SIX Swiss Exchange, if a secondary trading market does develop for the Perpetual Capital Securities, the trading price of the Perpetual Capital Securities may be subject to wide fluctuations in response to many factors, including those referred to in this risk factor, as well as stock market fluctuations and general economic conditions that may adversely affect the market price of the Perpetual Capital Securities. Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market. There can be no assurance as to the liquidity of any trading market for the Perpetual Capital Securities or that an active market for the Perpetual Capital Securities will develop. The Perpetual Capital Securities contain features which may not align directly to the investment criteria of fixed income investors or traditional equity investors, including investors that have previously invested in mutual regulatory capital. Accordingly, and particularly relating to the fact that the Perpetual Capital Securities are a new instrument, the market price of the Perpetual Capital Securities may prove to be highly volatile. If any market in the Perpetual Capital Securities does develop, it may become severely restricted, or may disappear, if the financial condition and/or either CET1 Ratio deteriorates such that there is an actual or perceived increased likelihood of the Society being unable, or electing not, to pay interest on the Perpetual Capital Securities in full, or of the Perpetual Capital Securities being Converted or otherwise subject to loss absorption under the Conditions or an applicable statutory loss absorption regime. In addition, the market price of the Perpetual Capital Securities may fluctuate significantly in response to a number of factors including, but not limited to, those set out below (some of which are beyond the Society's control):

- material decreases in the Society's capital ratios and/or any application of a Maximum Distributable Amount under Article 141 of CRD, which could arise as a result of a number of factors including changes in regulation or losses incurred by the Society;
- variations in operating results in the Group's reporting periods;
- any shortfall in revenue or net profit or any increase in losses from levels expected by market commentators;
- increases in capital expenditure compared with expectations;
- any perception that the Group's strategy is or may be less effective than previously assumed or that the Group is not effectively implementing any significant projects;
- changes in financial estimates by securities analysts;
- changes in market valuations of similar entities;

- announcements by the Group of significant acquisitions, strategic alliances, joint ventures, new initiatives, new services or new service ranges;
- regulatory matters, such as changes in PRA, UK Financial Policy Committee, FCA, HM Revenue & Customs or HM Treasury requirements;
- additions or departures of key personnel; and
- future issues or sales of Perpetual Capital Securities or other securities.

Any or all of these events could result in material fluctuations in the price of Perpetual Capital Securities which could lead to investors losing some or all of their investment.

The issue price of the Perpetual Capital Securities might not be indicative of prices that will prevail in the trading market, and there can be no assurance that an investor would be able to sell its Perpetual Capital Securities at or near the price which it paid for them, or at a price that would provide it with a yield comparable to more conventional investments that have a developed secondary market.

***Risks related to succession and transfer of the Society's business, including the potential replacement of the Conversion feature of the Perpetual Capital Securities with a permanent write-down feature***

Condition 13 contains provisions applicable to the Perpetual Capital Securities upon an amalgamation by the Society with another building society under section 93 of the Act, a transfer of all or substantially all of its engagements to another building society under section 94 of the Act or a transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company.

Those provisions enable (in the context of such amalgamation or transfer only) certain amendments to be made to the terms of the Perpetual Capital Securities without the consent of the Securityholders, which potentially could be adverse to the interests of Securityholders, subject to certain restrictions. Such provisions could potentially result in amendments to the Conversion provisions of the Perpetual Capital Securities, including the nature of the instrument into which the Perpetual Capital Securities would convert upon the occurrence of a Conversion Trigger.

Furthermore, in circumstances where the entity resulting from such amalgamation or transfer does not have a viable instrument which could be delivered upon Conversion, the Conversion feature of the Perpetual Capital Securities may be replaced with a permanent write-down feature. In those circumstances, upon the occurrence of such Conversion Trigger, the full nominal amount of such Perpetual Capital Securities (or replacement instruments) will automatically be written down to zero without the delivery of CCDS or any other instrument to the Securityholders; each Perpetual Capital Security (or replacement instrument) will be cancelled; the Securityholders will be automatically deemed to have irrevocably waived their right to receive, and will no longer have any rights against the resulting society or successor entity with respect to, repayment of the aggregate nominal amount of the Perpetual Capital Securities (or replacement instruments) so written down or delivery of any instrument as a result of such write-down; and all accrued but unpaid interest and any other amounts payable on each Perpetual Capital Security (or replacement instrument) will be cancelled, irrespective of whether such amounts have become due and payable prior to the occurrence of the Conversion Trigger.

***Risks related to the Perpetual Capital Securities generally***

Set out below is a brief description of certain risks relating to the Perpetual Capital Securities generally:

*Holdings of less than £200,000*

The Perpetual Capital Securities are denominated in amounts of £200,000 and integral multiples of £1,000 in excess thereof. In the event that definitive Perpetual Capital Securities are required to be issued, a holder

who holds a nominal amount which is less than £200,000 in its account with the relevant clearing system at the relevant time would need to purchase a nominal amount of Perpetual Capital Securities such that its holding amounts to at least £200,000 before it may receive a definitive Perpetual Capital Security in respect of such holding. Except in circumstances set out in the Global Certificate, investors will not be entitled to receive definitive Perpetual Capital Securities.

#### *U.S. foreign account tax compliance withholding*

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a new reporting regime and, potentially, a 30 per cent. withholding tax with respect to (i) certain payments from sources within the United States, (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution.

While the Perpetual Capital Securities are in global form and held within the Clearing Systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the Clearing Systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose their custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Society's payment obligations under the Perpetual Capital Securities are discharged once it (or the Registrar or Principal Paying Agent on its behalf) has made the relevant payment to or to the order of the Nominee for the Clearing Systems (as registered holder of the Perpetual Capital Securities) and the Society has therefore no responsibility for any amount thereafter transmitted through the Clearing Systems and custodians or intermediaries. Prospective investors should refer to "*Taxation – Foreign Account Tax Compliance Act*".

#### *Withholding under the EU Savings Directive*

Under Council Directive 2003/48/EC on the taxation of savings income, EU Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported or paid subject to withholding. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Society nor the Principal Paying Agent (as defined in the Conditions) nor any other person would be obliged to pay additional amounts with respect to any Perpetual Capital Security as a result of the imposition of such withholding tax. The Society is required to maintain a registrar or agent with a specified office in an EU Member State that will not be obliged to withhold or deduct tax pursuant to the Directive or any other law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

*A specified majority of holders may bind the minority; the approval of Securityholders is not required prior to a Conversion or to any change to the Rules of the Society*

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

The agreement or approval of the holders of the Perpetual Capital Securities shall not be required in the case of any Conversion in accordance with Condition 8 (as described in further detail above). Further, the Conditions do not limit the rights of members to change the Rules of the Society.

### ***Risks related to the market generally***

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

#### *Exchange rate risks and exchange controls*

The Society will pay principal and interest on the Perpetual Capital Securities in sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a different currency or currency unit (the "**Investor's Currency**"). These include the risk that exchange rates may significantly change (including changes due to devaluation of the sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. A change in the value of the Investor's Currency relative to sterling would affect (i) the Investor's Currency-equivalent yield on the Perpetual Capital Securities, (ii) the Investor's Currency-equivalent value of the principal payable on the Perpetual Capital Securities and (iii) the Investor's Currency-equivalent market value of the Perpetual Capital Securities.

#### *The Perpetual Capital Securities have a fixed rate of interest which will reset on each Reset Date*

The Perpetual Capital Securities will accrue interest at a fixed rate of interest, which will be reset on each Reset Date. Investment in fixed rate instruments involves the risk that if market interest rates subsequently increase above the rate paid on the Perpetual Capital Securities, this will adversely affect the value of the Perpetual Capital Securities. The interest rate following any Reset Date may be less than the initial interest rate and/or the interest rate that applies immediately prior to such Reset Date, which would affect the amount of any interest payments under the Perpetual Capital Securities and so the market value of the Perpetual Capital Securities, and could have an impact on whether the Society decides to exercise its repayment rights.

*Credit ratings may not reflect all risks*

Fitch is expected to assign a credit rating to the Perpetual Capital Securities. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency without notice. Similar ratings on different types of securities do not necessarily mean the same thing. The aforementioned rating does not address the likelihood that the interest or principal on the Perpetual Capital Securities will be paid on any particular date. The rating does not address the marketability of the Perpetual Capital Securities or any market price. Any change in the credit ratings of the Perpetual Capital Securities or the Group could adversely affect the price that a subsequent purchaser will be willing to pay for the Perpetual Capital Securities. The significance of any rating should be evaluated independently of any other rating. The rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Perpetual Capital Securities.

**Factors which are material for the purpose of assessing the market risks associated with CCDS, in the event that any are issued**

*Certain risks relating to an investment in CCDS, in the event that any are issued, are set out in this section headed "Factors which are material for the purpose of assessing the market risks associated with CCDS, in the event that any are issued".*

*Securityholders should ensure that, in addition to the risks in this section headed "Factors which are material for the purpose of assessing the market risks associated with CCDS, in the event that any are issued", they understand also the risks set out above on pages 16 to 52 in the sections headed "Factors that may affect the Society's ability to fulfil its obligations under the Perpetual Capital Securities" and "Factors which are material for the purpose of assessing the market risks associated with the Perpetual Capital Securities", since the Society believes that a significant number of the risks discussed therein may affect equally its ability to fulfil the Society's obligations under any CCDS in issue. References to Perpetual Capital Securities in the risks set out above on pages 16 to 52 should be construed to include the CCDS insofar as the context admits.*

Terms which are capitalised but not otherwise defined in this section "Factors which are material for the purpose of assessing the market risks associated with CCDS, in the event that any are issued" will have the meanings given to them in the Annex to this Offering Circular.

***Risks relating to no CCDS having yet been issued and the possibility that there may not be any CCDS in issue prior to Conversion***

Upon Conversion, Securityholders are expected to receive CCDS. The Society has significant flexibility to issue CCDS, prior to and/or upon Conversion, with terms that differ from the indicative conditions of issue of the CCDS (the "**Indicative CCDS Conditions**") set out in the Annex to this Offering Circular. No assurance can be given as to the extent to which the Indicative CCDS Conditions and the actual conditions of the CCDS issued upon Conversion will be the same. Whilst it is not the intention of the Society to issue CCDS on substantively different terms to the Indicative CCDS Conditions in the event of a conversion of the Perpetual Capital Securities, it may be necessary for the Society to do so in certain circumstances, including (but not limited to) if required in order to ensure that such CCDS qualify as common equity tier 1 (or equivalent) capital of the Society at that time or to ensure that such CCDS are capable of being consolidated into a single class with other Core Capital Deferred Shares of the Society then outstanding at that time (if any). See further the introduction to the Annex to this Offering Circular.

As at the date of this Offering Circular and as at the Issue Date, no CCDS will have been issued by the Society or listed or admitted to trading on any stock exchange. There may not be any CCDS in issue prior to Conversion, in which case the CCDS to be issued upon Conversion will be new securities which may not be widely distributed and which will not have an active trading market. There is no assurance that an active trading market in CCDS will develop nor as to the liquidity of any trading market for the CCDS. As no

primary or secondary market price for the CCDS will exist at the time of investment in the Perpetual Capital Securities, investors in the Perpetual Capital Securities will therefore not be able to compare the Conversion Price with any market valuation for the CCDS. There may be no distribution policy in place at the time the CCDS are issued, making valuation of the CCDS even more challenging. The initial Core Capital Contribution Proportion is unknown as at the Issue Date of the Perpetual Capital Securities and it is therefore impossible to determine the amount of any Surplus the CCDS holders may be eligible to receive upon a winding-up of the Society. These factors may adversely affect how the market perceives and values the Perpetual Capital Securities.

### ***Risks related to the listing and clearing of the CCDS to be issued upon Conversion***

Whilst the Society has indicated its intention to list the CCDS to be issued upon Conversion, there is no assurance that the CCDS will be listed. The Society may not be in a position to list the CCDS to be issued upon Conversion either promptly or at all. The conditions of issue of the Perpetual Capital Securities require the Society to use reasonable endeavours to ensure that the CCDS issued upon Conversion are listed on (a) a Relevant Stock Exchange and (b) if and to the extent there are CCDS in issue immediately prior to the time of Conversion, the principal stock exchange or securities market (if any) on which such CCDS are then listed, but the Conditions require the Society to do so only if and to the extent permitted by the Regulator and prevailing Capital Regulations and only to the extent that such requirement would not cause a Regulatory Event to occur. There can therefore be no certainty that the CCDS will be listed at all. In addition, any such listing would be made only as soon as the Society in its sole discretion (having regard to the interests of the Society's members, the financial condition of the Society and prevailing market conditions) considers practicable following the issue of such CCDS, and consequently there may be a significant delay of a number of months or years between Conversion and any such listing.

Although there is no assurance that the Society will be able to apply for any CCDS issued on Conversion to be admitted to trading on any stock exchange or other market, the Society expects that, if it were to apply for any CCDS to be admitted to trading on the London Stock Exchange, such application will be made for the CCDS to be admitted to the Standard Listing segment of the Official List. A Standard Listing would afford investors a lower level of regulatory protection than that afforded to investors in an entity with a Premium Listing, which would also be subject to additional continuing obligations under the Listing Rules.

If it is the case that, at the time of Conversion, there are existing CCDS already in issue and they are admitted to the Standard Listing segment of the Official List maintained by the FCA and to trading on the London Stock Exchange plc's main market for listed securities, under the current UK listing regime (i) the Society would be obliged to apply for the listing and admission to trading of the CCDS to be issued upon Conversion to occur within 30 days of their issue and (ii) the Society would benefit from an exemption from producing an offering circular in relation to the listing and admission to trading of the CCDS to be issued upon Conversion. However, there can be no assurance that at the time of Conversion any CCDS will be in issue or, if they are in issue, that they will be so admitted to listing and to trading, or that any CCDS to be issued upon Conversion would satisfy the free-float requirements of the London Stock Exchange plc or other Relevant Stock Exchange.

Whilst the Society has indicated its intention to apply for the CCDS to be issued upon Conversion to be accepted for clearance through the Clearing Systems, there is no assurance that the CCDS will be so accepted. At the time of Conversion, the Society could be a financial institution in distress. There may be obstacles to the Clearing Systems accepting the CCDS of a distressed financial institution and any settlement of the CCDS may be in the Clearing Systems currently envisaged or may need to be in definitive form. See "*Dealings in the CCDS may in certain circumstances be liable to UK stamp taxes*" below for the tax and stamp duty risks of the CCDS being in definitive form.

If the number of CCDS in issue following Conversion is limited, if those CCDS remain unlisted and/or if those CCDS are not accepted for clearing through the Clearing Systems, this can be expected to have a material adverse effect on the liquidity of the trading market in the CCDS and so on the price which Securityholders are able to obtain for their CCDS in the secondary market, if they are able to sell them at all.

See “*The CCDS will be perpetual instruments and the Society will have no obligation nor any right to redeem the CCDS. In addition, no secondary trading market exists for CCDS and none may develop. As a result, a CCDS holder should be prepared to hold its CCDS for an indefinite period of time*” and “*Risks related to the listing and clearing of the CCDS to be issued upon Conversion*” below.

### ***Core capital deferred shares are a novel financial instrument with complex features***

Core capital deferred shares in the Society are a novel financial instrument. They are not protected liabilities for the purposes of the FSCS. Core capital deferred shares have been designed for building societies (which do not have ordinary share capital) to allow them to raise Common Equity Tier 1 capital (although there can be no assurance that the CCDS to be issued upon Conversion will qualify as common equity tier 1 (or equivalent) capital of the Society at the time of Conversion or that, at a later date, the CCDS will not cease to qualify as common equity tier 1 (or equivalent) capital of the Society).

Certain key features of the CCDS, if issued, would be as follows:

- the CCDS will be perpetual instruments. Holders of CCDS will have no right to have their CCDS redeemed and the Society will have no obligation or right to redeem the CCDS at any time;
- CCDS holders will not have any right to Distributions (as defined in the Indicative CCDS Conditions) set out in the Annex to this Offering Circular) on the CCDS (or to any particular level or frequency of payment of such Distributions, if paid), the declaration of which by the Board will be wholly discretionary and may be restricted by applicable law and regulation. The Rules of the Society provide for an upper limit on the amount of Distributions which the Society is permitted to declare on each CCDS in respect of any financial year;
- the rights of CCDS holders to participate in the winding-up or dissolution of the Society are expected to be limited to (i) a deeply subordinated claim in respect of any declared, unconditional and unpaid Distributions (if any) on the CCDS at the time of the winding-up or dissolution, and (ii) a capped entitlement to share in surplus assets (if any) remaining in the Society after all depositors and creditors (including subordinated creditors) of the Society have been repaid in full;
- the CCDS holders will have no member voting rights at general meetings of the Society in respect of the CCDS which they hold whilst the CCDS are held through the Clearing Systems, and even if CCDS in definitive form are issued and held directly by holders outside the Clearing Systems, their member voting rights at general meetings of the Society will be insignificant; and
- CCDS holders may have their holdings diluted by an issuance of Additional CCDS by the Society. As statutory pre-emption rights do not apply to CCDS, the only pre-emption rights relating to the CCDS are expected to be those contained in the Indicative CCDS Conditions. However, these contractual pre-emption rights may be disapplied in a number of circumstances, including (among others) (i) issues of Additional CCDS not exceeding 15 per cent. (in aggregate) of the number of outstanding CCDS in any financial year or (ii) where all or substantially all of the subscription price is paid otherwise than in cash.

As a provider of core capital to the Society, a CCDS holder should be prepared to suffer losses on its investment if, in particular, the Group and/or the financial sector generally approaches or enters into a period of financial stress. Such losses could be manifested in a number of ways, including (without limitation):

- if the Society elects or is required to cease declaring Distributions (or to reduce the amount declared);
- if the secondary market price of the CCDS falls significantly below the relevant issue price;

- if CCDS or other regulatory capital instruments are issued which dilute (either initially or upon conversion into CCDS) the holdings of CCDS investors; and
- if the United Kingdom authorities take action under the Banking Act (or similar future legislation) or the Society or another company in the Group enters into an insolvent winding-up.

***The CCDS will be deeply subordinated instruments and holders of the CCDS will be entitled to only a limited share in any surplus assets of the Society on a winding-up of the Society***

The CCDS will not constitute a debt or a liability of the Society, and will be the most junior-ranking investment in the Society. As a result, in the event of an insolvent winding-up or dissolution of the Society, a CCDS holder will lose the entire amount of its investment and, even on a solvent winding-up or dissolution, a CCDS holder may recover none or only some of its investment.

The rights and limitations on the rights of a CCDS holder on a winding-up or dissolution of the Society are expected to be as follows:

- ***Lowest ranking claim:*** the claims of CCDS holders will rank behind the claims of all depositors and creditors of the Society, including subordinated creditors. Accordingly, CCDS holders will not be entitled to receive any amounts in the winding-up or dissolution of the Society unless all depositors and creditors (including subordinated creditors) of the Society are first paid in full.
- ***Subordinated claim for declared but unpaid Distributions:*** If, at the time of commencement of winding-up or dissolution, the Society has declared but not yet paid a Distribution, then (provided the Distribution is unconditional, or that any conditions stated to apply to the Distribution are fulfilled prior to commencement of winding-up or dissolution) holders will be entitled to claim for such Distribution. However, that claim will be deeply subordinated, and will rank behind the claims of all creditors (including subordinated creditors) of the Society.
- ***No other fixed claims:*** Save for the claim (if any) in respect of a declared but unpaid Distribution, CCDS holders will not have a fixed claim in such winding-up or dissolution for the amount of their initial investment in CCDS (or for any other amount).
- ***Right to a proportionate and capped share in any Surplus:*** CCDS holders will be entitled only to share in the surplus assets (if any) of the Society remaining following payment in full of the claims of all depositors and creditors (including subordinated creditors) of the Society (and, if applicable, after payment of the claim in respect of declared but unpaid Distributions), any such surplus assets being a "Surplus". Any Surplus would be shared between the CCDS holders and other shareholding members of the Society on a proportionate basis. However, in the case of CCDS holders, the proportionate amount payable to them is subject to a cap, which may be less than a holder's initial investment in the CCDS even if there is ample Surplus available for distribution in the winding-up or dissolution. The conditions of issue of the CCDS will contain provisions for determining the proportionate amount of Surplus which would be available for distribution amongst holders of the CCDS and the determination of the capped amount of Surplus which would be distributed per CCDS. CCDS holders should also note that any further issues of CCDS may have a dilutive effect on the amount which a CCDS holder would be eligible to receive on a winding-up or dissolution of the Society. See "*The Society will be entitled, without the consent of the CCDS holders, to issue further CCDS and other instruments ranking in priority to the CCDS at any time. Any such further issue of CCDS and/or such other instruments may have a dilutive effect on existing CCDS*" below.
- ***No right of set off:*** CCDS holders will not be entitled, on any account, to set-off any amounts owing to them in respect of their CCDS against amounts owing by them to the Society.



The above factors mean that a CCDS holder will lose its entire investment on an insolvent winding-up or dissolution of the Society and, even on a solvent winding-up or dissolution, a holder may recover none or only some of its investment.

***The CCDS will be perpetual instruments and the Society will have no obligation nor any right to redeem the CCDS. In addition, no secondary trading market exists for CCDS and none may develop. As a result, a CCDS holder should be prepared to hold its CCDS for an indefinite period of time***

The CCDS will constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no maturity date. The Society will have neither an obligation nor any right to redeem or, subject to limited exceptions related to purchases of CCDS, cancel the CCDS at any time and CCDS holders will not have any right to require the Society to redeem, purchase or cancel the CCDS. Any CCDS holder wishing to exit its holding would need to seek to sell its CCDS in the secondary market.

Upon Conversion, the CCDS may be a new type of security for which no secondary trading market then exists and there can be no assurance that one will develop. The CCDS will contain features which may not align directly to the investment criteria of fixed income investors or traditional equity investors, including investors that have previously invested in mutual regulatory capital. If a market in the CCDS does develop, it may not be liquid and may be more volatile than markets for more conventional securities. Therefore, holders may not be able to sell their CCDS easily, or at prices that will provide them with a yield comparable to more conventional investments that have a developed secondary market. Market prices (if any are quoted) for the CCDS are expected to go down as well as up, depending upon a number of factors including (without limitation) the actual or perceived financial condition of the Group and prevailing market conditions generally from time to time. There can be no assurance that a holder will be able to sell its CCDS in exchange for a sum equal to or higher than the amount at which it purchased the Perpetual Capital Securities, and the sum which a holder achieves upon selling its CCDS could be considerably lower than the price at which it purchased the Perpetual Capital Securities. See "*The trading price of the CCDS may fluctuate which could lead to investors losing some or all of their investment*" below.

As a result of the absence of redemption rights or obligations in the terms of the CCDS and the uncertainties regarding secondary market trading in the CCDS, a CCDS holder should be prepared to hold its CCDS for an indefinite period of time.

***The declaration of Distributions by the Board is wholly discretionary and therefore CCDS holders will not be assured a regular (or any) return on their investment. In addition, the amount of any Distribution paid on the CCDS will be entirely within the discretion of the Board and subject to a cap and other limitations***

The Society does not intend to publish a distribution policy with respect to CCDS until such time as it has any CCDS in issue and (notwithstanding the requirement in the Conditions of the Perpetual Capital Securities upon the Society to publish a distribution policy in connection with the CCDS as soon as the Society in its sole discretion considers practicable following Conversion) may have CCDS in issue upon Conversion without having a stated distribution policy.

The declaration of any Distributions from time to time by the Board will be wholly discretionary, and may be restricted by applicable law and regulation. The Perpetual Capital Securities will be senior in ranking to any CCDS issued by the Society. It is the Board's current intention that, if exercising its discretion to declare distributions in respect of CCDS in future, or its discretion to cancel interest on the Perpetual Capital Securities whilst any CCDS are outstanding, the Board would take into account the relative ranking of these instruments in its capital structure. However, the Board would be fully entitled at any time depart from this policy at its sole discretion.

With respect to any given financial year of the Society, the Board may declare an Interim Distribution during such financial year and/or a Final Distribution in respect of such financial year. Interim Distributions and Final Distributions are independent, and accordingly whether or not the Board declares an Interim Distribution during any financial year will have no bearing on the Board's discretion to declare a Final

Distribution in respect of that financial year (save that the amount of the Final Distribution (if any) declared in respect of a financial year shall not, when aggregated with any Interim Distribution in respect of that financial year, exceed the Cap referred to below). If at any time the Board elects to declare an Interim Distribution or Final Distribution, the amount of such Distribution will be at the discretion of the Board, subject to the restrictions on the maximum amount of any Distribution described below. The Society's distribution policy in respect of the CCDS may set out an indication of the level of Distributions which the Board expects to declare on the CCDS. Any such indication shall not be binding on the Board or the Society. The Society will be entitled to amend any previously published distribution policy at any time, in which case the Society will promptly publish the revised policy on its website. The Society currently intends that it will maintain a stable distribution policy, subject to such factors as the Board deems relevant, including (but not limited to) the Society's profitability, availability of distributable resources, business outlook, capital and liquidity and the adequate recognition of the value to the Society of investments in CCDS, as well as the duty of the Board to act in the best interests of the Society and to have regard to the interests of all categories of the Society's members (of which CCDS holders form only one such category). If at any time the Board elects not to declare an Interim Distribution or Final Distribution, no Distribution or other amount in respect of the relevant period shall accumulate to CCDS holders or be payable at any time thereafter, and CCDS holders shall have no right to any Distribution or other amount in respect of such period. In addition, Distributions may be declared that are, in whole or in part, subject to the satisfaction of one or more conditions. In such circumstances, if any such condition is not satisfied on or prior to the scheduled date for payment, such Distribution (or, if applicable, the relevant part of such Distribution) shall not accumulate to CCDS holders or be payable at any time thereafter.

Neither an election by the Board not to declare any Interim Distribution or Final Distribution, nor non-payment of any Distribution (or any part thereof) in respect of which a relevant condition to payment has not been satisfied on or before the scheduled payment date, shall constitute a default by the Society under the CCDS for any purpose, and neither event shall entitle CCDS holders to petition for the winding-up or dissolution of the Society.

Distributions will only be permitted to be paid out of the aggregate of profits and reserves (if any) of the Society which are available, in accordance with applicable law and regulation for the time being, for the payment of such Distribution ("**Distributable Items**"). The Society will not be permitted to, and will not, declare a Distribution that is greater than the amount of Distributable Items available for payment of such Distribution. In addition, changes to applicable law and regulation, including changes to the Act, could potentially have an impact on what items the Society may use for the purpose of paying Distributions. For example, Chapter 4 of CRD IV will, upon implementation, require the Society to maintain additional capital buffers (which may be varied from time to time) comprising Common Equity Tier 1 capital in addition to the minimum capital requirements. Pursuant to Article 141 of CRD IV, the Society will not be permitted to declare Distributions to the extent that such Distribution would decrease its Common Equity Tier 1 capital to a level where the combined buffer requirement is not met and, if at any point the Society fails to maintain sufficient Common Equity Tier 1 capital to meet the combined buffer requirement, it will not be permitted to pay any Distributions in excess of a 'maximum distributable amount' calculated in accordance with Article 141. The Society's capital requirements (including individual guidance or, under CRD IV, Pillar 2A guidance) are, by their nature, calculated by reference to a number of factors any one or combination of which may not be easily observable or capable of calculation by investors. See also "*CRD IV introduces capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Society from making interest payments on the Perpetual Capital Securities in certain circumstances, in which case the Society will automatically cancel such interest payments*" above with respect to the 'stacking' of the capital buffers and their relation to the Basel I Floor and Pillar 2A capital guidance. Accordingly, CCDS holders may not be able to predict accurately the proximity of the risk of distributions being prohibited from time to time as a result of the operation of Article 141 of CRD IV. See further "*Interest Payments may be cancelled on a discretionary or mandatory basis – Maximum Distributable Amount*" above.

In addition, the total Distribution paid on each CCDS in respect of any given financial year of the Society (being the aggregate of the Interim Distribution (if any) and the Final Distribution (if any) declared in respect of such financial year) must not exceed the prevailing Periodic Distributions Cap (as defined in the Rules) (the "**Cap**") determined in accordance with the Rules. The Rules provide that the initial Cap, which would have been applicable to Distributions in respect of the financial year to 31 December 2013 had CCDS been in issue during that financial year, was £15 per CCDS, and that (subject as stated below) in respect of each subsequent financial year the Cap will be adjusted for inflation (which, for the avoidance of doubt, would include negative inflation) by reference to the United Kingdom Consumer Price Index ("**CPI**") (or any successor to that index). Such adjustment will be made by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for the last full calendar month of the financial year in respect of which the Distributions are payable (being the percentage increase or decrease over the twelve months to and including that month) to the prevailing Cap. If at any time the adjustment of the Cap in the manner described above would prejudice the regulatory capital treatment of the CCDS, the Society will disapply those adjustment provisions and the Cap will remain at or, as the case may be, revert to £15 per CCDS.

Furthermore, notwithstanding the availability of sufficient Distributable Items, the Board will not declare any Distribution if the Regulator requires the Society to refrain from making any Distributions on the CCDS at any time or, whilst any specified circumstances subsist, or during a specified period.

In addition, pursuant to the conditions of issue of the Society's £120,000,000 6.092 per cent. Permanent Interest Bearing Shares (ISIN GB00B177CL57) (the "**6.092% PIBS**"), if the Society elects to reduce or cancel an interest payment on the 6.092% PIBS in circumstances other than an actual or anticipated failure to comply with applicable regulatory capital requirements, the Society will be required to deliver additional 6.092% PIBS to holders of the 6.092% PIBS in lieu of the cash distribution (or part thereof) which is not paid. If, however, the Society is unable to deliver such additional 6.092% PIBS to the holders, it will be prohibited from paying discretionary distributions on any other deferred shares for a period of 12 months. The CCDS will be deferred shares for these purposes and, accordingly, the Society would be required not to pay any Distribution on the CCDS during such 12 month period.

As a result of the above factors, CCDS holders may not receive a regular, or any, return on their investment in CCDS. In addition, if the Board elects not to declare a Distribution in respect of any given financial year, or any Distribution declared is lower than market expectations, this will be likely to have an adverse effect on the market price of the CCDS.

The Conversion Trigger upon which Perpetual Capital Securities will be Converted into CCDS will, by definition, occur when one or both of the Society's CET1 Ratios have been significantly eroded. In those circumstances, it is highly unlikely that the Society would be able under applicable prudential rules, or would elect or be permitted by the Prudential Regulation Authority, to declare Distributions on the CCDS until its capital ratios had been restored to an acceptable level. There can be no guarantee that the Society's capital ratios would be restored to such levels promptly, or at all.

***The Society will be entitled, without the consent of the CCDS holders, to issue further CCDS and other instruments ranking in priority to the CCDS at any time. Any such further issue of CCDS and/or such other instruments may have a dilutive effect on existing CCDS***

The Society will be entitled, without the consent or approval of the CCDS holders, to issue Additional CCDS that are consolidated and form a single series with the CCDS and also to issue other instruments ranking in priority to the CCDS. Such instruments may include additional tier 1 or tier 2 capital convertible into CCDS including, but not limited to, in a stress scenario. An offering of Additional CCDS and/or any such other instruments may have a dilutive effect on the holdings of CCDS holders either at the time of issue or upon their subsequent conversion into CCDS, including as regards the amount of any Distributions they may receive in respect of the CCDS and as regards the amounts (if any) which they may receive on a winding-up or dissolution of the Society, and could have an adverse effect on the market price of CCDS.

On a winding-up or dissolution of the Society, issues of Additional CCDS and/or such other instruments will have a dilutive effect on a holding in CCDS by reducing the amount of Surplus (if any) available for distribution to CCDS holders and/or by reducing the proportionate entitlement to Surplus of each CCDS.

Statutory pre-emption rights will not apply to CCDS. Whilst the Indicative CCDS Conditions provide certain pre-emption rights for existing CCDS holders upon an issue of Additional CCDS, there are a number of circumstances in which such contractual rights may be disapplied, including: (i) issues of Additional CCDS in any financial year which, in aggregate, do not exceed 15 per cent. of the number of outstanding CCDS immediately prior to the start of such financial year; (ii) issues where all or substantially all of the subscription price is paid otherwise than in cash; (iii) issues of CCDS pursuant to any remuneration scheme operated by the Society; and (iv) issues of CCDS in circumstances in which the PRA or other relevant supervisory authority has directed the Society to disapply pre-emption rights. Pre-emption rights do not apply to any issue of securities convertible into CCDS. Accordingly, there can be no assurance that pre-emption rights will be available to a CCDS holder to mitigate any dilutive effects of issues of Additional CCDS or securities convertible into CCDS.

***The CCDS will not be Protected Liabilities of the Society and, accordingly, CCDS holders will not have recourse to the FSCS for any amount in respect of their investment in CCDS in the event that the Society becomes insolvent***

The CCDS are not Protected Liabilities of the Society. Moreover, the CCDS will not be guaranteed or insured by any government, government agency or compensation scheme of the United Kingdom or any other jurisdiction.

***Risks relating to an amalgamation by the Society with another building society or transfer of its business to another building society or a company***

It is expected that the conditions of issue of the CCDS will provide that, upon an amalgamation by the Society with another building society under section 93 of the Act or a transfer of all or substantially all of its engagements to another building society under section 94 of the Act, the CCDS shall become deferred shares in the amalgamated or transferee building society, as appropriate (the "**Resulting Society**"), having such terms and conditions as are necessary to ensure that both the CCDS and any other deferred shares which, prior to such amalgamation or transfer, constituted Common Equity Tier 1 capital of the other society, shall constitute Common Equity Tier 1 capital of the Resulting Society and, subject thereto, in all material respects identical to the terms of the CCDS, as determined by an independent financial adviser.

It may be necessary, in such circumstances, for the terms of the CCDS and/or the rules of the Resulting Society to be amended in certain respects and/or for certain adjustments to be made to the Cap on Distributions and/or the calculations and/or formulae relating to the rights of investors to share in any Surplus on a winding-up or dissolution of the Society. Whilst it is the intention of the Society that, if and to the extent that the Society has control over such matters, any such amendments and adjustments should be limited to the minimum necessary in order to ensure that the CCDS and any other deferred shares of the other society which, prior to such amalgamation or transfer, constituted Common Equity Tier 1 capital of the other society, shall constitute Common Equity Tier 1 capital of the Resulting Society, there can be no assurance that such amendments and adjustments will not have an adverse effect on the rights attaching to the CCDS and/or the market price of the CCDS.

In addition, upon a transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company (a "**Successor Entity**"), the Successor Entity will assume a subordinated liability to each CCDS holder which will be applied on or around the vesting date, on behalf of the CCDS holders, in the subscription of such number of ordinary shares (which may or may not carry voting rights) in the Successor Entity or, if appropriate, any direct or indirect parent company of the Successor Entity. Whilst the number of shares to be delivered in such circumstance are required to have an aggregate market value as near as practicable to, but not less than, the market value of the CCDS immediately prior to the time of transfer of

the business as determined by an independent financial adviser, there can be no assurance that the shares delivered in place of the CCDS will be as favourable in all respects to holders as the CCDS.

***The members of the Society are entitled to amend the Rules of the Society, and there can be no assurance that such amendments will not be materially prejudicial to the interests of the CCDS holders***

It is expected that the conditions of issue of the CCDS will provide that such Conditions may only be varied with the consent of the holders of specified majorities of the CCDS for the time being outstanding. However, the conditions will not limit the rights of members of the Society to amend the Rules. Whilst the Society expects to undertake in the conditions not to initiate any amendment to the Rules that is both (a) inconsistent with the provisions of the conditions and (b) materially prejudicial to the interests of the CCDS holders in that capacity, there can be no assurance that the members of the Society will not initiate and approve any such changes. The conditions of issue of the CCDS are expected to provide that, in the event that any changes which are materially prejudicial to the holders of the CCDS as a class are made to the Rules without the consent or approval of a requisite majority of CCDS holders, such changes shall not limit the rights of CCDS holders to bring an action for (or as if there had been a) breach of contract against the Society. However, there can be no assurance that such rights will afford adequate protection to CCDS holders in such circumstances and as a result holders of CCDS may experience material losses if the Rules are amended without their consent in a manner which is materially prejudicial to their interests.

***Transfers of CCDS are expected to be subject to a Minimum Transfer Amount. CCDS holders who, as a result of trading CCDS, hold less than the Minimum Transfer Amount in their accounts at any time will first need to purchase additional CCDS in order to enable them to transfer their existing holding of CCDS***

It is expected that the CCDS will be transferable in whole numbers and transferable only in amounts which are equal to or greater than a specified Minimum Transfer Amount prevailing from time to time. The Minimum Transfer Amount is expected to be fixed, in discussion with the Relevant Regulators, at the time of the first issue of CCDS by the Society and will not be reduced except in agreement with the Relevant Regulators. If a holder, as a result of trading CCDS, holds less than the Minimum Transfer Amount (whether in definitive form or in a clearing system or custodian account), it will first need to purchase additional CCDS in order to enable it to transfer its existing holding of CCDS.

It will not be possible for holders to transfer CCDS in amounts less than the Minimum Transfer Amount prevailing as at the time of transfer. The Clearing Systems (if they have accepted the CCDS for clearing) will not accept instructions to settle transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount, and (in the circumstances in which definitive CCDS are issued) the registrar for the CCDS will not register in the CCDS Register any transfer of CCDS in definitive form in amounts less than the prevailing Minimum Transfer Amount. Accordingly, purported transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount will be incapable of settlement. Holders of CCDS will be responsible for ensuring that any trades they enter into in respect of the CCDS are capable of settlement; failure to do so may result in a holder breaching its contract of sale and purchase. If, and for so long as, the CCDS are admitted to trading on the London Stock Exchange, investors and potential investors in CCDS who are members of the London Stock Exchange will be required to abide by their obligations under the Rules of the London Stock Exchange, including rule G5000 (obligation to settle).

***Any change in English law or administrative practice or in United Kingdom taxation laws or practice that affects the CCDS could be prejudicial to the interests of holders of the CCDS***

The Indicative CCDS Conditions are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact on the holders of any CCDS of any possible judicial decision or change to English law or administrative practice or in United Kingdom taxation laws or practice after the date of this Offering Circular.

***It is expected that CCDS holders will hold beneficial interests in the CCDS through an account with a Clearing System, will not be members of the Society by virtue of their investment in CCDS and will have to rely on the relevant Clearing System's procedures***

The Society expects (although there can be no assurance) that the CCDS will, upon issue, be represented by a global certificate which will be registered in the name of the Nominee for the Clearing Systems. In such circumstances, CCDS holders will hold beneficial interests in the CCDS through an account with a Clearing System. However, the Nominee shall be the sole owner of legal title to the CCDS represented by the global certificate, and shall be the registered holder for those CCDS for the purposes of the Rules and the conditions of issue of the CCDS.

Accordingly, a holder holding beneficial interests in the CCDS through an account with a Clearing System would not become a member of the Society by virtue of its investment in the CCDS and would only indirectly benefit from the conditions of issue of the CCDS, the Rules, the Memorandum and the Act with respect to the CCDS through the Nominee. Such holder would be entitled to rights in respect of its beneficial interest in the CCDS as prescribed by the rules of the relevant Clearing System and must rely on the procedures of the Clearing Systems to enforce its rights. The Society will have no responsibility or liability for the records relating to beneficial interests in any CCDS.

The terms of any global certificate evidencing the CCDS is expected to provide that definitive CCDS will only be issued outside the Clearing Systems and registered directly in the name of each investor in the event that all Clearing Systems have closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) (which is not expected to occur).

The holding structure for CCDS if held through the Clearing Systems will have a number of consequences for holders, including with respect to member voting rights and rights to conversion benefits in the event of a demutualisation of the Society, as further described in the following two risk factors. In addition, for so long as the CCDS are represented by the global certificate, the Society's payment obligations in respect of the CCDS will be discharged upon payment by the registrar or principal paying agent for the CCDS, on behalf of the Society, to or to the order of the Nominee. Each person holding CCDS in an account with a Clearing System would be required to look solely to that Clearing System for its share of each payment made to or to the order of the Nominee.

***It is expected that CCDS holders will have no voting rights at general meetings of the members of the Society for so long as the CCDS are held through an account with a Clearing System***

In contrast to general meetings of shareholders of a limited company where shareholders may exercise voting rights which are proportionate to the number of shares they hold, at a general meeting of the members of the Society, each member is, in line with the principles of mutuality, entitled to only one vote on each applicable resolution regardless of the size or number of its investments or interests in the Society. Only a member of the Society is entitled to vote at general meetings.

For so long as any CCDS are held by the Nominee for and on behalf of the Clearing Systems, the Nominee shall be the only member of the Society in respect of those CCDS, and in its capacity as a member shall have only one vote at general meetings of the members of the Society (regardless of the number of CCDS it holds and regardless also of the size and number of any other relevant investments or interests (if any) it may have in the Society). Given the difficulty of casting its one vote in a manner which reflects the views of all the holders holding CCDS in an account with a Clearing System and the insignificance of that vote in the context of all the votes which may be cast by members of the Society, it is expected that the Nominee will not exercise its vote insofar as it relates to its holding of CCDS.

Further, even if definitive CCDS were to be issued and delivered outside the Clearing Systems in the limited circumstances described above (in which case, the CCDS would be registered in the name of each holder directly and would confer membership rights directly upon each registered holder) each holder of definitive CCDS would be entitled to exercise only one vote (or, if applicable (where a separate shareholding members'

resolution and borrowing members' resolution are proposed at the same meeting) depending upon the circumstances of that particular member, one vote on the shareholder members' resolution in its capacity as a shareholding member and one vote on the borrowing members' resolution in its capacity as a borrowing member) at a general meeting of the members of the Society (subject to qualifying as a voting member under the Society's rules), regardless of the amount of CCDS held by such holder and regardless also of the size and number of any other relevant investments or interests such holder may have in the Society. In circumstances where definitive CCDS are issued and a CCDS holder derives its membership of the Society solely from its registered holding of CCDS, such holder will only be able to exercise its member vote at a general meeting of the Society if: (i) that CCDS holder held the CCDS (and was recorded as holder in the CCDS Register): (a) at the end of the financial year before the voting date (or, where the voting date follows the conclusion of the Annual General Meeting in a financial year, at the beginning of the period of 56 days immediately preceding the voting date); and (b) on the voting date; and (ii) that CCDS holder has not ceased to be a Shareholding Member between the relevant time specified in (a) above and the voting date.

Accordingly, CCDS holders would not, by virtue of their holding, have any voting rights at general meetings of the members of the Society (unless definitive CCDS are issued and delivered) in which case the limited voting rights acquired by each holder would be entirely insignificant in the context of the number of votes which could be cast by members of the Society as a whole.

For the avoidance of doubt, the foregoing paragraphs relate to voting rights as member at general meetings of the Society. The Indicative CCDS Conditions contain provisions which enable separate meetings to be convened of the CCDS holders as a class only, for the purposes of considering matters affecting the rights of the CCDS holders. At such class meetings only, investors in the CCDS will be entitled to exercise one vote for each CCDS held by such investor at the relevant time. Investors should note that such provisions provide that CCDS holders holding defined majorities of the number of CCDS outstanding are able to agree, by resolution in writing or passed at a duly convened meeting of the CCDS holders, to amendments to the conditions of issue of the CCDS which shall bind all CCDS holders, including those who do not vote in favour of the relevant resolution.

***It is expected that the CCDS will be held by holders through accounts with a Clearing System. For so long as the CCDS are held in an account with a Clearing System, the holders thereof will not be entitled to Conversion Benefits arising on a demutualisation or other transfer of the Society's business to a company***

As it is expected that holders will hold their CCDS through accounts with the Clearing Systems and thus will not be members of the Society by virtue of their holding of CCDS, they will also not be entitled, by virtue of their investment in CCDS, to any Conversion Benefits (being benefits under the terms of any future transfer of the Society's business to a company, other than rights to receive ordinary shares issued by the Successor Entity or its parent, as specifically provided for under Condition 10 of the Indicative CCDS Conditions) arising on a demutualisation or other transfer of the Society's business to a company. Any Conversion Benefits arising on any such transaction will belong instead to the Nominee, as the registered holder of the CCDS. The Nominee will, on or prior to the date of issue of the CCDS, be required to irrevocably agree to assign to Coventry Building Society Charitable Foundation (or other charities nominated by Coventry Building Society Charitable Foundation) any Conversion Benefits.

Even if definitive CCDS were to be issued in the limited circumstances described under "*It is expected that CCDS holders will hold beneficial interests in the CCDS through an account with a Clearing System, will not be members of the Society by virtue of their investment in CCDS and will have to rely on the relevant Clearing System's procedures*" above, each holder of definitive CCDS would have no right to retain any Conversion Benefits and would be required pursuant to the conditions of issue of the CCDS to assign any Conversion Benefits to Coventry Building Society Charitable Foundation (or other charities nominated by Coventry Building Society Charitable Foundation).

***The trading price of the CCDS may fluctuate which could lead to CCDS holders losing some or all of their investment***

If a secondary trading market does develop for the CCDS the trading price of the CCDS may be subject to wide fluctuations in response to many factors, including those referred to in this risk factor, as well as (if the CCDS are listed) stock market fluctuations and general economic conditions that may adversely affect the market price of the CCDS. Publicly traded securities may experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market. Accordingly, and particularly relating to the fact that the CCDS issued upon Conversion may be a new instrument, the market price of the CCDS may prove to be highly volatile. The market price of the CCDS may fluctuate significantly in response to a number of factors including, but not limited to, those set out below (some of which are beyond the Society's control):

- material decreases in the Society's capital ratios or any application of a Maximum Distributable Amount under Article 141 of CRD, which could arise as a result of a number of factors including changes in regulation or losses incurred by the Society;
- variations in operating results in the Group's reporting periods;
- any shortfall in revenue or net profit or any increase in losses from levels expected by market commentators;
- increases in capital expenditure compared with expectations;
- any perception that the Group's strategy is or may be less effective than previously assumed or that the Group is not effectively implementing any significant projects;
- changes in financial estimates by securities analysts;
- changes in market valuations of similar entities;
- announcements by the Group of significant acquisitions, strategic alliances, joint ventures, new initiatives, new services or new service ranges;
- regulatory matters, such as changes in PRA, UK Financial Policy Committee, FCA, HM Revenue & Customs or HM Treasury requirements;
- additions or departures of key personnel;
- any election by the Society not to declare a Distribution in respect of any given financial year, or the declaration of a Distribution which is lower than that expected by the market; and
- future issues or sales of CCDS or other securities.

Any or all of these events could result in material fluctuations in the price of CCDS, significantly increased price volatility and/or changes in the trading behaviour and performance of CCDS, which could lead to investors losing some or all of their investment.

In addition, investors in the CCDS should not necessarily expect the price of the CCDS to vary in response to factors that affect the UK financial services industry generally, such as, for example, changes in BoE base rates, in a manner that matches the variation in the share price of other UK financial institutions.

The initial issue and subscription price of any CCDS might not be indicative of prices that will prevail in the trading market.



***A holding in CCDS by a holder whose principal currency is not sterling may be affected by exchange rate fluctuations***

The CCDS are expected to be denominated, and any Distributions in respect of the CCDS are expected to be paid, in sterling. A holding in CCDS by a holder whose principal currency is not sterling will expose the holder to foreign currency exchange rate risk. Any depreciation of sterling in relation to such foreign currency will reduce the value of the holding of the CCDS or any Distribution in relation to such foreign currency.

***Dealings in the CCDS may in certain circumstances be liable to UK stamp taxes***

Based on UK tax law as at the date of this Offering Circular, the CCDS, if issued, are expected to constitute “chargeable securities” for United Kingdom stamp duty reserve tax (“SDRT”) purposes. The Society intends that, in the event of a Conversion of the Perpetual Capital Securities, it would apply for the CCDS to be cleared in the Clearing Systems, in which case the CCDS would be delivered to a nominee for and on behalf of the Clearing Systems. On the basis of applicable law as at the date of this Offering Circular, the issue of the CCDS into the Clearing Systems on Conversion should not be subject to a 1.5 per cent. SDRT charge. However, there can be no assurance that the applicable law or practice in effect at the time of any Conversion would enable the CCDS to be so issued and delivered without a charge to SDRT. If any SDRT cost were to arise on Conversion (including as a result of a change in law taking effect prior to Conversion), the cost will not be borne by the Society and in practice is likely to be borne by investors.

Further, on the basis of applicable law as at the date of this Offering Circular, transfers of CCDS within the Clearing Systems should not be subject to SDRT provided that no election is or has been made under Section 97A of the Finance Act 1986 (a “97A election”) by the relevant Clearing System that applies to the CCDS. It is currently expected that it should be possible for the CCDS to be held within the Clearing Systems without a 97A election applying, although this will depend on law, practice and the terms of any 97A election made by the Clearing Systems at the time when the CCDS are issued on Conversion. If a 97A election were to apply to the CCDS, transfers of the CCDS within the Clearing Systems could, unless an exemption applies, be subject to SDRT at the rate of 0.5 per cent. of the consideration given under the agreement to transfer the CCDS. Any such SDRT cost would not be borne by the Society and would generally be borne by the purchaser.

The Society has not previously issued CCDS and, notwithstanding the acceptance of similar securities for clearing by the Clearing Systems previously, there can be no assurance that the Clearing Systems will accept the CCDS for clearing at the time of Conversion. If the CCDS are issued outside the Clearing Systems in definitive form, transfers of the CCDS could, unless an exemption applies, be subject to stamp duty and/or SDRT also at the rate of 0.5 per cent. (rounded up to the nearest £5 in the case of stamp duty) of the consideration for the transfer. Any such stamp duty and/or SDRT cost would not be borne by the Society and would generally be borne by the purchaser.

## DOCUMENTS INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with:

- (i) the Rules and Memorandum of the Society;
- (ii) the audited consolidated and non-consolidated annual financial statements of the Society for the financial year ended 31 December 2011, as set out on the following pages of the Society's Annual Report and Accounts 2011:

	<i>For the financial year ended 31 December 2011</i>
Independent Auditors' Report.....	Pages 38 to 39
Income Statements .....	Page 40
Statements of Comprehensive Income .....	Page 40
Statements of Financial Position .....	Page 41
Statements of Changes in Members' Interests .....	Page 42
Statements of Cash Flows .....	Page 43
Notes to the Accounts.....	Pages 44 to 89

- (iii) the audited consolidated and non-consolidated annual financial statements of the Society for the financial year ended 31 December 2012, as set out on the following pages of the Society's Annual Report and Accounts 2012:

	<i>For the financial year ended 31 December 2012</i>
Independent Auditors' Report.....	Pages 54 to 55
Income Statements .....	Page 56
Statements of Comprehensive Income .....	Page 56
Statements of Financial Position .....	Page 57
Statements of Changes in Members' Interests .....	Page 58
Statements of Cash Flows .....	Page 59
Notes to the Accounts.....	Pages 60 to 110

- (iv) The following parts of the Society's Annual Report and Accounts 2013:

- (a) the Risk Management Report set out on pages 44 to 76; and
- (b) the section headed “*Impact of the Capital Requirements Regulation and Capital Requirements Directive (Basel III)*” on pages 24 to 27 (including, for the avoidance of doubt, the table and the notes thereto on pages 26 to 27); and

- (v) the audited consolidated and non-consolidated annual financial statements of the Society for the financial year ended 31 December 2013, as set out on the following pages of the Society's Annual Report and Accounts 2013:

	<i>For the financial year ended 31 December 2013</i>
Independent Auditors' Report.....	Pages 86 to 87
Income Statements .....	Page 88
Statements of Comprehensive Income .....	Page 88
Group Statement of Financial Position.....	Page 89
Society Statement of Financial Position.....	Page 90
Statements of Changes in Members' Interests .....	Page 91
Statements of Cash Flows .....	Page 92
Notes to the Accounts.....	Pages 93 to 137

Such information shall be incorporated in, and form part of this Offering Circular, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Circular.

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

Copies of documents incorporated by reference in this Offering Circular may be obtained from the Society's website at [www.coventrybuildingsociety.co.uk](http://www.coventrybuildingsociety.co.uk) and copies may be obtained (without charge) from the principal office of the Society. The content of the website referred to in this paragraph does not form part of this Offering Circular, save for the documents incorporated by reference in this Offering Circular as described above.

In the event of any significant new factor, material mistake or inaccuracy relating to the information included in this Offering Circular which is capable of affecting the assessment of any Perpetual Capital Securities arising between the date of this Offering Circular and the commencement of dealings in the Perpetual Capital Securities following their listing on the SIX Swiss Exchange, the Society will prepare and publish a supplement to this Offering Circular.

## OVERVIEW OF CERTAIN PROVISIONS OF THE RULES OF THE SOCIETY AND THE ACT RELATING TO THE PERPETUAL CAPITAL SECURITIES

The rights and restrictions attaching to the Perpetual Capital Securities will be governed by the rules of the Society (the "**Rules**"), certain provisions of the Building Societies Act 1986, as amended (the "**Act**") and the Conditions of Issue of the Perpetual Capital Securities (the "**Conditions**"). Set out below is an overview of the key provisions of the Rules and certain provisions of the Act insofar as they might affect the rights of the Securityholders, together with certain explanatory notes which are italicised. Terms defined in the Rules or the Conditions will, unless otherwise defined herein or the context otherwise requires, have the same meanings when used in this overview.

*As used in this section, the following terms have the meanings given to them in the Rules: "Borrowing Members' Resolution"; "Deferred Share"; "Deferred Shares Register"; "Member"; "Ordinary Resolution"; "Person"; "Share"; "Shareholding"; "Shareholding Member"; "Shareholding Members' Resolution"; "Special Resolution" and "voting date".*

### 1. GENERAL

A person who holds a Deferred Share in the Society is a "**Shareholding Member**" of the Society. The Perpetual Capital Securities are Deferred Shares for the purposes of the Rules and therefore a person whose name is entered in the Perpetual Capital Securities Register (as defined below) as a Securityholder is a Shareholding Member of the Society.

Each Securityholder, and all persons claiming through it or on its behalf or under the Rules, shall be bound by the Rules, by the Memorandum of the Society and by the Act.

*The Perpetual Capital Securities will be held by investors through accounts with Euroclear and/or Clearstream Luxembourg or any replacement or successor clearing system (together, the "**Clearing Systems**") and will be registered in the name of Citivic Nominees Limited as nominee (the "**Nominee**") who shall be the Securityholder for those Perpetual Capital Securities for the purposes of the Rules and the Conditions. An investor holding beneficial interests in the Perpetual Capital Securities through a Clearing System will not be a member of the Society by virtue of its investment in the Perpetual Capital Securities and (without prejudice to any rights or obligations that such person may have as a member of the Society in some other capacity) will be only indirectly subject to the Rules, the Memorandum and the Act with respect to its holding of the Perpetual Capital Securities in the manner provided above. Investors holding beneficial interests in the Perpetual Capital Securities through a Clearing System shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of that Clearing System.*

*Registration of title to the Perpetual Capital Securities in a name other than that of the Nominee will be permitted only if all the Clearing Systems have closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business or do in fact do so. This is considered unlikely to occur. For so long as the Perpetual Capital Securities remain held in accounts with a Clearing System, references in this overview to "Securityholders" and related expressions shall be read as references to the Nominee.*

### 2. REGISTER

The Society shall, for the purposes of its Deferred Shares Register, maintain records constituting the register of the Perpetual Capital Securities (the "**Perpetual Capital Securities Register**"), in which shall be entered the name and address of each Securityholder. Each Securityholder shall notify the Society immediately of any change of name or address and shall produce such evidence of such change as the Society may require.

Transfers and other documents or instructions relating to or affecting the title to any Perpetual Capital Securities shall also be recorded in the Perpetual Capital Securities Register. No charge shall be made in respect of any entry in the Perpetual Capital Securities Register. The Perpetual Capital Securities Register

shall be maintained at the specified office of the Registrar, or at such other place as the Board of the Society thinks fit.

*The Society will appoint Citibank, N.A., London Branch at 13th Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB as its registrar for the Perpetual Capital Securities.*

### **3. MEETINGS OF THE MEMBERS OF THE SOCIETY**

As a Shareholding Member of the Society, each Securityholder will, subject to the provisions of the Rules, enjoy various membership rights. In particular, Securityholders will, subject to the Rules, be entitled to receive notice of, to participate in a requisition for, to propose resolutions at, to attend, to be counted in a quorum at and to vote at any general meeting or (subject to the Rules) in a postal ballot or electronic ballot of the Society.

Each Securityholder will be entitled to exercise one vote (irrespective of the nominal amount of Perpetual Capital Securities held by it or the size or amount of other relevant investments or interests (if any) conferring membership rights which it may have in the Society) on a resolution at any general meeting or in a postal ballot or electronic ballot (whether an Ordinary Resolution or Special Resolution or a Shareholding Members' Resolution, but not a Borrowing Members' Resolution) if:

- (i) that Securityholder held the Perpetual Capital Securities (and was recorded as holder in the Perpetual Capital Securities Register):
  - (a) at the end of the financial year before the voting date (or, where the voting date follows the conclusion of the Annual General Meeting in a financial year, at the beginning of the period of 56 days immediately preceding the voting date); and
  - (b) on the voting date; and
- (ii) that Securityholder has not ceased to be a Shareholding Member between the relevant time specified in (a) above and the voting date.

*The members' rights attaching to the Perpetual Capital Securities held through the Clearing Systems will be held by the Nominee. Such Nominee will be entered in the Perpetual Capital Securities Register as the holder of the Perpetual Capital Securities held in this manner, and will be entitled to exercise the voting and other members' rights attributable to all those Perpetual Capital Securities so held. Accordingly, the Nominee shall have one vote (regardless of the nominal amount of Perpetual Capital Securities held by it and regardless also of the size and amount of other relevant investments or interests (if any) conferring membership rights which the Nominee may have in the Society) on a resolution at any general meeting of the Society or in a postal ballot or electronic ballot.*

*Given the difficulty of casting the single vote in a manner which reflects the views of all investors holding Perpetual Capital Securities through the Clearing Systems and the relative insignificance of that vote in the context of all the votes which may be cast by members of the Society, the Nominee has informed the Society that it does not intend to exercise its vote insofar as such vote relates to its holding of the Perpetual Capital Securities.*

*The foregoing provisions relate to general meetings of the members of the Society. For provisions relating to the convening of separate meetings of the Securityholders only, see Condition 15 and "Summary of Provisions Relating to the Perpetual Capital Securities while Represented by the Global Certificate – Meetings; Membership rights whilst the Perpetual Capital Securities are held through the Clearing Systems".*

### **4. WINDING-UP OR DISSOLUTION**

Upon the winding-up of the Society, or upon it being dissolved by consent, any surplus remaining after payment in full of the Society's creditors and repayment to Members of the amount of their Shares (together

with interest due thereon) according to their priority under their respective terms and conditions of issue (but excluding Core Capital Deferred Shares unless and to the extent provided in their terms and conditions of issue) shall be applied as follows:

- (a) up to 20 per cent. of the surplus may be distributed to holders of all or some of the Deferred Shares (excluding Core Capital Deferred Shares) at the relevant date. The proportion (if any) of such 20 per cent. to which any particular issue of Deferred Shares is entitled shall be set forth in the terms and conditions of issue of that issue of Deferred Shares;
- (b) to holders of Core Capital Deferred Shares at the relevant date subject to, and in proportion to the amount specified in, or calculated by reference to, their terms and conditions of issue; and
- (c) the remainder of the surplus will be distributed among qualifying Members (other than holders of Deferred Shares) in proportion to the value of their Shareholding at the relevant date.

The relevant date is the earlier of either the date of notice of a winding-up or dissolution resolution or the date of presentation of a winding-up petition or such other date as may be specified by the insolvency official appointed with primary responsibility for the winding-up or dissolution of the Society.

If there are insufficient assets to repay all Members the amounts payable on their Shares in accordance with their terms and conditions of issue, no repayments shall be made in respect of any Deferred Share until after all other Members have been repaid in full.

For the purposes of (c) above, "**qualifying Members**" means Persons who hold on the relevant date, and have held, throughout the period of two years up to that date, Shares (excluding any holding of Deferred Shares) to the value of not less than £100.

*Holders of the Perpetual Capital Securities shall, in a winding-up or dissolution of the Society (other than an Excluded Dissolution (as defined in Condition 19)) which commences prior to any Conversion Date determined in accordance with Condition 8, be entitled to claim for the nominal amount of their Perpetual Capital Securities together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with these Conditions). Such claim shall be conditional upon all sums due in respect of claims in such winding-up or dissolution in relation to Senior Obligations (as defined in Condition 19) having been paid in full.*

*The provisions under (a) to (c) above reflect Rule 45 of the Society's Rules. Rule 45 provides the basis for distribution of any surplus amongst members of the Society on a proportionate basis, having regard to the nature and amount of their investments, and without preference as to priority. The reference in (a) to up to 20% of the surplus being available for distribution to holders of Deferred Shares other than Core Capital Deferred Shares establishes a limit on the amount of any surplus which can be distributed to such holders but does not result in such amount of the surplus being ring-fenced for the benefit of such holders. For the avoidance of doubt, notwithstanding paragraph (a) above, on a winding-up or dissolution of the Society which commences prior to the Conversion Date, the holders of the Perpetual Capital Securities shall have no claim in respect of the surplus assets (if any) of the Society remaining in any winding-up or dissolution following payment of all amounts due in respect of the liabilities of the Society.*

## **5. DISPUTES AND LEGAL PROCEEDINGS**

Section 85 of, and Schedule 14 to, the Act provide that no court other than the High Court in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society or the Act. Under various other enactments, the High Court is empowered to transfer cases over which it has jurisdiction to the County Court.

## CONDITIONS OF ISSUE OF THE PERPETUAL CAPITAL SECURITIES

*The following (save for paragraphs in italics, which do not form part of the conditions of issue) are the conditions of issue of the Perpetual Capital Securities as they apply to holders of the Perpetual Capital Securities and are in the form in which they will appear on the reverse of each Certificate:*

The £400,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the “**Perpetual Capital Securities**”, which term shall include any further Perpetual Capital Securities issued pursuant to Condition 16(a) which are consolidated and form a single series with the Perpetual Capital Securities) are issued under, and are subject to, the Rules (the “**Rules**”) of Coventry Building Society (subject as provided in Condition 1.3, the “**Society**”) for the time being. Securityholders are entitled to the benefit of, are bound by and are deemed to have notice of, the Rules. The Perpetual Capital Securities are also issued subject to, and with the benefit of, these conditions of issue (the “**Conditions**”) and subject to an agency agreement (as amended from time to time, the “**Agency Agreement**”) dated 26 June 2014 between the Society and Citibank, N.A., London Branch as registrar and transfer agent (in such capacities, the “**Registrar**”) and principal paying agent (in such capacity, the “**Principal Paying Agent**”). In the event of inconsistency between the Rules, these Conditions and the Agency Agreement, the Rules will prevail and, subject thereto, in the event of inconsistency between these Conditions and the Agency Agreement, these Conditions will prevail. Securityholders are bound by and are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

*While Perpetual Capital Securities are held on behalf of investors through accounts with the Clearing Systems, Perpetual Capital Securities will be registered in the name of Citivic Nominees Limited as nominee (the “**Nominee**”). The Nominee shall be the Securityholder for all of the Perpetual Capital Securities for the purposes of the Conditions, and not the investors holding beneficial interests in the Perpetual Capital Securities through the Clearing Systems. The investors holding the beneficial interests in Perpetual Capital Securities through Clearing System accounts shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of the relevant Clearing System.*

### 1 General

#### 1.1 Definitions

Terms defined in the Rules will, unless otherwise defined herein or unless the context otherwise requires, have the same meanings when used in these Conditions. Other capitalised terms used in these Conditions shall have the meanings set out herein, including in Condition 19.

#### 1.2 Deferred shares

The Perpetual Capital Securities:

- (a) are deferred shares for the purposes of section 119 of the Act;
- (b) are not protected deposits for the purpose of the Financial Services Compensation Scheme established under the FSMA;
- (c) are not withdrawable; and
- (d) are Deferred Shares (but not Core Capital Deferred Shares) for the purposes of the Rules.

### **1.3 Society Conversion Benefits**

Rights to Society Conversion Benefits to which a Securityholder may become entitled by reason of its holding of Perpetual Capital Securities shall be required to be assigned to a charity nominated by the Society pursuant to any scheme for charitable assignment established by the Society for the time being.

As used herein, “**Society Conversion Benefits**” shall mean any benefits under the terms of any future transfer of the Society’s business to a company (other than rights to receive Bonds (following the assumption of the Subordinated Deposit) issued by the Successor Entity as specifically provided for under section 100(2)(a) of the Act and Condition 13) and, if the Society merges with any other building society, “**Society**” shall, after the date of such merger, extend to such other society.

### **1.4 Waiver of Society Conversion Benefits**

If a Securityholder fails to assign any Society Conversion Benefits as required pursuant to Condition 1.3, it acknowledges that it waives its entitlement to retain any Society Conversion Benefits received by it and covenants promptly to pay and deliver such Society Conversion Benefits to Coventry Building Society Charitable Foundation (or other charities nominated by Coventry Building Society Charitable Foundation) and until such time as payment is made, will hold a sum equal to such amount on trust for Coventry Building Society Charitable Foundation.

*As investors holding beneficial interests in Perpetual Capital Securities through Clearing System accounts will not be members of the Society, they will not be entitled to any Society Conversion Benefits. Any Society Conversion Benefits will belong instead to the Nominee, as the registered holder of the Perpetual Capital Securities in the Perpetual Capital Securities Register. The Nominee will, on or prior to the Issue Date, irrevocably agree to assign to Coventry Building Society Charitable Foundation (or other charities nominated by Coventry Building Society Charitable Foundation) any Society Conversion Benefits.*

## **2 Form, denomination, title and transfer**

### **2.1 Form and denomination**

The Perpetual Capital Securities are in registered form and are available and transferable in accordance with the Rules in minimum nominal amounts of £200,000 and integral multiples of £1,000 in excess thereof.

### **2.2 Title and transfer**

Title to the Perpetual Capital Securities passes only by registration in the Perpetual Capital Securities Register. The holder of any Perpetual Capital Securities will (except as otherwise required by law) be treated as its absolute owner for all purposes (regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

No legal transfer of Perpetual Capital Securities shall be valid unless made in the form endorsed on the Certificate or in such other form as the Board may agree, which form shall be duly completed and signed (as appropriate) and presented to the Registrar. Legal title to the Perpetual Capital Securities will pass upon registration of such transfer in the Perpetual Capital Securities Register.



### **2.3 Certificates**

A certificate (each a “**Certificate**”) will, if so requested in writing by such Securityholder and subject to Condition 3.3, be issued to each Securityholder in respect of its registered holding of Perpetual Capital Securities. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the Perpetual Capital Securities Register, and will specify the nominal amount of Perpetual Capital Securities registered in the name of such holder(s) as at the time of issue of such Certificate.

Each new Certificate to be issued following a transfer will be mailed by uninsured mail at the risk of the holder entitled to the Perpetual Capital Securities to the address specified in the form of transfer within 14 days of the date of registration of the transfer in the Perpetual Capital Securities Register (or, if later, within 14 days of the written request of the relevant Securityholder to be issued a Certificate).

Where some but not all of the Perpetual Capital Securities in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the nominal amount of Perpetual Capital Securities not so transferred will, within 14 days of receipt by the Registrar of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Perpetual Capital Securities not so transferred to the address of such holder appearing on the Perpetual Capital Securities Register or as specified in the form of transfer.

*Except in the limited circumstances described herein (see “Summary of Provisions Relating to the Perpetual Capital Securities while Represented by the Global Certificate – 1. Exchange of the Global Certificate and Registration of Title”), owners of interests in the Perpetual Capital Securities will not be entitled to receive physical delivery of Certificates.*

### **2.4 Formalities free of charge**

Registration of transfer of Perpetual Capital Securities will be effected without charge by or on behalf of the Society or the Registrar but upon payment (or the giving of such indemnity as the Society or the Registrar may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

## **3 Perpetual Capital Securities register**

### **3.1 Registrar**

The Society has appointed the Registrar to act as registrar in respect of the Perpetual Capital Securities under the terms of the Agency Agreement.

### **3.2 Perpetual Capital Securities register**

Pursuant to the Agency Agreement, the Society shall procure that the Registrar maintains the Perpetual Capital Securities Register, in which shall be entered the name and address of each Securityholder and the nominal amount of the Perpetual Capital Securities held by each such Securityholder. Each Securityholder shall notify the Registrar immediately of any change of name or address and shall produce such evidence of change of name or address as the Registrar may reasonably require.

### 3.3 *Certificates*

A Securityholder must provide the Registrar with a written order containing such instructions and other information as the Society and the Registrar may reasonably require to complete, execute and deliver a Certificate to such Securityholder.

### 3.4 *Entries free of charge*

Transfers and other documents or instructions relating to or affecting the title of any Perpetual Capital Securities shall be recorded in the Perpetual Capital Securities Register. Subject as provided in Condition 2.4, no charge shall be made in respect of any entry in the Perpetual Capital Securities Register or any change in relation to such entry. The Perpetual Capital Securities Register shall be maintained at the specified office of the Registrar or at such other place as the Society and the Registrar shall agree.

## 4 **Status, subordination and rights on a winding-up or dissolution**

### 4.1 *Status*

The Perpetual Capital Securities constitute direct, unsecured and subordinated investments in the Society and, on a winding-up or dissolution of the Society, rank *pari passu* and without any preference among themselves. The rights and claims of the Securityholders are subordinated as described in Condition 4.2, and are subject to Conversion of the Perpetual Capital Securities as provided in Condition 8.

### 4.2 *Subordination*

On a winding-up or dissolution of the Society prior to the Conversion Date (other than an Excluded Dissolution), the rights and claims of Securityholders in respect of their Perpetual Capital Securities shall rank:

- (i) junior to the claims of all creditors (including all subordinated creditors) and Shareholding Members (as regards the principal and interest due on such Shareholding Members' shares) of the Society, including (without limitation) claims in respect of obligations of the Society which constitute Tier 2 Capital but in each case excluding claims in respect of (i) any PIBS of the Society, (ii) any other Deferred Shares (as defined in the Rules) outstanding of the Society ranking, or expressed to rank, *pari passu* with or junior to any such PIBS or the Perpetual Capital Securities and (iii) any other Parity Obligation or Junior Obligation (“**Senior Obligations**”);
- (ii) *pari passu* among themselves and with any claims ranking, or expressed to rank, *pari passu* therewith, including (without limitation) all claims in respect of PIBS (as regards the principal and interest due thereon) of the Society (“**Parity Obligations**”); and
- (iii) senior to all claims under any Core Capital Deferred Share (as defined in the Rules) of the Society and any other claims ranking, or expressed to rank, junior to either the Perpetual Capital Securities or any Parity Obligations (“**Junior Obligations**”).

### 4.3 *Rights on a winding-up or dissolution of the Society*

Holders of the Perpetual Capital Securities shall, in a winding-up or dissolution of the Society (other than an Excluded Dissolution) which commences prior to any Conversion Date determined in accordance with Condition 8, be entitled to claim for the nominal amount of their Perpetual Capital Securities together with accrued but unpaid interest thereon (excluding interest which has

been cancelled in accordance with these Conditions). Such claim shall be conditional upon all sums due in respect of claims in such winding-up or dissolution in relation to Senior Obligations having been paid in full.

For the avoidance of doubt, on a winding-up or dissolution of the Society which commences prior to the Conversion Date, the holders of the Perpetual Capital Securities shall have no claim in respect of the surplus assets (if any) of the Society remaining in any winding-up or dissolution following payment of all amounts due in respect of the liabilities of the Society.

On a winding-up or dissolution of the Society which commences on or after the Conversion Date but before the relevant CCDS have been issued as provided in Condition 8, the Securityholders shall have only those rights as set out in Condition 8.3.

#### **4.4 *Solvency Test***

No payment of principal or interest in respect of the Perpetual Capital Securities shall become due and payable unless, and to the extent that, the Society is able to make such payment and still be solvent immediately thereafter, in each case except in the winding-up or administration of the Society (the “**Solvency Test**”).

In these Conditions, the Society shall be considered to be solvent if (x) it is able to pay its debts which are Senior Obligations as they fall due and (y) its Assets exceed its Liabilities. A report as to the solvency of the Society by two appropriately authorised signatories or, if the Society is in a winding-up, its liquidator, administrator or other analogous entity (as the case may be), shall, in the absence of manifest error, be treated and accepted by the Society and the Securityholders as correct and sufficient evidence thereof.

#### **4.5 *Set off***

Subject to applicable law, no Securityholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Society in respect of, or arising under or in connection with, the Perpetual Capital Securities and each Securityholder shall, by virtue of his holding of any Perpetual Capital Security, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the preceding sentence, if any of the amounts owing to any Securityholder by the Society in respect of, or arising under or in connection with, the Perpetual Capital Securities is discharged by set-off, such Securityholder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Society (or, in the event of its winding-up or dissolution, the liquidator, administrator, receiver or other relevant insolvency official with primary responsibility for the winding-up or dissolution of the Society) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Society (or the liquidator administrator, receiver or, as appropriate, such relevant insolvency official (as the case may be)) and accordingly any such discharge shall be deemed not to have taken place.

## **5 Interest**

### **5.1 *Interest Rate***

The Perpetual Capital Securities bear interest on their nominal amount from (and including) the Issue Date at the applicable Interest Rate in accordance with the provisions of this Condition 5.

Subject to Conditions 6 and 8, interest shall be payable on the Perpetual Capital Securities semi-annually in arrear in equal instalments on each Interest Payment Date as provided in this

Condition 5, except that the first payment of interest, to be made on 1 November 2014, will be in respect of the period from and including the Issue Date to but excluding 1 November 2014.

Where it is necessary to compute an amount of interest in respect of any Perpetual Capital Security for a period which is less than a full Interest Period, the relevant day-count fraction (the “**Day-Count Fraction**”) shall be determined on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the “**Accrual Date**”) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date multiplied by two.

## **5.2 Interest accrual**

The Perpetual Capital Securities will cease to bear interest from (and including) (i) in the case of repayment pursuant to Condition 7.2, 7.3 or 7.4, the date of repayment thereof unless, upon surrender of the relevant Certificate, payment of all amounts due in respect of such Perpetual Capital Securities is not properly and duly made, in which event interest shall continue to accrue on the Perpetual Capital Securities, both before and after judgment, and shall be payable, as provided in these Conditions, up to (but excluding) the Relevant Date, and (ii) in the case of Conversion pursuant to Condition 8, the Conversion Date.

## **5.3 Calculation of interest amounts**

Interest in respect of any Perpetual Capital Security shall be calculated per Calculation Amount. The amount of interest payable (subject to Condition 6) in respect of a Perpetual Capital Security for a relevant period shall be calculated by (i) determining the product of the Calculation Amount, the relevant Interest Rate and the Day-Count Fraction (as described in Condition 5.1) for the relevant period, (ii) rounding the resultant figure to the nearest £0.01 (£0.005 being rounded upwards) and (iii) multiplying that rounded figure by a fraction the numerator of which is the nominal amount of such Perpetual Capital Security and the denominator of which is the Calculation Amount.

## **5.4 Initial Interest Rate and interest amounts**

For each Interest Period which commences prior to the First Call Date, the Interest Rate shall be 6.375 per cent. per annum (the “**Initial Interest Rate**”).

Provided the Perpetual Capital Securities are not Converted, and subject to the Society’s discretion (which it may exercise at any time) or obligation to partially or fully cancel Interest Payments pursuant to Condition 6, the Interest Payment in relation to the short first coupon scheduled to be paid on 1 November 2014 will (if paid in full) amount to £22.36 per Calculation Amount and each subsequent semi-annual Interest Payment thereafter for each Interest Period which commences prior to the First Call Date will (if paid in full) amount to £31.88 per Calculation Amount.

## **5.5 Reset Interest Rate**

For each Interest Period which commences on or after the First Call Date, the Interest Rate shall be the Reset Interest Rate applicable to the Reset Period in which that Interest Period falls, as calculated by the Principal Paying Agent.

## **5.6 *Determination of the Reset Interest Rate in relation to a Reset Period***

The Principal Paying Agent will, as soon as practicable after 11.00 a.m. (London time) on each Reset Determination Date in relation to a Reset Period, determine the Reset Interest Rate for such Reset Period and shall promptly notify the Society thereof. The Society shall cause notice of the relevant Reset Interest Rate and the amount of interest which, subject to Conditions 6 and 8, will be payable per Calculation Amount to be given to the Securityholders in accordance with Condition 17 as soon as reasonably practicable after each relevant Reset Determination Date and in any event no later than the relevant Reset Date. Such determination of the relevant Reset Interest Rate shall (in the absence of manifest or proven error) be binding on the Society and the Securityholders.

## **6 Interest cancellation**

### **6.1 *Optional cancellation of interest***

The Society may, at the discretion of the Board but subject at all times to the requirements for mandatory cancellation of Interest Payments in Condition 6.2, at any time elect to cancel any Interest Payment, in whole or in part, which is scheduled to be paid on an Interest Payment Date. Upon the Board passing a resolution to elect to cancel (in whole or in part) any Interest Payment under this Condition 6.1, the Society shall give notice of such election to the Securityholders in accordance with Condition 17 as soon as reasonably practicable on or prior to the relevant Interest Payment Date (provided that any failure to give such notice shall not affect the validity of the cancellation of any Interest Payment in whole or in part by the Society as resolved by the Board and shall not constitute a default under the Perpetual Capital Securities for any purpose). Such notice shall specify the amount of the relevant cancellation and, accordingly, the amount (if any) of the relevant Interest Payment that will be paid on the relevant Interest Payment Date.

*The Regulator also has the power to require the Society to cancel interest payments, in whole or in part. The Society expects that the Regulator would be most likely to use this power in circumstances where the Society is failing, or is expected to fail, to meet its capital adequacy requirements.*

### **6.2 *Mandatory cancellation of interest***

The Society shall not pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the amount of such Interest Payment otherwise due, together with any interest payments or distributions which have been paid or made or which are required to be paid or made during the then current Financial Year on other own funds items (excluding any such interest payments or distributions which (i) are not required to be made out of Distributable Items or (ii) have already been provided for, by way of deduction, in the calculation of Distributable Items), shall, in aggregate, exceed the amount of Distributable Items of the Society as at such Interest Payment Date.

*In addition, the Society shall not pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the payment of such Interest Payment would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the Capital Requirements Directive (or any provision of applicable law transposing or implementing Article 141(2) of the Capital Requirements Directive, as amended or replaced), the Maximum Distributable Amount (if any) then applicable to the Society to be exceeded. “**Maximum Distributable Amount**” means any applicable maximum distributable amount relating to the*

*Society required to be calculated in accordance with Article 141 of the Capital Requirements Directive (or as the case may be, any provision of applicable law transposing or implementing the Capital Requirements Directive, as amended or replaced). See further the risk factor entitled “CRD IV introduces capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Society from making interest payments on the Perpetual Capital Securities in certain circumstances, in which case the Society will automatically cancel such interest payments” in this Offering Circular.*

As used above, “**Distributable Items**” means, in respect of any Interest Payment, those profits and reserves (if any) of the Society which are available, in accordance with applicable law and regulation for the time being, for the payment of such Interest Payment.

*As at the date of this Offering Circular, Article 4(1)(128) of the Capital Requirements Regulation provides as follows: “‘distributable items’ means the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution’s bye-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts’.*

Upon the Society being prohibited from making any Interest Payment under this Condition 6.2, the Society shall as soon as reasonably practicable on or prior to the relevant Interest Payment Date give notice of such non-payment and the reason therefor to the Securityholders in accordance with Condition 17 (provided that any failure to give such notice shall not affect the cancellation of any Interest Payment in whole or in part by the Society and shall not constitute a default under the Perpetual Capital Securities for any purpose).

### **6.3 Interest non-cumulative; no default**

Any Interest Payment (or part thereof) not paid on any relevant Interest Payment Date by reason of Condition 4.4, 6.1, 6.2 or 8 shall be cancelled and shall not accumulate or be payable at any time thereafter. Non-payment of any Interest Payment (or part thereof) in accordance with any of Condition 4.4, 6.1, 6.2 or 8 will not constitute an event of default by the Society for any purpose, and the Securityholders shall have no right thereto whether in a winding-up or dissolution of the Society or otherwise.

## **7 Repayment and purchase**

### **7.1 No fixed maturity**

The Perpetual Capital Securities constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no fixed repayment date. The Perpetual Capital Securities will become repayable only as provided in this Condition 7 and in Condition 4.

### **7.2 Society’s option to repay**

The Society may, subject to Condition 7.5 and having given not less than 30 nor more than 60 days’ notice to the Securityholders in accordance with Condition 17 (which notice shall, subject to Condition 7.5, be irrevocable), elect to repay all, but not some only, of the Perpetual Capital Securities then outstanding on the First Call Date or on any Reset Date thereafter at their nominal

amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with these Conditions).

Upon the expiry of such notice, the Society shall, subject to Condition 7.5, repay the Perpetual Capital Securities accordingly.

### **7.3 Repayment for tax reasons**

If a Tax Event has occurred and is continuing, the Society may, at any time but subject to Condition 7.5 and having given not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 17 (which notice shall, subject to Condition 7.5, be irrevocable), elect to repay all, but not some only, of the Perpetual Capital Securities then outstanding at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with these Conditions).

Upon the expiry of such notice, the Society shall, subject to Condition 7.5, repay the Perpetual Capital Securities accordingly.

As used herein:

A "**Tax Event**" will occur if, as a result of a change in, or amendment to, the laws or regulations of any taxing jurisdiction or, in each case, any political subdivision or any authority thereof or therein having power to tax, including any treaty to which the relevant taxing jurisdiction is a party, or a change in an official application or interpretation of those laws or regulations on or after the Issue Date, including a decision of any court or tribunal which becomes effective on or after the Issue Date (a "**Tax Law Change**"):

- (i) in making any payments on the Perpetual Capital Securities, the Society has paid or will or would on the next payment date be required to pay Additional Amounts (as defined in Condition 10); or
- (ii) the Society would not be entitled to claim a deduction in respect of any interest payable (or, if relevant, equivalent expense accruing) in respect of the Perpetual Capital Securities in computing its taxation liabilities or the amount of any such deduction would be materially reduced; or
- (iii) the Society would have to bring into account a taxable credit in connection with a Conversion of the Perpetual Capital Securities; or
- (iv) the Society would incur any other taxation liability or liabilities as a consequence of changes in the value of the Perpetual Capital Securities for accounting purposes or any other relevant taxation purposes,

in each case provided that the consequences of such event cannot be avoided by the Society taking reasonable measures available to it.

The Society shall make available to the Securityholders, at the same time as giving a notice to repay under this Condition 7.3, a copy of an opinion of an independent nationally recognised law firm or other tax adviser in the relevant taxing jurisdiction experienced in such matters to the effect that the circumstances set out one or more of limbs (i) to (iv) of the definition of Tax Event have occurred and are continuing.

#### **7.4 *Repayment for regulatory reasons***

If a Regulatory Event has occurred and is continuing, the Society may, at any time but subject to Condition 7.5 and having given not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 17 (which notice shall, subject to Condition 7.5, be irrevocable), elect to repay all, but not some only, of the Perpetual Capital Securities then outstanding at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with these Conditions).

Upon the expiry of such notice, the Society shall, subject to Condition 7.5, repay the Perpetual Capital Securities accordingly.

A "**Regulatory Event**" will occur if, as a result of a change (or pending change which the Regulator considers to be sufficiently certain) in the regulatory classification of the Perpetual Capital Securities under the Capital Regulations, the entire nominal amount of the Perpetual Capital Securities fully ceases (or would fully cease) to be part of the Society's Tier 1 Capital (whether on an individual consolidated or a consolidated basis).

#### **7.5 *Conditions to repayment and purchase***

Any repayment or purchase of the Perpetual Capital Securities pursuant to this Condition 7 is subject to:

- (i) the Society obtaining such approval, consent or non-objection from, or making such notification required within prescribed periods to, the Regulator, or obtaining such waiver of the then prevailing Capital Regulations from the Regulator, as is required under the then prevailing Capital Regulations;
- (ii) if and to the extent then required under prevailing Capital Regulations, either: (A) the Society having replaced the Perpetual Capital Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Society; or (B) the Society having demonstrated to the satisfaction of the Regulator that the own funds of the Society would, following such repayment or purchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Regulator considers necessary at such time;
- (iii) in respect of a redemption prior to the fifth anniversary of the Issue Date, if and to the extent then required under prevailing Capital Regulations (A) in the case of redemption upon the occurrence of a Tax Event, the Society has demonstrated to the satisfaction of the Regulator that (1) the change in tax treatment is material and (2) the relevant Tax Law Change was not reasonably foreseeable as at the Issue Date, or (B) in the case of redemption upon the occurrence of a Regulatory Event, the Society has demonstrated to the satisfaction of the Regulator that the change (or pending change) in the regulatory classification of the Perpetual Capital Securities was not reasonably foreseeable as at the Issue Date; and
- (iv) if, at the time of such repayment or purchase, the prevailing Capital Regulations permit the repayment or purchase only after compliance with one or more alternative or additional pre-conditions to those set out in paragraphs (i), (ii) and, where applicable, (iii) above, the Society having complied with such other pre-condition(s).



In addition, notwithstanding any other provision of these Conditions, if the Society has elected to repay the Perpetual Capital Securities but the Solvency Test is not satisfied in respect of the relevant payment on the date scheduled for repayment, the relevant repayment notice shall be automatically rescinded and shall be of no force and effect and, accordingly, no repayment of the nominal amount of the Perpetual Capital Securities or any interest thereon will be due and payable on the scheduled repayment date, and the Perpetual Capital Securities will continue to remain outstanding on the same basis as if no repayment notice had been given.

Further, if the Society has elected to repay the Perpetual Capital Securities but, prior to the repayment of the nominal amount, a Conversion Trigger occurs, the relevant repayment notice shall be automatically rescinded and shall be of no force and effect, no repayment of the nominal amount of the Perpetual Capital Securities or any interest thereon will be due and payable on the scheduled repayment date and, instead, a Conversion shall occur in respect of the Perpetual Capital Securities as described under Condition 8.

#### **7.6 Purchases**

Subject to Condition 7.5 and the Capital Regulations, the Society or any of its Subsidiaries may at any time purchase or otherwise acquire Perpetual Capital Securities in any manner and at any price. Subject to applicable law, such Perpetual Capital Securities may, at the election of the Society, be held, reissued, resold or surrendered to the Registrar for cancellation.

#### **7.7 Cancellation**

All Perpetual Capital Securities repaid, all Perpetual Capital Securities purchased (or otherwise acquired) by the Society or any of its Subsidiaries as aforesaid and surrendered for cancellation, and all Perpetual Capital Securities which are Converted shall be cancelled forthwith and such Perpetual Capital Securities may not be reissued or resold.

### **8 Conversion**

#### **8.1 Conversion on a Conversion Trigger**

If the Society determines, as at any Financial Period End Date or Additional Trigger Calculation Date, that either CET1 Ratio has fallen below 7.00 per cent. (the "**Conversion Trigger**"), the Society shall immediately notify the Regulator and promptly thereafter shall notify the Securityholders (in accordance with Condition 17) of the occurrence of the Conversion Trigger and, without delay and by no later than one month (or such shorter period as the Regulator may require) following the determination by the Society that the Conversion Trigger has occurred:

- (a) cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date (whether or not such interest has become due for payment);
- (b) irrevocably (without the need for the consent of Securityholders) write down the Perpetual Capital Securities by reducing the nominal amount of each Perpetual Capital Security to zero; and
- (c) issue to each Securityholder such number of CCDS as is equal to the aggregate nominal amount of that Securityholder's Perpetual Capital Securities divided by the Conversion Price (such write-down under Condition 8.1(b) above and issue of CCDS under this Condition 8.1(c) being referred to as a "**Conversion**", and "**Converted**" being construed accordingly).

Such cancellation of interest, write-down of the Perpetual Capital Securities and (subject as provided in these Conditions) issue of CCDS to Securityholders shall occur on the Conversion Date specified in the Conversion Notice (as defined below).

Fractions of CCDS will not be delivered in connection with any Conversion. Any fractional entitlement to a CCDS which a Securityholder would otherwise obtain as a result of a Conversion will be cancelled, no cash payment or other adjustment will be made in respect thereof and the Securityholder shall have no claim in respect thereof, whether on a winding-up or dissolution of the Society or otherwise.

## **8.2 Conversion Notice**

The Society shall, as soon as reasonably practicable following its determination that a Conversion Trigger has occurred, and in any event not less than 5 days prior to the Conversion Date (provided that shorter notice shall not constitute a default under the Perpetual Capital Securities for any purpose or affect the Conversion of the Perpetual Capital Securities on the Conversion Date), give notice (which notice shall be irrevocable) to the Securityholders in accordance with Condition 17 (the “**Conversion Notice**”) stating (i) that the Conversion Trigger has occurred, (ii) the Conversion Date, (iii) the prevailing Conversion Price and (iv) the procedures Securityholders will need to follow (if any) to receive CCDS pursuant to Condition 8.1(c).

Not later than the giving of the relevant Conversion Notice, the Society shall deliver to the Principal Paying Agent on behalf of the Securityholders a certificate signed by two appropriately authorised signatories of the Society confirming that the Conversion Trigger has occurred.

## **8.3 Consequences of a Conversion**

A write-down of the Perpetual Capital Securities under Condition 8.1(b) shall be deemed effective with effect from the relevant Conversion Date and without the requirement for any further formality. Upon such write-down, the Perpetual Capital Securities, and any accrued and unpaid interest in respect thereof (whether or not such interest has become due for payment), shall be immediately cancelled in accordance with Condition 8.1(a).

Such write-down and cancellation of the Perpetual Capital Securities and cancellation of interest shall be independent of the issue of CCDS to Securityholders under Condition 8.1(c) and, accordingly, shall be effective as of the Conversion Date whether or not the CCDS to be issued to Securityholders under Condition 8.1(c) are so issued on the Conversion Date. If the Society fails to issue such CCDS, or there is any delay in the issue or delivery of such CCDS to any Securityholder, a Securityholder’s only right under the Perpetual Capital Securities against the Society for such failure will be to claim to have such CCDS so issued to it, and the Securityholders shall be deemed irrevocably to have waived any other rights in respect of their Perpetual Capital Securities.

The nominal amount by which the Perpetual Capital Securities are written down shall be applied, directly or indirectly, to paying up the CCDS to be issued to Securityholders under Condition 8.1(c), and the Securityholders shall be deemed irrevocably to have directed and authorised the Society to apply such amounts for such purpose on their behalf.

*The paying up of the CCDS is expected to be reflected in the Society’s accounts as credits to CCDS nominal and CCDS premium by an aggregate amount equal to the nominal amount by which the Perpetual Capital Securities are written down. It is anticipated that the paying up and*

*issue of CCDS will be simultaneous with the write-down and cancellation of the Perpetual Capital Securities.*

Once the nominal amount of a Perpetual Capital Security has been written down, the nominal amount will not be restored in any circumstances, including where the relevant Conversion Trigger ceases to continue.

The write-down and cancellation of the Perpetual Capital Securities and the cancellation of interest thereon in accordance with this Condition 8 will not constitute a default under the Perpetual Capital Securities for any purpose. Following the Perpetual Capital Securities being written down in accordance with this Condition 8, no amount shall at any time be or become due and payable to the Securityholders in respect of the Perpetual Capital Securities, and the liability of the Society to pay any amounts in respect of the Perpetual Capital Securities (including the nominal amount of, any interest in respect of and any other amounts in connection with the Perpetual Capital Securities) shall be automatically released (but this is without prejudice to the right of Securityholders to claim for the issue to them of CCDS pursuant to Condition 8.1(c)).

The Perpetual Capital Securities are not convertible into CCDS at the option of the Securityholders at any time.

#### **8.4 Conversion Price**

The “**Conversion Price**” is £67, subject to adjustment in accordance with Condition 8.5.

#### **8.5 Conversion Price adjustments**

*The Conversion Price adjustments in this Condition 8.5 will apply from the time, if any, that the Society issues any CCDS prior to Conversion of the Perpetual Capital Securities and for so long as any such CCDS remain in issue. For the avoidance of doubt, no adjustment will be made as a result of the first issue of CCDS.*

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows, in each case as determined by the Society or any Calculation Agent appointed by the Society for such purpose:

- (a) If and whenever there shall be a consolidation, reclassification/redesignation or subdivision affecting the number of CCDS, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such consolidation, reclassification/redesignation or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

“**A**” is the aggregate number of CCDS in issue immediately before such consolidation, reclassification/redesignation or subdivision, as the case may be; and

“**B**” is the aggregate number of CCDS in issue immediately after, and as a result of, such consolidation, reclassification/redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification/redesignation or subdivision, as the case may be, takes effect.

- (b) If and whenever the Society shall issue any CCDS credited as fully paid to the CCDS holders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve, if any), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

“A” is the aggregate number of CCDS in issue immediately before such issue; and

“B” is the aggregate number of CCDS in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such CCDS.

- (c) If and whenever the Society shall issue CCDS to CCDS holders as a class by way of rights, or the Society or (at the direction or request or pursuant to any arrangements with the Society) any other company, person or entity shall issue or grant to CCDS holders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase or otherwise acquire any CCDS, or any securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or the right to acquire, any CCDS (or shall grant any such rights in respect of existing securities so issued), in each case at a price per CCDS which is less than 95% of the Current Market Price per CCDS on the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

“A” is the number of CCDS in issue on the Effective Date;

“B” is the number of CCDS which the aggregate consideration (if any) receivable for the CCDS issued by way of rights, or for the securities issued by way of rights, or for the options or warrants or other rights issued or granted by way of rights and for the total number of CCDS deliverable on the exercise thereof, would purchase at such Current Market Price per CCDS on the Effective Date; and

“C” is the number of CCDS to be issued or, as the case may be, the maximum number of CCDS which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase or other rights of acquisition in respect thereof at the initial conversion, exchange, subscription, purchase or acquisition price or rate,

provided that if, on the Effective Date, such number of CCDS is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 8.5(c), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Effective Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Effective Date.

Such adjustment shall become effective on the Effective Date.

As used herein:

**"Effective Date"** means, in respect of this Condition 8.5(c), the first date on which the CCDS are traded ex-rights, ex-options or ex-warrants or (to the extent it is not reasonably practicable to determine when the CCDS are traded ex-rights, ex-options or ex-warrants) the day following the expiry of the relevant options, warrants or rights; and

**“by way of rights”** means in compliance with the pre-emption rights afforded to CCDS holders under the terms of the outstanding CCDS of the Society, and related references to **“rights”** shall be construed accordingly.

- (d) Notwithstanding paragraphs (a), (b) and (c) above, no adjustment to the Conversion Price will be made:
- (i) as a result of the payment of any Distribution;
  - (ii) to the extent CCDS or other securities (including convertible or exchangeable securities, rights or options in relation to CCDS and other securities) are issued, offered or granted as consideration for the purchase of shares or assets of companies;
  - (iii) if an increase in the Conversion Price would result from such adjustment; or
  - (iv) if it would result in the Conversion Price being reduced below the nominal value of a CCDS.

*The Society currently expects that any CCDS would have a nominal value of £1 each and that any amount paid, or treated as paid, upon issue of such CCDS in excess of its nominal value will constitute share premium.*

- (e) Notwithstanding the foregoing provisions:
- (i) where the events or circumstances giving rise to any adjustment pursuant to this Condition 8.5 have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Society, a modification to the operation of the adjustment provisions is required

to give the intended result, such modification shall, subject to compliance with the prevailing Capital Regulations, be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to give the intended result; and

- (ii) such modification shall, subject to compliance with the prevailing Capital Regulations, be made to the operation of these Conditions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to ensure that an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once.

#### **8.6 *Decision of an Independent Financial Adviser***

If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price (including, without limitation, as to the determination of any Effective Date or (if applicable) Current Market Price), and following consultation between the Society and an Independent Financial Adviser, a written determination of such Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

#### **8.7 *Option schemes and reinvestment plans***

No adjustment will be made to the Conversion Price where CCDS or other securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Society or any associated company or to a trustee or trustees to be held for the benefit of any such person, in any such case pursuant to any share or option scheme or pursuant to any dividend reinvestment plan or similar plan or scheme.

#### **8.8 *Rounding down and notice of adjustment to the Conversion Price***

On any adjustment, the resultant Conversion Price, if not an integral multiple of £0.001, shall be rounded down to the nearest whole multiple of £0.001. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Conversion Price then in effect. Any adjustment not required to be made and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Conversion Price shall be given by the Society to Securityholders in accordance with Condition 17 promptly after the determination thereof.

#### **8.9 *Taxes etc.***

The Society shall not be liable for any taxes or capital, stamp, issue, registration or transfer taxes or duties arising on Conversion or that may arise or be paid as a consequence of the delivery of CCDS upon Conversion. A Securityholder must pay any taxes and capital, stamp, issue, registration and transfer taxes and duties arising on Conversion as a consequence of any disposal

or deemed disposal of its Perpetual Capital Securities (or any interest therein) and/or the issue or delivery to it of any CCDS (or any interest therein).

#### **8.10 CCDS**

CCDS issued upon Conversion will be fully paid and will in all respects rank *pari passu* with the fully paid CCDS (if any) in issue on the Conversion Date, except in any such case for any right excluded by mandatory provisions of applicable law and except that such CCDS will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments as of any applicable record date or other due date for the establishment of entitlement for which falls prior to the Conversion Date.

*It is intended that any CCDS issued upon Conversion will, with effect from the Conversion Date or as soon as appropriate thereafter, be consolidated and form a single series with the CCDS (if any) of the Society then in issue.*

*As at the Issue Date, the Society has not issued any CCDS. The indicative terms of, and other provisions relating to, the CCDS which the Society would expect to issue in the event of a Conversion of the Perpetual Capital Securities are set out in the Annex to this Offering Circular. Such terms and other provisions are indicative only and are subject to amendment, including (without limitation) in the circumstances referred to in the introduction to the Annex.*

*The CCDS issued upon Conversion would, in the event of a subsequent winding-up or dissolution of the Society (other than a winding-up or dissolution in connection with an amalgamation or transfer as described Condition 10 of the indicative terms of the CCDS), entitle the holders thereof (together with the holders of any other CCDS of the same series, if any) to a proportionate claim over the surplus assets (if any) of the Society remaining after satisfaction of its liabilities. Such proportionate claim would be calculated on the basis of Condition 4.4(b) of the indicative terms of the CCDS or, if the CCDS issued upon Conversion are to be consolidated into a single series with CCDS that are already in issue at that time, will be calculated (under the equivalent provisions in the terms of such existing CCDS) on the basis of an adjustment to the then-current claim of holders of the CCDS as a class. Further adjustments would be made in the event of further subsequent issues of CCDS or cancellations of CCDS.*

#### **8.11 Covenants**

The Society shall (if and to the extent permitted by the Regulator and prevailing Capital Regulations and, in the case of each covenant, only to the extent that such covenant would not cause a Regulatory Event to occur), save with the approval of a resolution of Securityholders passed in accordance with Condition 15, use reasonable endeavours to:

- (a) ensure that the CCDS issued upon Conversion shall be admitted to listing and trading on (i) a Relevant Stock Exchange and (ii) if and to the extent there are CCDS in issue immediately prior to the time of Conversion, the principal stock exchange or securities market (if any) on which such CCDS are then listed, admitted to trading or quoted or accepted for dealing, in each case, as soon as the Society in its sole discretion (having regard to the interests of the Society's members, the financial condition of the Society and prevailing market conditions) considers practicable following the issue of such CCDS;

- (b) appoint an Independent Financial Adviser promptly in the circumstances where these Conditions require or provide for a determination by such Independent Financial Adviser; and
- (c) (if no such published policy is maintained by the Society at that time) publish a distribution policy in connection with the CCDS as soon as the Society in its sole discretion considers practicable following Conversion of the Perpetual Capital Securities.

## 9 Payments

### 9.1 *Method of payment*

- (i) Payments of principal shall be made (subject to surrender of the relevant Certificates at the specified office of the Registrar if no further payment falls to be made in respect of the Perpetual Capital Securities represented by such Certificates) in the manner provided in paragraph (ii) below.
- (ii) Interest on each Perpetual Capital Security shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Perpetual Capital Security shall be made in Sterling by cheque drawn on a bank and mailed to the Securityholder (or to the first named of joint Securityholders) of such Perpetual Capital Security at its address appearing in the Register. Upon application by the Securityholder to the specified office of the Registrar before the Record Date, such payment of interest may instead be made by transfer to a Sterling account specified by the payee.

*Notwithstanding this Condition 9.1, all payments in respect of Perpetual Capital Securities held through Clearing System accounts will be credited to the cash accounts of Accountholders in accordance with the relevant Clearing System’s rules and procedures.*

### 9.2 *Payments subject to applicable laws*

Payments in respect of the Perpetual Capital Securities are subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction, but without prejudice to the provisions of Condition 10, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or (without prejudice to the provisions of Condition 10) any law implementing an intergovernmental approach thereto.

### 9.3 *Payment initiation*

Where payment is to be made by transfer to a Sterling account, payment instructions (for value the due date, or if that is not a Business Day, for value the first following day which is a Business Day) will be initiated, and, where payment is to be made by cheque, the cheque will be mailed on the last day on which the Principal Paying Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.



#### 9.4 *Delay in payment*

Securityholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Perpetual Capital Security if the due date is not a Business Day, if the Securityholder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with Condition 9.1(ii) arrives after the due date for payment.

#### 9.5 *Non-payment days*

If any date for payment in respect of any Perpetual Capital Security is not a payment day, the Securityholder shall not be entitled to payment until the next following payment day nor to any interest or other sum in respect of such postponed payment. In this Condition 9, “**payment day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar is located and, where payment is to be made by transfer to a Sterling account, a day which is a Business Day.

### 10 **Taxation**

All payments by or on behalf of the Society in respect of the Perpetual Capital Securities shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. If any such withholding or deduction for or on account of any Taxes is required by law, the Society will pay such additional amounts (“**Additional Amounts**”) as may be necessary in order that the net amounts received by the Securityholders after the withholding or deduction shall equal the amounts which would have been receivable in respect of the Perpetual Capital Securities in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Perpetual Capital Securities:

- (a) by or on behalf of a Securityholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Perpetual Capital Securities by reason of it having some connection with the United Kingdom other than the mere holding of the Perpetual Capital Securities;
- (b) where (in the case of a payment of principal or interest on repayment) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the Securityholder would have been entitled to such additional amounts on surrendering such Certificate for payment on the last day of such period of 30 days;
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (d) by or on behalf of a Securityholder who would have been able to avoid such withholding or deduction by presenting the relevant Certificate to another registrar or agent in a member state of the European Union; or

- (e) where the Securityholder is able to avoid such withholding or deduction by complying, or procuring that a third party complies with, any applicable statutory requirements or by making, or procuring that any third party makes, a declaration of non-residence or other similar claim for exemption to any tax authority.

For the purpose of the foregoing, the Society undertakes that it will maintain a registrar or agent with a specified office in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

*For a description of applicable United Kingdom taxation considerations, see the section “United Kingdom Taxation” in this Offering Circular.*

## **11 Prescription**

Any amounts payable in respect of the Perpetual Capital Securities in respect of which no cheque has been cashed and no payment claimed shall cease to be payable after 12 years from the appropriate Relevant Date and shall revert to the Society.

## **12 Replacement of Certificates**

A Securityholder who has lost a Certificate shall immediately give notice in writing of such loss to the Society at its Principal Office and to the Registrar at its specified office. If a Certificate is damaged or alleged to have been lost, stolen or destroyed, a new Certificate representing the same Perpetual Capital Securities shall be issued by the Registrar, on behalf of the Society, to the Securityholder upon request, subject to delivery up of the old Certificate or (if alleged to have been lost, stolen or destroyed) subject to compliance with such conditions as to evidence and indemnity as the Board and the Registrar may think fit and to payment of any exceptional expenses of the Society and the Registrar incidental to its investigation of the evidence of such alleged loss, theft or destruction. The duplicate Certificate will be made available at the offices of the Registrar.

## **13 Succession and transfers**

### **13.1 Amalgamation or transfer under section 93 or 94 of the Act**

Upon an amalgamation by the Society with another building society under section 93 of the Act or a transfer of all or substantially all of its engagements to another building society under section 94 of the Act, the Perpetual Capital Securities shall become deferred shares in the amalgamated or transferee building society, as appropriate (the “**Resulting Society**”), without any alteration in their terms except as follows.

If the Board, in its sole discretion, considers that, as a result of such amalgamation or transfer, it is necessary to amend the provisions of these Conditions relating to Conversion of the Perpetual Capital Securities pursuant to Condition 8 in order to give effect to or preserve substantially the economic effect of Conversion for the Securityholders, it may, upon not less than 15 days’ notice to Securityholders in accordance with Condition 17 but without the consent or approval of the Securityholders, make such amendments to Condition 8 (and/or any other provision of these Conditions relating to Conversion and any consequent changes) which, as determined by the Board in consultation with an Independent Financial Adviser appointed by the Society for such purpose:

- (a) give effect to and preserve substantially the economic effect of a Conversion of the Perpetual Capital Securities for the Securityholders; and
- (b) do not result in the terms of the Perpetual Capital Securities becoming materially less favourable to the Securityholders,

and provided that the following shall be preserved in all material respects: (1) the ranking of the Perpetual Capital Securities, (2) the Interest Rate on the Perpetual Capital Securities from time to time, the Interest Payment Dates and the provisions regarding discretionary and mandatory cancellation of interest, (3) any existing rights under the Conditions to any accrued interest which has not been satisfied or cancelled in accordance with the Conditions, (4) the repayment rights and obligations of the Society and (5) compliance with the prevailing Capital Regulations and requirements of the Regulator in relation to Tier 1 Capital (but, for the avoidance of doubt, not common equity tier 1 capital); and provided further that a certificate to the effect of the foregoing shall have been signed by two appropriately authorised signatories of the Society and given to the Registrar on behalf of the Securityholders.

A brief summary of any key changes to the terms of the Perpetual Capital Securities will, not later than the time at which notice is given to members of resolutions to be proposed to approve the relevant amalgamation or transfer, be available for inspection by the Securityholders at the Principal Office of the Society and the specified office of the Registrar.

*It may be necessary, upon an amalgamation by the Society with another building society or a transfer of all or substantially all of its engagements to another building society as envisaged by Condition 13.1, for the terms of the Perpetual Capital Securities as regards Conversion to be amended in certain respects, for example if any CCDS then outstanding cease to exist or are themselves amended in any relevant respect as a result of, or in connection with, such amalgamation or transfer. The Society anticipates that, in particular, changes may be required if CCDS are no longer the appropriate instrument to deliver to Securityholders upon Conversion of the Perpetual Capital Securities, or if any adjustments to the Conversion Price (and/or the adjustment provisions relating thereto) are appropriate. With a view to minimising the financial impact of any such amendments on Securityholders, it is the intention of the Society that, if and to the extent that the Society has control over such matters, any such amendments to the Conditions of the Perpetual Capital Securities should be limited to the minimum necessary in order to ensure that the Conversion provisions remain appropriate in the context of the Resulting Society and preserve substantially the economic effect of Conversion for the Securityholders. Whilst the Society anticipates that any conversion of the Perpetual Capital Securities following such amalgamation or transfer would be a conversion into CCDS or instruments of the Resulting Society which are similar to the CCDS, there can be no assurance that this will be the case.*

### **13.2 Transfer of business under section 97 of the Act**

Upon a transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company (a “**Successor Entity**”, which expression includes a subsidiary of a mutual society as referred to in the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 as amended (the “**Mutual Societies Transfers Act**”)) the Successor Entity will, in accordance with section 100(2)(a) of the Act, as from the vesting date, assume a subordinated liability (a “**Subordinated Deposit**”) to each holder of Perpetual Capital Securities, which Subordinated Deposit shall be applied on the vesting date (or as soon as reasonably practicable thereafter), on behalf of the Securityholder, in the subscription of undated subordinated bonds

(the “**Bonds**”) in a principal amount equivalent to the nominal amount of the Perpetual Capital Securities held by such Securityholder immediately prior to such transfer.

The Bonds (1) may be issued directly or indirectly by the Successor Entity, (2) shall rank junior to any subordinated deposit or subordinated bonds issued by the Successor Entity in respect of Senior Obligations of the Society and senior to any subordinated deposit, subordinated bonds and/or shares issued by the Successor Entity in respect of Junior Obligations of the Society, (3) shall bear the same Interest Rate from time to time and Interest Payment Dates as the Perpetual Capital Securities and shall preserve the provisions regarding discretionary and mandatory cancellation of interest, (4) shall have the same repayment rights and obligations as the Perpetual Capital Securities (provided that the first optional repayment date may, if so required in order for the Bonds to qualify as Tier 1 Capital of the Society, be later than the First Call Date) and (5) shall preserve any existing rights under the Conditions to any accrued interest which has not been satisfied or cancelled in accordance with the Conditions.

The terms of the Bonds will, to the fullest extent permitted by applicable law and regulation, (a) be such as to comply with the prevailing Capital Regulations requirements of the Regulator in relation to Tier 1 Capital (but, for the avoidance of doubt, not common equity tier 1 capital); and (b) include such changes and additional provisions as are deemed necessary by the Board to give effect to and preserve substantially the economic effect of the Conditions of the Perpetual Capital Securities and are not materially less favourable to the Securityholders than the Conditions of the Perpetual Capital Securities, all as determined by the Board in consultation with an Independent Financial Adviser appointed by the Society for such purpose; provided that a certificate to the effect of the foregoing shall have been signed by two appropriately authorised signatories of the Society and given to the Registrar on behalf of the Securityholders.

A brief summary of the key terms and conditions of the Bonds will, not later than the time at which notice is given to members of resolutions to be proposed to approve such transfer, be available for inspection by the Securityholders at the Principal Office of the Society and the specified office of the Registrar at that time and, subject as provided above, will be determined by the Board in its absolute discretion.

### **13.3 *Successions and transfers where the resulting entity does not have a viable convert-to instrument***

Upon an amalgamation or transfer in accordance with Condition 13.1 or 13.2, the Society shall use reasonable commercial endeavours to procure that (i) the Perpetual Capital Securities (or any instrument issued in replacement thereof as a result of a transfer in accordance with Condition 13.2) would, in the event of a Conversion Trigger occurring immediately following such amalgamation or transfer, convert into a common equity tier 1 capital instrument of the Resulting Society or, as the case may be, the Successor Entity (or its parent), and (ii) if, immediately prior to such amalgamation or transfer, there are in issue any CCDS of the Society that are listed or admitted to trading on any market, that the relevant common equity tier 1 capital instrument of the Resulting Society or the Successor Entity (as the case may be) is listed or admitted to trading on that same market or on an EEA Regulated Market or on another regulated, regularly operating, recognised stock exchange or securities market in an OECD member state.

If, however, notwithstanding such reasonable commercial endeavours, the Society is unable to procure such outcome, then (notwithstanding any provision of Condition 13.1 or 13.2) if a Conversion Trigger occurs on or after the effective date of such amalgamation or transfer, the

outstanding Perpetual Capital Securities (or any instrument issued in replacement thereof as a result of a transfer in accordance with Condition 13.2) shall not be subject to Conversion but instead will be subject to permanent write-down. Accordingly, upon the occurrence of such Conversion Trigger, the full nominal amount of such Perpetual Capital Securities (or replacement instruments) will automatically be written down to zero, each Perpetual Capital Security (or replacement instrument) will be cancelled, the Securityholders will be automatically deemed to have irrevocably waived their right to receive, and will no longer have any rights against the Resulting Society or Successor Entity with respect to, repayment of the aggregate nominal amount of the Perpetual Capital Securities (or replacement instruments) so written down or delivery of any instrument as a result of such write-down, and all accrued but unpaid interest and any other amounts payable on each Perpetual Capital Security (or replacement instrument) will be cancelled, irrespective of whether such amounts have become due and payable prior to the occurrence of the Conversion Trigger.

#### **13.4 Undertakings**

- (a) The Society undertakes to procure that any amalgamation or transfer referred to in Condition 13.1 or 13.2 will comply with the provisions of Condition 13.1 or, as the case may be, 13.2. The Society undertakes to use all reasonable endeavours to enter into such agreements, and to take such other reasonable steps, as are necessary to give effect to the provisions of this Condition 13 (including, but not limited to, the appointment, if applicable, of an Independent Financial Adviser).
- (b) In connection with any amalgamation by the Society with another building society under section 93 of the Act or a transfer of all or substantially all of its engagements to another building society under section 94 of the Act as provided in Condition 13.1, the Society:
  - (i) shall, and shall use all reasonable endeavours to procure that the Resulting Society shall, comply with the rules of any competent authority, stock exchange and/or quotation system by or on which the Perpetual Capital Securities are, for the time being, listed, traded and/or quoted; and
  - (ii) shall pay, or shall use all reasonable endeavours to ensure that Resulting Society pays, any taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties payable in the United Kingdom arising on the issue and initial delivery of such deferred shares (if applicable), but will not pay (and each Securityholder as to itself will be required to pay) any other taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on or following the issue and initial delivery of such deferred shares (if applicable) pursuant to Condition 13.1.
- (c) In connection with any transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company as provided in Condition 13.2, the Society:
  - (i) shall, and shall use all reasonable endeavours to procure that the Successor Entity shall, comply with the rules of any competent authority, stock exchange and/or quotation system by or on which the Perpetual Capital Securities are, for the time being, listed, traded and/or quoted;
  - (ii) shall use all reasonable endeavours to ensure that the terms upon which its business is transferred to the Successor Entity shall require the Successor Entity to pay (or, in the absence of any such term of transfer, shall itself pay), any stamp duties,

stamp duty reserve taxes and similar capital, stamp, issue and registration duties payable in the United Kingdom arising on the issue and initial delivery of the Bonds, but will not pay (and each Securityholder as to itself will be required to pay) any other taxes, stamp duties, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on or following the issue and initial delivery of the Bonds pursuant to Condition 13.2; and

- (iii) shall use all reasonable endeavours to ensure that the terms upon which its business is transferred to the Successor Entity shall require the Successor Entity to procure that the Bonds are (A) where the Perpetual Capital Securities were listed and/or admitted to trading immediately prior to the aforesaid transfer to the Successor Entity, listed and/or admitted to trading (as the case may be) on the same stock exchange (or, if this is wholly impracticable, admitted to trading on another internationally recognised stock exchange or market chosen by the Successor Entity) and (B) admitted to, and traded in, the same clearing system or systems as the Perpetual Capital Securities or, if this is wholly impracticable, in such other clearing system or systems determined by the Successor Entity provided that this does not materially prejudice the holders of the Bonds.

## **14 Variations of the Conditions and the Rules**

### **14.1 Variation of the Conditions**

Subject as provided in Condition 13, these Conditions may only be varied by the Society (a) with the consent in writing of the Securityholders in accordance with Condition 15.7 or with the sanction of a resolution passed at a separate meeting of the Securityholders held in accordance with Condition 15 and (b) in compliance with prevailing Capital Regulations at such time (including, if then required, obtaining the prior consent of the Regulator).

### **14.2 Variation of the Rules**

- (a) These Conditions do not limit the rights of members of the Society to amend the Rules.
- (b) The Society undertakes not to initiate any amendment to the Rules that is both (a) inconsistent with the provisions of these Conditions and (b) materially prejudicial to the interests of the Securityholders in that capacity.
- (c) Any amendment to the Rules or any resolution of members of the Society (in either case whether such amendment or resolution is initiated by the Society or by one or more of its members) shall not:
  - (i) limit any rights of any Securityholder to bring an action against the Society for breach of contract in circumstances where the Society is in breach of these Conditions, and furthermore any Securityholder shall be entitled to bring an action against the Society as if there had been a breach of contract (such that a Securityholder may sue for a liquidated sum equal to its loss) in circumstances where an amendment has been made to the Rules or any resolution of members of the Society has been passed which is materially prejudicial to the holders of the Perpetual Capital Securities as a class and which would have been a breach of these Conditions had such amendment been instituted by the Society; or

- (ii) afford the Society any defence to any claim made in any action referred to under (i) above,

provided, however, that no Securityholder shall be entitled to bring an action against the Society under (i) above, and the Society shall have a valid defence to any such action under (ii) above, if holders of the Perpetual Capital Securities have at any time passed a resolution in accordance with Condition 15 (whether at a duly convened meeting of the Securityholders or by way of written resolution) approving, ratifying and/or consenting to the relevant amendment to the Rules or the relevant member resolution, as the case may be.

## **15 Meetings of the Securityholders**

### **15.1 *Convening the meeting, notice and quorum***

The Society alone may at any time convene a separate meeting of the Securityholders. Every meeting shall be held at such place as the Society may nominate.

At least 21 clear days' notice, specifying the hour, date and place of the meeting shall be given to the Securityholders entered in the Perpetual Capital Securities Register 35 days prior to the date specified for the meeting, such notice to be given in accordance with Condition 17. The notice shall specify generally the nature of the business to be transacted at the meeting and the terms of any resolution to be proposed to alter these Conditions.

Any person (who may, but need not, be a Securityholder) nominated in writing by the Society shall be entitled to take the chair at every meeting but if no nomination is made or if at any meeting the person nominated shall not be present within 15 minutes after the time appointed for holding the meeting, the Securityholders present shall choose one of their number who is present to be chairman.

At any meeting one or more persons present in person or by proxy and holding or representing in aggregate not less than one-third of the nominal amount of the Perpetual Capital Securities for the time being outstanding shall form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum shall be present at the commencement of business. Every question submitted to the meeting (other than the choosing of a chairman which will be decided by a simple majority) shall be decided by a poll of one or more persons present and holding Perpetual Capital Securities or being proxies and representing in aggregate not less than three-quarters of the nominal amount outstanding of the Perpetual Capital Securities represented at such meeting voting in favour of such question.

### **15.2 *Adjournment***

If within half an hour after the time appointed for any meeting a quorum is not present, the meeting shall stand adjourned for such period, being not less than 14 days nor more than 42 days and at such place as may be appointed by the chairman and if at the adjourned meeting a quorum shall not be present within half an hour from the time appointed for the adjourned meeting, the Securityholders present in person or by proxy at the adjourned meeting shall be a quorum.

Notice of any adjourned meeting shall be given in the same manner as notice of an initial meeting but as if 10 were substituted for 21 in Condition 15.1.

The chairman may with the consent of (and shall if directed by a resolution of) the meeting adjourn any meeting from time to time and from place to place but no business shall be transacted at any adjourned meeting other than business left unfinished or not reached at the meeting from which the adjournment took place.

### **15.3 *Conduct of business of the meeting***

A poll shall be taken in such manner as the chairman directs and the result of the poll shall be deemed to be the resolution of the meeting.

Any director or officer of the Society and its professional advisers may attend and speak at any meeting of the Securityholders. Save as provided above, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any such meeting unless it is a Securityholder or is a proxy thereof.

At any class meeting of the Securityholders, every Securityholder or proxy who is present shall have one vote in respect of each £1,000 in outstanding nominal amount of the Perpetual Capital Securities held or, as the case may be, in respect of which it is a proxy.

### **15.4 *Proxies***

A Securityholder entitled to attend a meeting of the Securityholders:

- (a) may appoint one person (whether or not a Securityholder) as its proxy to attend and, on a resolution, to vote at such meeting in its place; and
- (b) may direct the proxy how to vote at the meeting.

A proxy shall be appointed in the manner provided in Schedule 3 to the Agency Agreement.

### **15.5 *Effect of resolution***

Any resolution passed at a meeting duly convened and held in accordance with these provisions shall be binding upon all the Securityholders whether or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution.

### **15.6 *Other matters***

Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Society and any minutes purporting to be signed by the chairman of the meeting at which resolutions were passed or proceedings had shall be conclusive evidence of the matters contained in the minutes and until the contrary is proved every meeting in respect of the proceedings of which minutes have been so made and signed shall be deemed to have been duly held and convened and all resolutions passed or proceedings had to have been duly passed or had.

The accidental omission to send notice of a separate meeting or to send any document required to be sent with the notice or otherwise before the meeting to, or the non-receipt of notice of a separate meeting or any such document as aforesaid by, any person entitled to receive notices or documents shall not invalidate the proceedings at that meeting.



### **15.7 Written resolution**

A resolution may also be passed, without the need for a meeting of Securityholders, by way of a resolution in writing signed by or on behalf of Securityholders holding in aggregate not less than three-quarters in nominal amount of the Perpetual Capital Securities then. Such written resolution may be contained in one document or several documents in like form each signed by or on behalf of one or more such Securityholders. Any written resolution passed shall be binding upon all the Securityholders whether or not signing the written resolution and each of them shall be bound to give effect to the resolution accordingly.

### **15.8 Notice**

Notice of any resolution duly passed by the Securityholders, whether at a meeting of Securityholders or by written resolution, shall be given in accordance with Condition 17 by the Society within 14 days of the passing of the resolution, provided that the non-publication of the notice shall not invalidate the resolution.

## **16 Further issues**

The Society shall be at liberty from time to time without the consent of the Securityholders to create and issue further deferred shares either:

- (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with any series of outstanding deferred shares of the Society (including the Perpetual Capital Securities); or
- (b) upon such other special terms of issue as the Society may at the time of issue determine (having regard to Condition 4.2).

## **17 Notices**

All notices regarding the Perpetual Capital Securities shall be valid if sent by post to the Securityholders at their respective addresses in the Perpetual Capital Securities Register. Any such notice shall be deemed to have been given on the second Business Day following the mailing of such notice. For so long as the Perpetual Capital Securities are listed or admitted to trading on any stock exchange, such notice shall also be made available in any other manner required by the rules of such stock exchange then in effect.

## **18 Governing law and rights of third parties**

The rights and obligations in respect of the Perpetual Capital Securities and any non-contractual obligations arising out of, or in connection with, the Perpetual Capital Securities are governed by, and shall be construed in accordance with, English law.

No person shall have any right to enforce any term or condition of the Perpetual Capital Securities under the Contracts (Rights of Third Parties) Act 1999.

*Subject to the provisions of section 1 of the Courts and Legal Services Act 1990, section 85 of and Schedule 14 to the Act provide that no court other than the High Court in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society or the Act. Pursuant to section 1 of the Courts and Legal Services Act 1990, the*

*High Court and County Courts Jurisdiction Order 1991 No. 724 has been made which empowers the High Court to transfer cases over which it has jurisdiction to the County Court.*

## **19 Definitions**

For the purpose of these Conditions:

**“5-year Mid-Swap Rate”** means, in relation to a Reset Period and the Reset Determination Date in relation to such Reset Period:

- (i) the semi-annual mid-swap rate with a term of five years which appears on the Screen Page as of 11:00 a.m. (London time) on such Reset Determination Date; or
- (ii) if such rate does not appear on the Screen Page at such time on such Reset Determination Date, the Reset Reference Bank Rate on such Reset Determination Date;

**“5-year Mid-Swap Rate Quotations”** means the arithmetic mean of the bid and ask rates for the semi-annual fixed leg (calculated on an Actual/365 (Fixed) day count basis) of a fixed-for-floating Sterling interest rate swap which:

- (i) has a term of five years commencing on the relevant Reset Date;
- (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market; and
- (iii) has a floating leg based on 6-month LIBOR rate (calculated on an Actual/365 (Fixed) day count basis);

**“Accounting Currency”** means Sterling or such other primary currency used in the presentation of the Society’s accounts from time to time;

**“Accrual Date”** has the meaning ascribed thereto in Condition 5.1;

**“Act”** means the Building Societies Act 1986, as amended;

**“Actual/365 (Fixed)”** means, in respect of any period, the actual number of days in that period divided by 365;

**“Additional Amounts”** has the meaning ascribed thereto in Condition 10;

**“Additional Trigger Calculation Date”** means any day (other than a Financial Period End Date) on which either CET1 Ratio is calculated upon the instruction of the Regulator or at the Society's discretion;

**“Assets”** means the unconsolidated gross assets of the Society as shown in its latest published audited balance sheet, but adjusted for subsequent events in such manner as the Board may determine;

**“Board”** means the Board of Directors of the Society;

**“Business Day”** means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London;

**“Calculation Agent”** means any calculation agent which may be appointed by the Society from time to time to determine any adjustment or adjustments to the Conversion Price;

**“Calculation Amount”** means £1,000 in nominal amount of Perpetual Capital Securities;

“**Capital Regulations**” means any requirements of United Kingdom law or contained in the regulations, requirements, guidelines and policies of the Regulator, or of the European Parliament and the European Council, then in effect in the United Kingdom relating to capital adequacy and applicable to the Society;

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

“**Capital Requirements Regulation**” means Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (and amending Regulation (EU) No 648/2012) dated 26 June 2013, as amended or replaced from time to time;

“**CCDS**” means any Core Capital Deferred Share(s) of the Society;

“**CCDS holder**” means a holder of a CCDS;

“**Certificate**” has the meaning ascribed thereto in Condition 2.3;

“**CET1 Ratio**” means, as at any Financial Period End Date or Additional Trigger Calculation Date, as the case may be, each of (a) the ratio of Common Equity Tier 1 of the Society as at such date to the Risk Weighted Assets of the Society as at the same date, in each case calculated by the Society on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) and expressed as a percentage; and (b) the ratio of Common Equity Tier 1 of the Society as at such date to the Risk Weighted Assets of the Society as at the same date, in each case calculated by the Society on a consolidated basis and expressed as a percentage;

“**Common Equity Tier 1**” means, as at any date, the sum, expressed in the Accounting Currency, of all amounts that constitute common equity tier 1 capital of the Society as at such date, less any deductions from common equity tier 1 capital required to be made as at such date, in each case as calculated by the Society on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) or, as the context requires, a consolidated basis, in each case in accordance with the then prevailing Capital Regulations on an end-point basis (i.e. without taking into account any transitional, phasing in or similar provisions);

“**common equity tier 1 capital**” has the meaning given to it (or any successor term) in the Capital Regulations from time to time;

“**Conversion**” has the meaning ascribed thereto in Condition 8.1;

“**Conversion Date**” means the date specified as such in the relevant Conversion Notice, which shall be not later than one month (or such shorter period as the Regulator may require) from the occurrence of the Conversion Trigger;

“**Conversion Notice**” has the meaning ascribed thereto in Condition 8.2;

“**Conversion Price**” has the meaning ascribed thereto in Condition 8.4;

“**Conversion Trigger**” has the meaning ascribed thereto in Condition 8.1;

“**Converted**” has the meaning ascribed thereto in Condition 8.1;

“**Current Market Price**” means, in respect of a CCDS as at a particular date, the volume weighted average price of the CCDS observed over the 5 dealing days ending on the dealing day immediately

preceding such date; provided that if the Society or, if applicable, its appointed Calculation Agent is not able to obtain sufficient information over such 5 dealing days from a relevant screen page on Bloomberg, Reuters or another information service of recognised standing in order to determine such volume weighted average price, it shall request at least four reference banks (selected by the Society or, if appointed, the Calculation Agent in consultation with the Society) to provide it with quotations for (or a best estimate of quotations for) prices of trades in a representative amount of CCDS for each of the 5 dealing days. If one or more of the reference banks provide such quotations, the Current Market Price shall be the arithmetic mean of such quotations as determined by the Society or, if appointed, the Calculation Agent; if no such reference bank provides such quotations, the Current Market Price shall be determined in good faith by an Independent Financial Adviser in its sole discretion;

“**Day-Count Fraction**” has the meaning ascribed thereto in Condition 5.1;

“**dealing day**” means (i) if the CCDS are, at the relevant time, listed or admitted to trading on a stock exchange or other market, a day on which such primary stock exchange or other market is open for business and on which the CCDS may be dealt in or (ii) if the CCDS are not so listed or admitted to trading at the relevant time, a day on which the London Stock Exchange plc is open for business (in each case other than a day on which such stock exchange or other market is scheduled to or does close prior to its regular weekday closing time);

“**Distributable Items**” has the meaning ascribed thereto in Condition 6.2;

“**Distribution**” means any distribution on, or repayment in part of the nominal amount of, a CCDS, in each such case, made by the Society in cash (whatever the currency);

“**EEA Regulated Market**” has the meaning set out in Article 4.1(14) of Directive 2004/39/EC of the European Parliament and of the Council on markets on financial instruments, as amended;

“**Effective Date**” has the meaning ascribed thereto in Condition 8.5(c);

“**Excluded Dissolution**” means a dissolution of the Society by virtue of the amalgamation and transfer provisions set out in sections 93, 94 and 97 of the Act, or by virtue of a transfer pursuant to an order made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, as amended;

“**Financial Period End Date**” means the last day of any semi-annual financial period of the Society;

“**Financial Year**” means the financial year of the Society (being the one-year period in respect of which it prepares annual audited financial statements) from time to time, which as at the Issue Date runs from (and including) 1 January in one calendar year to (but excluding) the same date in the immediately following calendar year;

“**First Call Date**” means 1 November 2019;

“**FSMA**” means the Financial Services and Markets Act 2000, as amended;

“**Independent Financial Adviser**” means an independent financial institution or adviser (which, for the avoidance of doubt, may (but need not) be any appointed Calculation Agent) with appropriate expertise in the context of its appointment, appointed by the Society at its own expense;

“**Initial Interest Rate**” has the meaning ascribed thereto in Condition 5.4;

“**Interest Payment**” means, in respect of an Interest Payment Date, the amount of interest which, subject to Conditions 6 and 8, is payable for the relevant Interest Period in accordance with Condition 5;

**“Interest Payment Date”** means 1 May and 1 November in each year, starting on (and including) 1 November 2014;

**“Interest Period”** means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

**“Interest Rate”** means the Initial Interest Rate and/or the applicable Reset Interest Rate, as the case may be;

**“Issue Date”** means 26 June 2014;

**“Junior Obligations”** has the meaning ascribed thereto in Condition 4.2;

**“Liabilities”** means the unconsolidated gross liabilities of the Society as shown in its latest published audited balance sheet, but adjusted for contingent liabilities and for subsequent events in such manner as the Board may determine;

**“Margin”** means 4.113 per cent. per annum;

**“Maximum Distributable Amount”** has the meaning ascribed thereto in Condition 6.2;

**“Parity Obligations”** has the meaning ascribed thereto in Condition 4.2;

**“Perpetual Capital Securities”** means the £400,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities of the Society and includes any further Perpetual Capital Securities issued pursuant to Condition 16(a) which are consolidated and form a single series with the then outstanding Perpetual Capital Securities, and **“Perpetual Capital Security”** shall be construed accordingly;

**“Perpetual Capital Securities Register”** means the records of the Society maintained by the Registrar for the purposes of the Perpetual Capital Securities;

**“PIBS”** means any permanent interest bearing share(s) of the Society from time to time outstanding including (without limitation, and for so long as any of the same shall remain outstanding) the £120,000,000 6.092 per cent. Permanent Interest Bearing Shares (ISIN GB00B177CL57) and the £40,000,000 12<sup>1</sup>/<sub>8</sub> per cent. Permanent Interest Bearing Shares (ISIN GB0002290764);

**“Principal Office”** means, with respect to the Society, its principal office from time to time, being as at the Issue Date at Economic House, PO Box 9, High Street, Coventry CV1 5QN, United Kingdom;

**“Principal Paying Agent”** means Citibank, N.A., London Branch or such other principal paying agent appointed by the Society from time to time in respect of the Perpetual Capital Securities;

**“Record Date”** has the meaning ascribed thereto in Condition 9.1(ii);

**“Registrar”** means Citibank, N.A., London Branch or such other registrar appointed by the Society from time to time in respect of the Perpetual Capital Securities;

**“Regulator”** means the UK Prudential Regulation Authority and any successor or replacement thereto or such other authority in the United Kingdom or elsewhere having primary responsibility for the prudential oversight and supervision of the Society;

**“Regulatory Event”** has the meaning ascribed thereto in Condition 7.4;

**“Relevant Date”** means whichever is the later of: (a) the date on which the payment in question first becomes due; and (b) if the full amount payable has not been received by the Registrar, the Principal

Paying Agent or another registrar or agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Securityholders;

“**Relevant Stock Exchange**” means an EEA Regulated Market or another regularly operating, internationally recognised stock exchange or securities market;

“**Reset Date**” means the First Call Date and each date that falls five, or a whole multiple of five, years following the First Call Date;

“**Reset Determination Date**” means, in relation to a Reset Period, the day falling two Business Days prior to the Reset Date on which such Reset Period commences;

“**Reset Interest Rate**” means, in relation to a Reset Period, the sum of: (a) the 5-year Mid-Swap Rate in relation to that Reset Period; and (b) the Margin;

“**Reset Period**” means each period from (and including) any Reset Date and ending on (but excluding) the next Reset Date;

“**Reset Reference Bank Rate**” means, in relation to a Reset Period and the Reset Determination Date in relation to such Reset Period, the percentage rate determined on the basis of the 5-year Mid-Swap Rate Quotations provided by the Reset Reference Banks to the Principal Paying Agent at approximately 12:00 p.m. (London time) on such Reset Determination Date. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the relevant Reset Period will be (i) in the case of each Reset Period other than the Reset Period commencing on the First Call Date, the 5-year Mid-Swap Rate in respect of the immediately preceding Reset Period or (ii) in the case of the Reset Period commencing on the First Call Date, 2.262 per cent. per annum;

“**Reset Reference Banks**” means six leading swap dealers in the interbank market selected by the Principal Paying Agent (excluding the Principal Paying Agent or any of its affiliates) in its discretion after consultation with the Society;

“**Risk Weighted Assets**” means, as at any date, the aggregate amount, expressed in the Accounting Currency, of the risk weighted assets of the Society as at such date, as calculated by the Society on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation) or, as the context requires, a consolidated basis, in each case in accordance with the then prevailing Capital Regulations;

“**Screen Page**” means Bloomberg screen “ICAB1” or such other page as may replace it on Bloomberg or, as the case may be, on such other information service that may replace Bloomberg, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates comparable to the 5-year Mid-Swap Rate;

“**Securityholder**” means a person whose name and address is entered in the Perpetual Capital Securities Register as the holder of Perpetual Capital Securities or, in the case of a joint holding of Perpetual Capital Securities, the first person whose name is entered in the Perpetual Capital Securities Register in respect of the joint holding of the Perpetual Capital Securities (and the term “**holder**” in respect of any Perpetual Capital Security shall be construed accordingly);

“**Senior Obligations**” has the meaning ascribed thereto in Condition 4.2;

“**Shareholding Member**” has the meaning ascribed thereto in the Rules;

“**Society Conversion Benefits**” has the meaning ascribed thereto in Condition 1.3;

“**Solvency Test**” has the meaning ascribed thereto in Condition 4.4;

“**Sterling**” or “**£**” means British pounds sterling;

“**Subsidiary**” means each subsidiary undertaking (as defined under section 119 of the Act) for the time being of the Society;

“**Taxes**” has the meaning ascribed thereto in Condition 10;

“**Tax Event**” has the meaning ascribed thereto in Condition 7.3;

“**Tax Law Change**” has the meaning ascribed thereto in Condition 7.3;

“**Tier 1 Capital**” has the meaning given to it (or any successor term) in the Capital Regulations from time to time; and

“**Tier 2 Capital**” has the meaning given to it (or any successor term) in the Capital Regulations from time to time.

## **SUMMARY OF PROVISIONS RELATING TO THE PERPETUAL CAPITAL SECURITIES WHILE REPRESENTED BY THE GLOBAL CERTIFICATE**

The following is a summary of the provisions to be contained in the Agency Agreement and in the Global Certificate which will apply to, and in some cases modify the effect of, the Conditions while the Perpetual Capital Securities are represented by the Global Certificate:

### **1. EXCHANGE OF THE GLOBAL CERTIFICATE AND REGISTRATION OF TITLE**

Registration of title to Perpetual Capital Securities in a name other than that of the Nominee will be permitted only if all Clearing Systems have closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or does in fact do so.

Thereupon, the Nominee (acting on the instructions of one or more of the Accountholders (as defined below)) may give notice to the Society of its intention to exchange the Global Certificate for definitive Certificates on or after the Exchange Date (as defined below). References herein to "**Accountholders**" are to each person (other than a Clearing System) who is for the time being shown in the records of a Clearing System as the holder of a particular number of Perpetual Capital Securities (in which regard any certificate or other document issued by that clearing system as to the number of Perpetual Capital Securities standing to the account of any person shall be conclusive and binding for all purposes).

On or after the Exchange Date, the Nominee may surrender the Global Certificate to, or to the order of, the Registrar. In exchange for the Global Certificate, the Registrar will deliver, or procure the delivery of, definitive Certificates in minimum nominal amounts of £200,000 and integral multiples of £1,000 in excess thereof printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. On exchange of the Global Certificate, the Society will procure that it is cancelled and, if the Nominee so requests, returned to the Nominee together with any relevant definitive Certificates.

For these purposes, "**Exchange Date**" means a day specified in the notice requiring exchange falling not less than 10 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Registrar is located.

Accountholders will have no right to require delivery of definitive certificates representing their interests in any Perpetual Capital Securities except in the circumstances described in this paragraph 1.

### **2. PAYMENTS**

Payments due in respect of Perpetual Capital Securities represented by the Global Certificate shall be made by the Registrar or the Principal Paying Agent to, or to the order of, the Nominee. A record of each payment made in respect of Perpetual Capital Securities represented by the Global Certificate will be endorsed on the appropriate part of the schedule to the Global Certificate by or on behalf of the Registrar, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Perpetual Capital Securities.

Payment by the Registrar or the Principal Paying Agent to or to the order of the Nominee as aforesaid will discharge the obligations of the Society in respect of the relevant payment under the Perpetual Capital Securities. Each Accountholder must look solely to its Clearing System for its share of each payment made to or to the order of the Nominee, and each Beneficial Owner (as defined below) who is not itself an Accountholder must look solely to the relevant Accountholder through which it holds its Perpetual Capital Securities for its share of each payment made to such Accountholder.



### **3. TRANSFERS**

Transfers of book-entry interests in the Perpetual Capital Securities will be effected through the records of the Clearing Systems and their respective direct and indirect participants in accordance with their respective rules and procedures.

### **4. NOTICES**

For so long as the Perpetual Capital Securities are represented by the Global Certificate and such Global Certificate is held on behalf of one or more Clearing Systems, notices may be given to the Securityholders by delivery of the relevant notice to the relevant Clearing Systems for communication to the relevant Accountholders and Beneficial Owners in substitution for despatch and service as required by Condition 17. Such notice shall be deemed to have been given on the date of delivery of the notice to the relevant Clearing Systems for such communication.

### **5. MEETINGS; MEMBERSHIP RIGHTS WHILST THE PERPETUAL CAPITAL SECURITIES ARE HELD THROUGH THE CLEARING SYSTEMS**

Save as permitted in paragraph 1 above, investors will hold their Perpetual Capital Securities directly or indirectly through Accountholders with the Clearing Systems and will not themselves be entered on the Perpetual Capital Securities Register as holder of the relevant Perpetual Capital Securities. Instead, the holder entered on the Perpetual Capital Securities Register for such Perpetual Capital Securities shall be the Nominee and the relevant Accountholder's holding of interests in such Perpetual Capital Securities will be recorded in the internal records of the relevant Clearing Systems.

This means that Accountholders and Beneficial Owners will not themselves be members of the Society and, accordingly, will not be entitled to vote at any general meeting of the members of the Society or in a postal ballot or to any other similar membership rights. Instead, the members' rights attaching to the Perpetual Capital Securities held through the Clearing Systems will be held by the Nominee. Such Nominee will be entered in the Perpetual Capital Securities Register as the holder of such Perpetual Capital Securities, and will be entitled to exercise the voting and other members' rights attributable to such Perpetual Capital Securities. Each member of the Society has one vote at any general meeting of the members of the Society. Accordingly, the Nominee will be entitled to exercise one vote at any such meeting, regardless of the nominal amount of Perpetual Capital Securities held by it (and regardless also of the size and number of other relevant investments or interests (if any) conferring membership rights which the Nominee may have in the Society).

Given the difficulty of casting the single vote at a general meeting of the members of the Society in a manner which reflects the views of all Beneficial Owners of Perpetual Capital Securities and the insignificance of that vote in the context of all the votes which may be cast by members of the Society, the Nominee has informed the Society that it does not intend to exercise its vote insofar as it relates to its holding of Perpetual Capital Securities.

At a separate meeting of Securityholders only, the Nominee will have one vote per £1,000 in nominal amount of Perpetual Capital Securities and will act on the instructions of one or more Accountholders (who in turn will act on the direct or indirect instructions of Beneficial Owners holding through such Accountholders) received by it through the Clearing Systems. The Agency Agreement contains provisions relating to the convening and conduct of such meetings of Securityholders. Those provisions include arrangements pursuant to which a Beneficial Owner will be able (i) to attend any such meeting and cast the votes attributable to its Perpetual Capital Securities, or (ii) otherwise to direct (including by way of electronic consents) how the votes attributable to its Perpetual Capital Securities shall be cast at such meeting. For these purposes, notwithstanding the provisions of Condition 15.4(a), the Nominee shall be entitled to appoint one or more persons as its proxy or proxies to attend, speak and, on a resolution, vote at a meeting of Securityholders. Each proxy shall be appointed in respect of such nominal amount of Perpetual Capital Securities specified by the Nominee (provided that no two proxies can be appointed in respect of the

same Perpetual Capital Securities). The Agency Agreement also contains provisions for the passing of resolutions, without the need for a meeting of Securityholders, by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) by or on behalf of Securityholders holding in aggregate not less than three-quarters of the number of Perpetual Capital Securities for the time being outstanding.

As Accountholders and Beneficial Owners will not be members of the Society, they will also not be entitled to any Society Conversion Benefits (including any rights to windfall payments) arising on a demutualisation or merger of the Society. Any Society Conversion Benefits arising on a demutualisation or merger of the Society will belong instead to the Nominee, as the registered holder of the Perpetual Capital Securities in the Perpetual Capital Securities Register. The Nominee will, on or prior to the issue date of the Perpetual Capital Securities, irrevocably agree to assign to Coventry Building Society Charitable Foundation (or other charities nominated by Coventry Building Society Charitable Foundation) any Society Conversion Benefits.

As used herein:

"**Beneficial Owner**" means each person who for the time being holds any interests in Perpetual Capital Securities for its own account (and not only as custodian or an Intermediary for another person) (and "**Beneficial Owners**" shall be construed accordingly); and

"**Intermediary**" means each Clearing System and each Accountholder, custodian, broker or other intermediary who for the time being holds interests in Perpetual Capital Securities (as custodian or otherwise) for the account of another person (and "**Intermediaries**" shall be construed accordingly).

## 6. CONVERSION

Any Conversion of Perpetual Capital Securities held in the Clearing Systems will be effected in accordance with the procedures set out in the Conversion Notice referred to in Condition 8.2 and otherwise in accordance with the relevant procedures of the Clearing Systems.

## 7. PRESCRIPTION

Claims against the Society in respect of any amounts payable in respect of the Perpetual Capital Securities represented by the Global Certificate will be prescribed after 12 years from the due date and shall revert to the Society.

## 8. PURCHASE AND CANCELLATION

Cancellation of any Perpetual Capital Securities purchased and surrendered for cancellation in accordance with Condition 7 will be effected by a corresponding reduction in the nominal amount of Perpetual Capital Securities represented by the Global Certificate.

## 9. RECORD DATE

For so long as all Perpetual Capital Securities are held in the Clearing Systems, the Record Date shall be determined in accordance with Condition 9, provided that the words "fifteenth day" shall be deemed to be replaced with "ICSD Business Day" (where "**ICSD Business Day**" means a day on which the Clearing Systems are open for business).

## 10. DIRECT RIGHTS

Subject as follows, upon a breach of contract by the Society (which shall, for the purposes of this paragraph "*Direct Rights*", include a Securityholder becoming entitled to bring any action against the Society as contemplated by Condition 14.2) or upon a winding-up or dissolution of the Society, each Beneficial Owner at the time of such breach (each a "**Relevant Person**") shall (for the purpose only of bringing an action for

such breach of contract or, as the case may be, claiming in the winding-up or dissolution of the Society in accordance with Condition 4) acquire against the Society all those rights ("**Direct Rights**") which such Relevant Person would have had if, at the time of the relevant breach of contract, such Relevant Person had been identified in the Perpetual Capital Securities Register as the registered holder of such nominal amount of Perpetual Capital Securities (the "**Underlying Perpetual Capital Securities**") as is equal to the nominal amount of CCDS which are credited to such Relevant Person's securities account with the relevant Clearing System (or, as the case may be, with any Intermediary) at such time.

The Relevant Persons will acquire such Direct Rights only in the circumstances and for the purposes described in the preceding paragraph and for no other purpose. Direct Rights will be acquired automatically at the time of the relevant breach of contract, without the need for any further action on behalf of any person. The Society's obligation hereunder shall be a separate and independent obligation to each Relevant Person by reference to each Underlying Perpetual Capital Securities of such Relevant Person, and the Society agrees that a Relevant Person may assign such Direct Rights in whole or in part.

The records of the Clearing Systems and (subject to the following proviso) each Intermediary (as applicable) shall be conclusive evidence of the identity of the Relevant Persons and the nominal amount of Underlying Perpetual Capital Securities credited to the securities account of each Relevant Person; provided that the records of an Intermediary shall be conclusive evidence of the identity of any Relevant Persons only if accompanied by records of (i) the Accountholder (and any other Intermediary) through which such Intermediary holds the relevant Perpetual Capital Securities and (ii) the relevant Clearing System, which records when taken together evidence a chain of ownership linking the records of such Intermediary and the records of the relevant Clearing System. For these purposes, a statement issued by the relevant Clearing System and/or a relevant Intermediary (as applicable) stating the name of the Relevant Person to which the statement is issued and the nominal amount of Underlying Perpetual Capital Securities credited to the securities account of such Relevant Person as at the opening of business on the first business day following the time of the relevant breach of contract, shall be conclusive evidence of the records of the relevant clearing system or (subject to the foregoing proviso) such Intermediary (as the case may be) at the time of the relevant breach of contract.

## **11. SUCCESSION AND TRANSFERS**

Upon a transfer by the Society of the whole of its business to a Successor Entity in accordance with Condition 13.2, the Nominee will (unless otherwise agreed as part of the terms of the transfer at the relevant time) direct that the securities to be delivered to it shall instead be delivered directly to (or to the order of) the Beneficial Owners as if those Beneficial Owners had, at the vesting date, held in definitive form the nominal amount of Perpetual Capital Securities corresponding to their book-entry interest in the Perpetual Capital Securities at that time.

## **CERTAIN PROVISIONS OF THE ACT AND REQUIREMENTS OF THE SUPERVISORY AUTHORITY**

### **1. AMALGAMATION**

Section 93 of the Act permits a building society to amalgamate with one or more building societies by establishing a building society as their successor. Amalgamation requires a shareholding members' resolution passed by the shareholding members of each amalgamating society and a borrowing members' resolution (each as defined in Schedule 2 to the Act) of the borrowing members of each amalgamating society, as well as confirmation of amalgamation by the Supervisory Authority. The Act provides that on the date specified by the Supervisory Authority all of the property, rights and liabilities (which, in the case of the Society, would include the Perpetual Capital Securities) of each of the societies shall by virtue of the Act be transferred to and vested in the successor, whether or not otherwise capable of being transferred or assigned. In the event of such an amalgamation by the Society with another building society, the Perpetual Capital Securities would, pursuant to their terms, become deferred shares in the successor without any alteration of their terms, except as set out in Condition 13.1.

### **2. TRANSFER OF ENGAGEMENTS**

Section 94 of the Act permits a building society to "transfer its engagements to any extent" to another building society which undertakes to fulfil such engagements. A transfer requires approval by a shareholding members' resolution and a borrowing members' resolution of each of the transferor society and the transferee society. However, the resolutions of the transferee society are not required if the Supervisory Authority consents to the transfer proceeding by a resolution of its Board only. The transfer must be confirmed by the Supervisory Authority. The Act provides that on the date specified by the Supervisory Authority and to the extent provided in the instrument of transfer, the property, rights and liabilities of the transferor society shall by virtue of the Act be transferred to and vested in the transferee society, whether or not otherwise capable of being transferred or assigned. In the event of a transfer of all or part of the property and/or all or some of the liabilities (including the Perpetual Capital Securities) of the Society, the Perpetual Capital Securities would, pursuant to their terms, become deferred shares in the transferee without any alteration of their terms, except as set out in Condition 13.1 and 13.3.

### **3. TRANSFER OF BUSINESS**

Sections 97 to 102D of the Act permit a building society to transfer the whole of its business to a company which has been specially formed by the society wholly or partly for the purpose of assuming and conducting the society's business in its place or is an existing company which is to assume and conduct the society's business in its place. The transfer must be approved by a requisite shareholding members' resolution, in accordance with Schedule 2, paragraph 30(2)-(5) of the Act, passed by shareholding members and by a borrowing members' resolution passed by borrowing members. The society must also obtain the confirmation of the Supervisory Authority to the transfer and its terms. If the Supervisory Authority confirms the transfer, then the Act provides that on the vesting date (as defined in the Act) all of the property, rights and liabilities (which would include the Perpetual Capital Securities) of the transferor society, whether or not capable of being transferred or assigned, shall by virtue of the Act and in accordance with the transfer regulations (then in force) be transferred to and vested in the successor. Pursuant to section 100(2)(a) of the Act, the Perpetual Capital Securities would be converted into deposits with the successor. Condition 13.2 provides that the deposits will be subordinated and will be applied in the subscription of perpetual subordinated bonds of the successor, subject as provided therein.

Where, in connection with any transfer, rights are to be conferred on members of the Society to acquire shares in priority to other subscribers, the right is restricted to shareholding members of the Society who have held their shares throughout the period of two years expiring on a qualifying day specified by the Society in the transfer agreement. Also, all shareholding members' shares, including Perpetual Capital Securities, are converted into deposits with the successor. On any such transfer, shareholding members of the

Society who were members on the qualifying date but not entitled to vote on the transfer resolution will receive a cash bonus equal to their notional share of the reserves of the Society. If the transfer is to an existing company, any distribution of funds (apart from the statutory cash bonus referred to above) may only be made to certain shareholding members of the Society who have held their shares for at least two years expiring on a qualifying day specified by the Society in the transfer agreement.

#### **4. GENERAL**

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

## **USE OF PROCEEDS**

The net proceeds of the issue of the Perpetual Capital Securities (estimated to be approximately £396,800,000) will be used by the Society to strengthen its regulatory capital base and for general business purposes consistent with the Society's principal purpose as a UK building society.

## DESCRIPTION OF THE SOCIETY

### Introduction

Coventry Building Society is the third largest building society in the United Kingdom based on asset size with Group assets as at 31 December 2013 of £28,253.3 million. All figures in this section are extracted from the audited consolidated annual financial statements of the Society for the year ended 31 December 2013. The Society now operates a regional network of 70 branches, 21 agencies and has over 1.7 million Members.

### The Society

The Society was originally founded in 1884 and in its present form was created as a result of a merger between Coventry Economic Building Society and Coventry Provident Building Society on 30 June 1983 and, more recently, as a result of a merger between Coventry Building Society and Stroud & Swindon Building Society ("**Stroud & Swindon**") on 1 September 2010. The Society's principal office is Economic House, High Street, Coventry, United Kingdom – telephone number +44 24 7655 5255.

The Society operates exclusively in the United Kingdom and has a branch network focused on Coventry, Warwickshire and the South West. Mortgage, savings and related products are offered via branches, the internet, by telephone and through the post to customers both inside and outside the branch operating area.

The Society is incorporated under the Building Societies Act 1986 and operates in accordance with the Act, regulations made thereunder and its Rules and Memorandum. The Society is an authorised building society for the purposes of the Act and is authorised and regulated by the FCA and PRA under firm reference number 150892. The affairs of the Society are conducted and managed by a Board who are elected and serve in accordance with the Rules and Memorandum. The Board is responsible to the members for the proper conduct of the affairs of the Society and appoints and supervises executives who are responsible to the Board for the day to day management of the Society.

The Society is a mutual organisation with both retail investors and borrowers having membership. Eligibility to vote at General Meetings is governed by the Act and by the Society's Rules.

In addition the Society has two subsidiary lending businesses, Godiva Mortgages Limited ("**Godiva**") and ITL Mortgages Limited ("**ITL**"). As at 31 December 2013 Godiva had assets of £7,089.3 million and ITL had assets of £849.1 million. Borrowers from Godiva and ITL do not become members of the Society by virtue of this borrowing.

For the avoidance of doubt all figures quoted are the consolidated numbers for the Group (i.e. the Society and its subsidiaries).

### Business

#### General

The principal purpose of the Society, as stated in Clause 3 of its Memorandum, is making loans which are secured on residential property and are funded substantially by its members. The Society seeks to provide a safe and attractive home for members' savings.

The Society obtains funds from the retail market through personal savings and deposit accounts and also raises funds in the wholesale markets. It advances the funds raised mainly to borrowers on the security of first charge mortgages secured on freehold and leasehold property.

The Society concentrates on its core business of personal savings and residential mortgage lending. As at 31 December 2013 loans fully secured on residential property represented 99 per cent. of its business assets.

## Mortgage lending activities

During 2013 the Society made mortgage and other loan advances of £5.9 billion gross, with a net increase in lending of £2.1 billion. The corresponding figures for 2012 were advances of £5.1 billion and an increase in net lending of £2.3 billion.

## Personal savings activities

The Society's main source of funding continues to be the retail savings market. Members with savings in the Society are described in the Society's Rules as holding shares in the Society. Shares held principally by individuals amounted to £21.3 billion as at 31 December 2013, representing 79.7 per cent. of total shares and borrowings.

## Cost control

As a result of its focus on containing costs, the Society's ratio of management expenses to mean total assets as at 31 December 2013 was 0.39 per cent. This was the lowest level of any of the ten largest UK building societies by assets (based on the latest annual financial statements published by each of the relevant societies); the corresponding figure for 2012 was 0.38 per cent.

## Financial position and liability management

### Capital base

The Society is well capitalised and had a Core Tier 1 capital ratio of 24.3 per cent. at the end of 2013. The table below sets out the consolidated capital ratios of the Society (on an individual consolidated basis), based on the Society's current understanding of the regulations.

	<b>Current rules</b>	<b>Transitional rules</b>	<b>Post- transitional end-point</b>
	<b>31 December 2013</b>	<b>1 January 2014</b>	<b>1 January 2014</b>
	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
Core / Common Equity Tier 1 (as a percentage of risk weighted assets)	24.3	22.7	22.7
Tier 1 (as a percentage of risk weighted assets)	28.6	26.1	22.7
Total capital (as a percentage of risk weighted assets)	29.9	27.4	22.8
Leverage ratio	3.6	3.4	3.0

The Core / Common Equity Tier 1 capital ratio is the sum of general reserves less various prescribed deductions, divided by risk weighted assets. The Society has further subscribed Tier 1 capital in the form of Permanent Interest Bearing Shares as per the table below:



## Subscribed Capital

The Society currently has the following Permanent Interest Bearing Shares in issue:

	As at 31 December		
	Call date	2013 £m	2012 £m
£40 million Permanent Interest Bearing Shares 1992 - 12 1/8%	n/a	41.4	41.6
£120 million Permanent Interest Bearing Shares 2006 - 6.092%	June 2016	120.1	119.8

Interest is paid in arrears on the 1992 £40 million Permanent Interest Bearing Shares at the rate of 12 1/8 per cent. per annum in half-yearly instalments, and on the 2006 £120 million Permanent Interest Bearing Shares at the rate of 6.092 per cent. per annum in half-yearly instalments. The shares are repayable only in the event of a winding up of the Society or otherwise with the prior consent of the PRA. In a winding up or dissolution of the Society the claims of the holders of Permanent Interest Bearing Shares would rank behind all other creditors of the Society including subordinated liabilities and the claims of members holding shares as to principal and interest. The holders of Permanent Interest Bearing Shares are not entitled to any share in any final surplus upon a winding up or final dissolution of the Society.

Following the expiry of transitional provisions the Permanent Interest Bearing Shares are not eligible as Tier 1 capital.

## Subordinated Liabilities

	As at 31 December	
	2013 £m	2012 £m
Fixed rate subordinated notes 2016 - 12.25% .....	7.1	7.0
Fixed rate subordinated notes 2021 - 6.12% .....	10.1	10.1
Fixed rate subordinated notes 2022 - 6.469% .....	15.5	15.5
Fixed rate subordinated notes 2026 - 6.33% .....	10.1	10.1
Fixed rate subordinated notes 2032 - 7.54% .....	15.4	15.4
Total .....	58.2	58.1

All the subordinated liabilities are denominated in sterling. The notes are repayable in the years stated, or earlier in accordance with their terms at the option of the Society, with the prior consent of the PRA. The rights of repayment of the holders of the notes are subordinated to the claims of all depositors, creditors and members holding shares as to principal and interest.

## Non-share ("wholesale") funding

As at 31 December 2013 the Society obtained 20.4 per cent. of its funding from sources other than shares held by individuals.

## Wholesale funding

	As at 31 December	
	2013 £m	2012 £m
Amounts owed to credit institutions.....	1,033	716
Debt securities in issue .....	4,065	3,875
Other deposits and loans.....	341	460
Total .....	5,439	5,051

## Liquidity

Whilst there is no statutory minimum level of liquidity, the Society is required by the PRA to maintain a sufficient level of liquidity that reflects the range and composition of its business. In practice the Society seeks to operate with a buffer over and above this.

The classes of instruments that may be held by the Society for liquidity purposes are prescribed by the PRA. The Society's liquidity is set out below:

	As at 31 December	
	2013 £m	2012 £m
Cash in hand and balances with the Bank of England	1,848.4	1,714.7
UK Government Securities and multi-lateral development banks		
Securities - On-balance sheet	1,165.1	1,173.7
Securities – FLS Treasury Bills	642.8	99.8
Other Securities and bank deposits		
Securities - On-balance sheet	236.5	452.8
Loans and advances to credit institutions	-	15.0
Bank of England approved mortgage portfolios and self issued covered bonds and RMBS	4,959.2	3,794.2
Total	8,852.0	7,250.2

## Business Developments

The Society is committed to retaining its building society status, which it believes enables better outcomes for its members. Initiatives for savers and borrowers include the following:

### *Borrowers*

- Competitive traditional residential sector mortgage products as well as a wide range of other competitive products including offset mortgages and low loan to value buy to let mortgages
- Existing borrowers have access to mortgage products at new business rates.

- Privilege rate loyalty discount for borrowers who have been on the same mortgage scheme for five years.

### **Savers**

- Competitive product set which offers traditional fixed rate bonds, instant access accounts, ISAs, children's accounts, which are available through branch, telephone and internet channels.

With no dividends to pay to outside shareholders and high levels of cost efficiency, the Society is able to offer competitive interest rates to both savers and borrowers, not only to attract new customers but also to ensure that existing customers are retained as well.

Profits for the full year before tax totalled £132.1 million. Capital, reserves and subordinated liabilities and subscribed capital of £1,114.7 million enabled the Society to achieve a Common Equity Tier 1 ratio of 24.3 per cent. under current regulatory requirements.

The Society's aim is to maintain a high level of service to all customers, both existing and new, which allows them to take advantage of the Society's wide range of savings and mortgage products.

### **Final Results**

On 28 February 2014 Coventry Building Society issued its final results for the year ending 31 December 2013. Selected financial highlights are as follows:

- Profit before tax increased by 45 per cent. to £132.1 million.
- Mortgage assets increased by £2.1 billion to £24.1 billion.
- New mortgage lending increased by 16 per cent. to £5.9 billion.
- Net mortgage lending equivalent to 19 per cent. of all net mortgage lending in the UK (source: Bank of England).
- Retail savings balances increased by £1.2 billion to £21.3 billion.
- Rated A/F-1 by Fitch and A3/P-2 by Moody's.
- Core tier 1 ratio at of 24.3 per cent.
- Cost to mean assets ratio of only 0.39 per cent.
- Impairment charges of £6.3 million from a loan book totalling £24.1 billion.

### **Selected Historical Financial Information**

Set out below is certain selected historical financial information for the Group for each of the financial years ended 31 December 2006-2013.

## Income statement

	year ended 31 December							
	2013	2012	2011	2010	2009	2008	2007	2006
	(£m)							
Net interest income	<b>253.1</b>	186.9	167.5	146.0	125.0	116.2	111.8	107.0
Other income <sup>1</sup>	<b>9.3</b>	12.5	14.0	15.0	17.0	18.4	23.9	17.8
Net gains/losses from derivatives	<b>2.8</b>	0.1	0.5	(0.7)	1.3	1.8	(2.1)	6.3
<b>Total income</b>	<b>265.2</b>	<b>199.5</b>	<b>182.0</b>	<b>160.3</b>	<b>143.3</b>	<b>136.4</b>	<b>133.6</b>	<b>131.1</b>
Management expenses <sup>2</sup>	<b>(108.9)</b>	(98.6)	(87.5)	(75.3)	(68.3)	(64.7)	(64.6)	(62.1)
Impairment losses on loans and advances to customers	<b>(6.3)</b>	(9.6)	(9.9)	(11.8)	(19.9)	(8.4)	(2.9)	(3.5)
Financial Services Compensation Scheme	<b>(15.4)</b>	(7.6)	(13.4)	(5.6)	(2.0)	(11.4)	-	-
Other provisions	<b>(0.9)</b>	-	-	-	2.9	-	0.9	-
Release/(charge) for impairment of Treasury debt securities	-	-	-	2.1	1.5	(23.9)	-	-
Stroud & Swindon integration and merger related items <sup>3</sup>	-	-	(10.7)	32.6	-	-	-	-
Charitable donation Poppy Appeal	<b>(1.6)</b>	(1.9)	(1.0)	(1.7)	(1.3)	(1.6)	-	-
Gain on pension curtailment	-	9.3	-	-	-	-	-	-
<b>Profit before tax</b>	<b>132.1</b>	91.1	59.5	100.6	56.2	26.4	67.0	65.5
Taxation	<b>(30.8)</b>	(21.6)	(12.9)	(15.7)	(12.7)	(7.6)	(20.2)	(21.8)
<b>Profit for the period</b>	<b>101.3</b>	69.5	46.6	84.9	43.5	18.8	46.8	43.7

<sup>1</sup> Other income comprises: Fees and commissions receivable; Fees and commissions payable; and Other Operating income

<sup>2</sup> Management expenses comprise: Administrative expenses; Amortisation of intangible assets; and Depreciation of tangible fixed assets

<sup>3</sup> Stroud & Swindon integration and merger related items comprise: Integration and merger costs; and Gain on business combination

## Balance sheet

	as at 31 December							
	2013	2012	2011	2010	2009	2008	2007	2006
	(£m)							
Liquid Assets <sup>1</sup>	<b>3,887.4</b>	4,476.1	4,842.1	4,531.9	4,165.4	3,873.2	3,005.3	2,210.1
Loans and advances to customers	<b>24,117.1</b>	22,018.9	19,240.0	17,573.7	14,074.7	13,172.8	11,777.9	10,014.4
Hedge accounting adjustment	<b>(8.4)</b>	86.8	68.7	40.6	76.1	96.4	20.0	(12.0)
Derivative financial instruments	<b>191.2</b>	279.6	259.7	73.4	29.3	160.6	53.2	23.9
Fixed & other assets <sup>2</sup>	<b>66.0</b>	72.4	76.1	82.7	56.5	61.4	52.7	44.4
<b>Total assets</b>	<b>28,253.3</b>	26,933.8	24,486.6	22,302.3	18,402.0	17,364.4	14,909.1	12,280.8
Shares	<b>21,311.7</b>	20,110.5	18,964.1	17,634.3	13,218.2	12,354.5	10,313.7	8,232.4
Borrowings <sup>3</sup>	<b>5,438.5</b>	5,050.1	3,947.0	3,528.0	4,209.6	4,031.4	3,748.2	3,274.8
Hedge accounting adjustment	<b>89.5</b>	240.4	201.5	21.3	5.3	52.7	1.1	(5.2)
Derivative financial instruments	<b>213.6</b>	411.2	336.0	139.4	108.9	93.9	21.3	10.8
Other liabilities <sup>4</sup>	<b>85.3</b>	89.6	64.3	63.4	43.9	49.0	38.0	34.0
Subordinated liabilities	<b>58.2</b>	58.1	68.2	68.2	70.7	70.7	70.6	70.6
Subscribed capital	<b>161.5</b>	161.4	161.3	161.3	161.2	161.1	160.9	160.9
Equity	<b>895.0</b>	812.5	744.2	686.4	584.2	551.1	555.3	502.5
<b>Total liabilities &amp; equity</b>	<b>28,253.3</b>	26,933.8	24,486.6	22,302.3	18,402.0	17,364.4	14,909.1	12,280.8

<sup>1</sup> Liquid assets comprise: Cash and balances with the Bank of England; Loans and advances to credit institutions; Debt securities; and other liquid assets

<sup>2</sup> Fixed & other assets comprise: Intangible assets, Property, plant and equipment; Investment properties; Pension benefit surplus; Deferred tax assets; Prepayment and accrued income; current tax asset; and non-current assets held for sale

<sup>3</sup> Borrowings comprise: Deposits from banks; Other deposits; Amounts owed to other customers; and Debt securities in issue

<sup>4</sup> Other liabilities comprise: Current tax liabilities; Deferred tax liabilities; Accruals and deferred income; Other liabilities; and Provisions for liabilities and charges

## Key ratios

	as at and year ended 31 December							
	2013	2012	2011	2010	2009	2008	2007	2006
	(%)							
Net interest margin <sup>1</sup>	<b>0.92</b>	0.73	0.72	0.72	0.70	0.72	0.82	0.92
Management expense ratio <sup>2</sup>	<b>0.39</b>	0.38	0.37	0.37	0.38	0.40	0.48	0.53
Liquidity assets <sup>3</sup>	<b>14.5</b>	17.8	21.1	21.4	23.9	23.6	21.4	19.2
Wholesale funding <sup>4</sup>	<b>20.3</b>	20.1	17.2	16.7	24.2	24.6	26.7	28.5

<sup>1</sup> Net interest income as a percentage of mean opening and closing total assets

<sup>2</sup> Aggregate of administrative expenses, amortisation of intangible assets and depreciation of property, plant and equipment as a percentage of mean opening and closing total assets (also referred to as cost to mean asset ratio)

<sup>3</sup> Total of cash and balances with the Bank of England, loans and advances to credit institutions, debt securities and other liquid assets as a percentage of shares and borrowings

<sup>4</sup> Wholesale funding ratio measures the proportion of shares and borrowings not in the form of shares held by individuals

## Arrears data

	as at and year ended 31 December							
	2013	2012	2011	2010	2009	2008	2007	2006
	(%)							
Impairment charges <sup>1</sup>	<b>0.03</b>	0.05	0.05	0.07	0.15	0.07	0.03	0.04
Loans in arrears $\geq$ 2.5% of balance <sup>2</sup>	<b>0.62</b>	0.77	0.83	0.91	0.89	0.70	0.51	N/A
Buy-to-let loans $>$ 3mths in arrears <sup>3</sup>	<b>0.30</b>	0.44	0.57	0.65	0.69	0.74	0.26	0.28

<sup>1</sup> Impairment charge as a percentage of mean opening and closing total loans and advances

<sup>2</sup> Residential loans in arrears by  $\geq$  2.5% of mortgage balance including possessions, as a percentage of total outstanding balances

<sup>3</sup> Including possessions, excluding receivers of rent, as a percentage of total number of loans

## Management

The Board is responsible for the Society's strategy and policy. The execution of that policy and day to day management is vested with the Executive Directors and Senior Management. The members of the Board and Senior Management, their roles in relation to the Society, and their principal outside activities (if any) of significance to the Society are as follows:

### Board of Directors

Name	Date of appointment	Occupation	Other Directorships
I Pickering (Chairman of the Board and Nominations & Governance Committee)	1 September 2005 as non-executive director and 1 January 2013 as Chairman.	Non-executive director	Electrocab Limited
B Blow (Deputy Chairman and Chairman of the Remuneration Committee)	1 February 2007	Non-executive director	Birmingham Hippodrome Limited Birmingham Hippodrome Theatre Trust Limited Bridget Blow Consulting Limited Kensington Green (Management) Limited City of Birmingham Symphony Orchestra The Move Factory Holdings Limited
J Ashdown	18 September 2013	Non-executive director	SIG plc
P Ayliffe	1 May 2013	Non-executive director	Chartered Management Institute Monitise PLC
R Burnell (Chairman of the Risk Committee)	1 September 2008	Non-executive director	Clarence Mansions Management Company Limited
I Geden	1 September 2008	Non-executive director	The Police Mutual Assurance Society Limited Faraday Reinsurance Limited Faraday Underwriting Limited Syndicate 435.
G Smith (Chairman of the Audit Committee)	22 September 2010	Non-executive director	Covent Garden Market Authority Examiner – ICAEW
J Lowe	14 October 2010	Building Society Finance Director	Arkose Funding Limited Godiva Mortgages Limited Coventry Financial Services Limited Coventry Property Services Limited Godiva Financial Services Limited Godiva Housing Developments Limited Godiva Savings Limited Godiva Securities and Investments Limited Five Valleys Property Company Limited ITL Mortgages Limited

<b>Name</b>	<b>Date of appointment</b>	<b>Occupation</b>	<b>Other Directorships</b>
F Brouwers	24 April 2013	Building Society Chief Risk Officer	None
C Franklin	7 July 2009	Building Society Sales & Marketing Director (Interim Chief Executive)	Godiva Mortgages Limited Five Valleys Property Company Limited ITL Mortgages Limited
P Frost	1 November 2012	Building Society Chief Operating Officer	None

### **Other Senior Management**

<b>Name</b>	<b>Role</b>	<b>Other Directorships</b>
Julian Atkins	Head of Human Resources	Coventry and Warwickshire Training and Enterprise Council Limited National Financial Services Skills Academy
Rachel Haworth	Head of Customer Experience	None
Darin Landon	Head of Distribution & Marketing	None
Thomas Crane	Interim General Counsel & Secretary	Clanbrassil Ventures Limited
Simon Nash	Chief Information Officer	Trans4orm Ltd Kaya UK Consulting (dormant)

On 7 May 2014 the Society announced that Mark Parsons would become Chief Executive effective 1 July 2014. David Stewart, the previous Chief Executive, resigned on 31 March 2014. Colin Franklin was appointed as Interim Chief Executive with effect from 1 April 2014.

The business address of the Directors and Executive Directors is Economic House, P.O. Box 9, High Street, Coventry CV1 5QN.

The Executive Directors have entered into service contracts which enable the Society to give one year's notice of termination.

There are no existing or potential conflicts of interest between any duties owed to the Society by its Directors or members of its Executive and the private interests and/or other external duties owed by these individuals.

### **Subsidiaries**

The following direct, wholly owned subsidiaries of the Society, are carrying on a business:

- Five Valleys Property Company Limited
- Godiva Mortgages Limited
- ITL Mortgages Limited



In addition, the Society has the following direct, wholly owned subsidiary companies, none of which are carrying on a business:

- Coventry Financial Services Limited
- Coventry Property Services Limited
- Godiva Financial Services Limited
- Godiva Housing Developments Limited
- Godiva Savings Limited
- Godiva Securities and Investments Limited

The subsidiaries detailed in this sub-section are, together, the "**Subsidiaries**". The Society also has an interest in Coventry Building Society Covered Bonds LLP which gives rise to risks and rewards that are in substance no different than if it was a subsidiary undertaking and is therefore consolidated under IFRS in the Group accounts.

No share capital is held in Leofric No.1 plc and Mercia No.1 plc, however they are consolidated under IFRS as if they are wholly owned subsidiaries of the Society. The Society also holds securities issued by Leofric No.1 plc and Mercia No.1 plc.

#### **Independent Auditors**

Ernst & Young LLP of 1 More London Place, London SE1 2AF have audited the consolidated and non-consolidated annual financial statements of the Society for the three financial years ended 31 December 2011, 2012 and 2013, respectively.

## TAXATION

### UNITED KINGDOM TAXATION

The following is a summary of the Society's understanding of current United Kingdom law as applied in England and Wales and published HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) relating to certain aspects of the United Kingdom taxation of the Perpetual Capital Securities. The summary relates only to certain limited aspects of the United Kingdom taxation treatment of the Perpetual Capital Securities and of the CCDS which are potentially applicable to all prospective Securityholders. Some aspects do not apply to certain classes of taxpayer (such as dealers and persons connected with the Society). The statements below assume that there will be no substitution of the Society and do not address the consequences of any such substitution (notwithstanding that such substitution may be permitted by the Conditions). The United Kingdom tax treatment of prospective Securityholders depends on their individual circumstances and may be subject to change in the future. Prospective Securityholders who are in any doubt as to their tax position should seek their own professional advice.

#### 1. INTEREST ON THE PERPETUAL CAPITAL SECURITIES

The statements below are made on the assumption that the Perpetual Capital Securities will be Additional Tier 1 instruments under Article 52 of the Capital Requirements Regulation which form, or will have formed, a component of Additional Tier 1 Capital for the purposes of the Capital Requirements Regulation, and will therefore be "regulatory capital securities" for the purposes of the Taxation of Regulatory Capital Perpetual Capital Securities Regulations 2013 (the "**Regulations**"). Prospective Securityholders should note that, if the Perpetual Capital Securities are not such Additional Tier 1 instruments, or if there are arrangements the main purpose, or one of the main purposes, of which is to obtain a tax advantage for any person as a result of the application of the Regulations, then interest could be subject to deduction of or withholding on account of United Kingdom income tax.

Payments of interest on the Perpetual Capital Securities may be made without deduction of or withholding on account of United Kingdom income tax under Section 889 of the Income Tax Act 2007 ("**ITA 2007**").

Payments of interest on the Perpetual Capital Securities may be made without deduction of or withholding on account of United Kingdom income tax under Section 851 of the ITA 2007 provided that the Perpetual Capital Securities continue to be listed, or capable of being listed, on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 ("**Section 1005**"). SIX Swiss Exchange is a "recognised stock exchange" for this purpose. However, HM Revenue & Customs state in published guidance that securities will only be treated as listed on the SIX Swiss Exchange for this purpose if the securities are listed and maintained on the SIX Swiss Exchange in accordance with the main standard or domestic standard, and not if the securities are listed in accordance with any other listing rules. The Perpetual Capital Securities are expected to be admitted to trading on the main standard of the SIX Swiss Exchange, but listed in accordance with the Standard for Bonds of the SIX Swiss Exchange, and may therefore not be treated as being listed on a recognised stock exchange under Section 1005, in which case payments of interest on the Perpetual Capital Securities could only be made without deduction of or withholding on account of United Kingdom income tax under Section 851 of the ITA 2007 if the Perpetual Capital Securities are and continue to be capable of being listed on a "recognised stock exchange" within the meaning of Section 1005.

Where interest is paid subject to deduction of or withholding on account of United Kingdom income tax, and an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Securityholder, HM Revenue & Customs ("**HMRC**") may, following a valid application, issue a notice to the Society to pay interest to the Securityholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Interest on the Perpetual Capital Securities constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding. However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not generally be chargeable to United Kingdom tax in the hands of a Securityholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Securityholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch, agency or permanent establishment in connection with which the interest is received or to which the Perpetual Capital Securities are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the United Kingdom branch or agency, or permanent establishment. In addition, there are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Securityholders.

HMRC has powers, in certain circumstances, to obtain information about: payments derived from securities (whether income or capital); certain payments of interest; and securities transactions.

The persons from whom HMRC can obtain information include: a person who receives (or is entitled to receive) a payment derived from securities; a person who makes such a payment (received from, or paid on behalf of another person); a person by or through whom interest is paid or credited; a person who effects or is a party to securities transactions (which includes an issue of securities) on behalf of others; registrars or administrators in respect of securities transactions; and each registered or inscribed holder of securities.

The information HMRC can obtain includes: details of the beneficial owner of securities; details of the person for whom the securities are held, or the person to whom the payment is to be made (and, if more than one, their respective interests); information and documents relating to securities transactions; and, in relation to interest paid or credited on money received or retained in the United Kingdom, the identity of the security under which interest is paid. HMRC is generally not able to obtain information (under its power relating solely to interest) about a payment of interest to (or a receipt for) a person that is not an individual. These limitations do not apply to HMRC's power to obtain information about payments derived from securities. In certain circumstances the information which HMRC has obtained using these powers may be exchanged with tax authorities in other jurisdictions.

## **2. DISTRIBUTIONS ON THE CCDS**

The Society will not be required to withhold UK tax at source from distributions paid on CCDS.

## **3. STAMP DUTY AND STAMP DUTY RESERVE TAX**

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue or transfer of the Perpetual Capital Securities, on their purchase by the Society, or on the write-down of the Perpetual Capital Securities on a Conversion. Following recent case law, no stamp duty or stamp duty reserve tax should be payable in the UK on the issue of CCDS into the Clearing Systems on a Conversion.

Provided no election is or has been made under section 97A of the Finance Act 1986 (a "**97A election**") by a Clearing System that applies to CCDS, no stamp duty or stamp duty reserve tax should be payable in the UK on the transfer of CCDS in that Clearing System, without an instrument of transfer. However, if a 97A election were to apply to CCDS in the future, transfers of CCDS within the Clearing Systems could, unless an exemption applies, be subject to stamp duty reserve tax at the rate of 0.5 per cent. of the consideration given under the agreement to transfer CCDS. If definitive CCDS certificates are issued, stamp duty and/or stamp duty reserve tax may be payable on a transfer of, or an agreement to transfer CCDS, generally at the rate of 0.5 per cent. of the consideration given under the agreement to transfer CCDS (or 0.5 per cent. of the consideration for the transfer rounded up to the nearest £5 in the case of stamp duty). Any such charge to stamp duty reserve tax would be discharged if stamp duty is duly paid on the instrument transferring CCDS in definitive form, within six years of the date of the agreement.

## **EU DIRECTIVE ON THE TAXATION OF SAVINGS INCOME**

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported or paid subject to withholding. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

## **THE PROPOSED FINANCIAL TRANSACTIONS TAX ("FTT")**

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Perpetual Capital Securities (including secondary market transactions) in certain circumstances. The issuance and subscription of Perpetual Capital Securities should, however, be exempt.

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

A joint statement issued in May 2014 by ten of the eleven participating Member States (excluding Slovenia) indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. The FTT, as initially implemented on this basis, may not apply to dealings in the Perpetual Capital Securities.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate. Prospective holders of Perpetual Capital Securities are advised to seek their own professional advice in relation to the FTT.

## FOREIGN ACCOUNT TAX COMPLIANCE ACT

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "**foreign financial institution**", or "**FFI**" (as defined by FATCA)) that does not become a **Participating FFI** by entering into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a **United States Account** of the Society (a "**Recalcitrant Holder**"). The Society is classified as an FFI.

The new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to **foreign passthru payments** (a term not yet defined) no earlier than 1 January 2017.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an "**IGA**"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a **Reporting FI** not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would not generally be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being "**FATCA Withholding**") from payments it makes. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and the United Kingdom have entered into an agreement (the "**US-UK IGA**") based largely on the Model 1 IGA.

The Society expects to be treated as a deemed compliant Reporting FI pursuant to the US-UK IGA and does not expect to be subject to FATCA Withholding on payments it receives. There can be no assurance, however, that the Society will be treated as a deemed compliant Reporting FI and that such withholding will not be imposed against the Society. Any such withholding imposed on the Society may reduce the amounts available to the Society to make payments on the Perpetual Capital Securities.

Further, the Society does not anticipate being obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Society will be treated as a Reporting FI, or that it would in the future not be required to deduct FATCA Withholding from payments it makes. Accordingly, the Society and financial institutions through which payments on the Perpetual Capital Securities are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Perpetual Capital Securities is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

While the Perpetual Capital Securities are in global form and held within the Clearing Systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Perpetual Capital Securities by the Society, the Registrar (or any other appointed paying agent) and the Nominee, given that each of the entities in the payment chain beginning with the Society and ending with the participant in the Clearing Systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Perpetual Capital Securities. The documentation expressly contemplates the possibility that the Perpetual Capital Securities may go into definitive form and therefore that they may be taken out of the Clearing Systems. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, in accordance with the terms of the Perpetual Capital Securities, Perpetual Capital Securities would be represented in definitive form outside the Clearing Systems only in the very remote circumstances that the Clearing Systems cease business and no alternative clearing system satisfactory to the Registrar is available.

**FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Society and to payments they may receive in connection with the Perpetual Capital Securities.**

**TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.**

## SUBSCRIPTION AND SALE

Barclays Bank PLC, Merrill Lynch International and The Royal Bank of Scotland plc (together, the "**Joint Lead Managers**") have, pursuant to a subscription agreement (the "**Subscription Agreement**") dated 24 June 2014, jointly and severally agreed with the Society, subject to the satisfaction of certain conditions, jointly and severally to subscribe for, or procure subscribers for, the Perpetual Capital Securities at the issue price of 100 per cent. of their nominal amount. The Society has agreed to pay the Joint Lead Managers a commission if the conditions to which the issue of the Perpetual Capital Securities is subject are satisfied or waived by the Joint Lead Managers. The Society has agreed to pay certain of the Joint Lead Managers' expenses.

The Joint Lead Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Society. The Society has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the issue of the Perpetual Capital Securities.

The Joint Lead Managers and their affiliates may have engaged, and may in future engage, in investment banking and/or commercial banking transactions with, and may perform services to members of the Group and their respective affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Society or its affiliates. Joint Lead Managers or their affiliates that have a lending relationship with the Society routinely hedge their credit exposure to the Society consistent with their customary risk management policies. Typically, such persons would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Perpetual Capital Securities. Any such short positions could adversely affect future trading prices of the Perpetual Capital Securities. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

### United States

The Perpetual Capital Securities have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Joint Lead Manager has represented and agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Perpetual Capital Securities (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the "**distribution compliance period**"), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Perpetual Capital Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Perpetual Capital Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Perpetual Capital Securities are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Perpetual Capital Securities, an offer or sale of Perpetual Capital Securities within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### **United Kingdom**

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Perpetual Capital Securities in circumstances in which Section 21(1) of the FSMA would not, if the Society was not an authorised person, apply to the Society; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Perpetual Capital Securities in, from or otherwise involving the United Kingdom.

### **Switzerland**

No public offer of Perpetual Capital Securities is being made in Switzerland. Each Joint Lead Manager has represented and agreed that it has not offered, sold or advertised and will not offer, sell or advertise, in each case by way of a public offer, the Perpetual Capital Securities, directly or indirectly, in, into or from Switzerland.

Neither this Offering Circular nor any other offering or marketing material relating to the Perpetual Capital Securities constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither this Offering Circular nor any other offering or marketing material relating to the Perpetual Capital Securities may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Offering Circular nor any other offering or marketing material relating to the offering, the Society or the Perpetual Capital Securities has been or will be filed with or approved by the Swiss Financial Markets Supervisory Authority (“FINMA”), and investors in the Perpetual Capital Securities will not benefit from protection or supervision by such authority. Neither the Society nor the Perpetual Capital Securities are subject to supervision by FINMA.

### **General**

No action has been or will be taken by the Society or the Joint Lead Managers that would permit a public offer of the Perpetual Capital Securities in any country or jurisdiction where action for that purpose is required. The Perpetual Capital Securities may not be, directly or indirectly, offered or sold in any country or jurisdiction where action for that purpose is required. Accordingly, the Perpetual Capital Securities may not, directly or indirectly, be offered or sold, and neither this Offering Circular nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from, or published in, any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Neither the Society nor any of the Joint Lead Managers represents that the Perpetual Capital Securities may at any time lawfully be sold in or from any jurisdiction (other than in or from the United Kingdom) in compliance with any applicable registration requirements or pursuant to an exception available thereunder or assumes any responsibility for facilitating such sales.



## GENERAL INFORMATION

### 1. Authorisation

The issue of the Perpetual Capital Securities was duly authorised by a resolution of the Board of the Society dated 9 June 2014.

### 2. Approval, listing and admission to trading

The Perpetual Capital Securities are expected to be provisionally admitted to trading on the main standard of the SIX Swiss Exchange from 26 June 2014. Application will be made to the SIX Swiss Exchange for listing of the Perpetual Capital Securities in accordance with the Standard for Bonds of the SIX Swiss Exchange. In accordance with Article 43 of the Listing Rules of the SIX Swiss Exchange, Niederer Kraft & Frey AG will lodge the listing application with the Regulatory Board of the SIX Swiss Exchange. The Perpetual Capital Securities will cease to be admitted to trading on the SIX Swiss Exchange after the third dealing day prior to the date on which the Perpetual Capital Securities are fully redeemed or after the Suspension Date (as defined on page 37), as applicable, in accordance with the terms of the Perpetual Capital Securities.

### 3. Clearing Systems

The Global Certificate has been accepted for clearance through the Clearing Systems. The ISIN for the Perpetual Capital Securities is XS1079786239 and the Common Code is 107978623. The Swiss Security Number for the Perpetual Capital Securities is 24.732.035.

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

### 4. No significant change

Since 31 December 2013, there has been no significant change in the financial or trading position of the Society or the Group and, since 31 December 2013, there has been no material adverse change in the financial position or prospects of the Society or the Group.

### 5. Litigation

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) of which the Society is aware during the 12 months preceding the date of this Offering Circular which may have, or have had in the recent past, significant effects on the financial position or profitability of the Group.

### 6. Auditors

The consolidated and non-consolidated annual financial statements of the Society for the three financial years ended 31 December 2011, 2012 and 2013, respectively, have been audited by Ernst & Young LLP in accordance with applicable law and International Standards on Auditing (UK and Ireland). Ernst & Young LLP is registered to carry out audit work by the Institute of Chartered Accountants of England and Wales. The auditors of the Group have no material interest in the Group.

## **7. Registrar**

The Society, pursuant to the Agency Agreement, will appoint Citibank, N.A., London Branch at its specified office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom to maintain the Perpetual Capital Securities Register at such specified office. It is intended that the Registrar will act as agent of the Society for the purposes of making payments in respect of the Perpetual Capital Securities as they fall due, maintaining the Perpetual Capital Securities Register, accepting instructions for, and effecting, transfers of Perpetual Capital Securities, issuing Certificates and receiving requests for the replacement of, and replacing, defaced, damaged, stolen, worn-out, lost or destroyed Certificates. The Registrar shall hold copies of the Agency Agreement available for inspection at its specified office.

## **8. Documents available for inspection**

Copies of the following documents may be inspected at the principal office of the Society during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) during the period from the date of this Offering Circular up to and including the date on which no Perpetual Capital Security remains outstanding:

- (i) the Rules and Memorandum of the Society;
- (ii) the published audited consolidated and non-consolidated annual financial statements of the Society for the years ended 31 December 2011, 2012 and 2013;
- (iii) the Risk Management Report set out on pages 44 to 76 of the Society's Annual Report and Accounts 2013;
- (iv) all future audited consolidated and non-consolidated annual financial statements and unaudited interim consolidated financial statements of the Society; and
- (v) the draft, subject to completion, and the final Agency Agreement.

In addition, this Offering Circular and each document incorporated by reference herein will also be available at Citibank N.A., Zurich Branch, Bleicherweg 10, 8010, Zurich Switzerland.

## ANNEX

### INDICATIVE PROVISIONS RELATING TO THE CCDS

This Annex contains the following indicative provisions which the Society expects will apply to CCDS issued upon conversion of the Perpetual Capital Securities pursuant to Condition 8 of the Perpetual Capital Securities:

Part I: contains an indicative overview of certain provisions of the Rules of the Society and the Act relating to the Core Capital Deferred Shares;

Part II: contains indicative conditions of issue of the Core Capital Deferred Shares; and

Part III: contains an indicative overview of provisions relating to the CCDS while represented by the Global CCDS Certificate.

*Unless otherwise defined, terms used in this Annex shall have the same meanings given to them in Part II of this Annex.*

**The provisions of this Annex are indicative only and are subject to amendment.** Whilst it is not the intention of the Society to issue CCDS on terms substantively different to the indicative provisions contained in this Annex should a conversion of the Perpetual Capital Securities occur, it may be necessary for the Society to do so if, for example (but without limitation):

- (i) the Capital Rules, or the implementation or official interpretation thereof as applicable to the Society, change after issue of the Perpetual Capital Securities such that the terms of the CCDS issued upon conversion of the Perpetual Capital Securities are required to depart from the indicative provisions contained in this Annex in order that such CCDS qualify as common equity tier 1 (or equivalent) capital of the Society at that time;
- (ii) the Supervisory Authority requires the terms of the CCDS to depart from the indicative provisions contained in this Annex at the time of conversion of the Perpetual Capital Securities;
- (iii) the Society issues securities which are Core Capital Deferred Shares for the purposes of the Rules prior to conversion of the Perpetual Capital Securities and it is necessary for the terms of the CCDS issued upon conversion of the Perpetual Capital Securities to depart from the indicative provisions contained in this Annex to ensure that such CCDS are capable of being consolidated and forming a single series with the Core Capital Deferred Shares outstanding at that time;
- (iv) the Society or its business is the subject of a succession or transfer of a type envisaged by Condition 10 of the CCDS as set out in Part II of this Annex (in which event the Society intends that provisions substantially the same as the provisions of that Condition 10 should apply, where appropriate, as if the CCDS had already been issued at the time of such succession or transfer); or
- (v) the Society is unable to procure clearing of the CCDS in the Clearing Systems (either without the terms of the CCDS departing in certain respects from the indicative provisions contained in this Annex, or at all).

The Society confirms that the provisions of this Annex have been reviewed by the Supervisory Authority and, whilst it has not issued a binding decision that such CCDS would qualify as Common Equity Tier 1 Capital upon issue, the Supervisory Authority has not raised any objections to the provisions in the form set out in this Annex.

## PART I

### OVERVIEW OF CERTAIN PROVISIONS OF THE RULES OF THE SOCIETY AND THE ACT RELATING TO THE CORE CAPITAL DEFERRED SHARES

The rights and restrictions attaching to the Core Capital Deferred Shares will be governed by the rules of the Society (the "**Rules**"), certain provisions of the Building Societies Act 1986, as amended (the "**Act**") and the Conditions of Issue of the Core Capital Deferred Shares (the "**Conditions**"). Set out below is an overview of the key provisions of the Rules and certain provisions of the Act insofar as they might affect the rights of the CCDS holders, together with certain explanatory notes which are italicised. Terms defined in the Rules or the Conditions will, unless otherwise defined herein or the context otherwise requires, have the same meanings when used in this overview.

*As used in this Part I, the following terms have the meanings given to them in the Rules: "Borrowing Members' Resolution"; "Deferred Share"; "Deferred Shares Register"; "Member"; "Ordinary Resolution"; "Periodic Distributions"; "Periodic Distributions Cap"; "Person"; "Share"; "Shareholding Member"; "Shareholding Members' Resolution"; "Special Resolution" and "voting date".*

#### 1. GENERAL

A person who holds a Deferred Share in the Society (including a Core Capital Deferred Share) is a "**Shareholding Member**" of the Society. The CCDS are Core Capital Deferred Shares for the purposes of the Rules and therefore a person whose name is entered in the CCDS Register (as defined below) as a CCDS holder is a Shareholding Member of the Society.

Each CCDS holder, and all persons claiming through it or on its behalf or under the Rules, shall be bound by the Rules, by the Memorandum of the Society and by the Act.

*It is expected that the CCDS will be held by investors through accounts with a Clearing System and will be registered in the name of a nominee (the "**Nominee**") who shall be the CCDS holder for the purposes of the Rules and the Conditions. An investor holding beneficial interests in the CCDS through a Clearing System will not be a member of the Society by virtue of its investment in the CCDS and (without prejudice to any rights or obligations that such person may have as a member of the Society in some other capacity) will be only indirectly subject to the Rules, the Memorandum and the Act with respect to its holding of CCDS in the manner provided above. Investors holding beneficial interests in the CCDS through a Clearing System shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of that Clearing System.*

*Registration of title to CCDS in a name other than that of the Nominee will be permitted only if all the Clearing Systems have closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business or do in fact do so. This is considered unlikely to occur. For so long as the CCDS remain held in accounts with a Clearing System, references in this Part to "CCDS holders" and related expressions shall be read as references to the Nominee.*

#### 2. REGISTER

The Society shall, for the purposes of its Deferred Shares Register, maintain records constituting the register of the CCDS (the "**CCDS Register**"), in which shall be entered the name and address of each CCDS holder. Each CCDS holder shall notify the Society immediately of any change of name or address and shall produce such evidence of such change as the Society may require.

Transfers and other documents or instructions relating to or affecting the title to any CCDS shall also be recorded in the CCDS Register. No charge shall be made in respect of any entry in the CCDS Register.

The CCDS Register shall be maintained at the specified office of the Registrar, or at such other place as the board of directors of the Society thinks fit.

### **3. DISTRIBUTIONS**

#### **Cap on Distributions**

The CCDS are Core Capital Deferred Shares for the purposes of the Rules. The Rules provide that any Core Capital Deferred Share must be issued on terms that limit the amount of the Periodic Distributions ("**Distributions**") that may be paid on any such Share in respect of any given financial year to not more than the applicable Periodic Distributions Cap (the "**Cap**"), in order to protect the reserves of the Society.

The Rules provide that the initial Cap, which would have been applicable to Distributions in respect of the financial year to 31 December 2013 had CCDS been in issue during that financial year, was £15 per CCDS, and that (subject as stated below) in respect of each subsequent financial year the Cap will be adjusted for inflation by reference to the United Kingdom Consumer Price Index (overall index, 2005=100) ("**CPI**") published by the Office for National Statistics (or any successor to that index). Such adjustment will be made by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for the last full calendar month of the financial year in respect of which the Distributions are payable (being the percentage increase or decrease over the twelve months to and including that month) to the prevailing Cap. If the CPI ceases to be published and no direct successor or replacement index is published, the Board shall be entitled to determine an appropriate replacement index for determining inflation-based adjustments to the Cap, and shall have sole discretion to determine any modifications to the method of determining inflation-based adjustments to the Cap during the transition from CPI to the replacement index. The Society shall in each year determine the adjustment to the Cap promptly following publication of the relevant CPI (or successor or replacement index) data by the Office for National Statistics (or such successor or other organisation as may be responsible for publishing official data with respect to the relevant index) and will notify the members of the Society of the adjusted Cap not later than at the first Annual General Meeting following publication of the relevant data. In the event that adjustment of the Cap in the manner described above would prejudice the regulatory capital treatment of the CCDS, the Society will disapply those adjustment provisions and the Cap will remain at (or revert to) £15 per CCDS.

*The Cap will be adjusted by reference to the CPI in each year and notified to the members of the Society whether or not CCDS are in issue during the relevant financial year. The first adjustment will, accordingly, be made by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for December 2014 to the initial Cap of £15.*

#### **Distribution Policy**

The Rules also provide that the Board may determine and from time to time publish the policy of the Society in relation to the Distributions on any Core Capital Deferred Shares and shall have regard to the ongoing profitability and long term viability of the Society, the need for the Society to ensure that it has adequate capital resources and such other factors as the Board considers appropriate.

### **4. MEETINGS OF THE MEMBERS OF THE SOCIETY**

As a Shareholding Member of the Society, each CCDS holder will, subject to the provisions of the Rules, enjoy various membership rights. In particular, CCDS holders will, subject to the Rules, be entitled to receive notice of, to participate in a requisition for, to propose resolutions at, to attend, to be counted in a quorum at and to vote at any general meeting or in a postal ballot or electronic ballot of the Society.

Each CCDS holder will be entitled to exercise one vote (irrespective of the number of CCDS held by it or the size or number of other relevant investments or interests (if any) conferring membership rights which it may have in the Society) on a resolution at any general meeting or (subject to the Rules) in a postal

ballot or electronic ballot (whether an Ordinary Resolution or Special Resolution or a Shareholding Members' Resolution, but not a Borrowing Members' Resolution) if:

- (i) that CCDS holder held the CCDS (and was recorded as holder in the CCDS Register):
  - (a) at the end of the financial year before the voting date (or, where the voting date follows the conclusion of the Annual General Meeting in a financial year, at the beginning of the period of 56 days immediately preceding the voting date); and
  - (b) on the voting date; and
- (ii) that CCDS holder has not ceased to be a Shareholding Member between the relevant time specified in (a) above and the voting date.

*The members' rights attaching to the CCDS held through the Clearing Systems will be held by the Nominee. Such Nominee will be entered in the CCDS Register as the holder of CCDS held in this manner, and will be entitled to exercise the voting and other members' rights attributable to all those CCDS so held. Accordingly, the Nominee shall have one vote (regardless of the number of CCDS held by it and regardless also of the size and number of other relevant investments or interests (if any) conferring membership rights which the Nominee may have in the Society) on a resolution at any general meeting of the Society or in a postal ballot or electronic ballot.*

*Given the difficulty of casting the single vote in a manner which reflects the views of all investors holding CCDS through the Clearing Systems and the relative insignificance of that vote in the context of all the votes which may be cast by members of the Society, it is expected that the Nominee will not exercise its vote insofar as such vote relates to its holding of CCDS.*

*The foregoing provisions relate to general meetings of the members of the Society. For provisions relating to the convening of separate meetings of the CCDS holders only, see Condition 12 and "Meetings; membership rights whilst the CCDS are held through Clearing Systems" under "Overview of provisions relating to the CCDS while represented by the Global CCDS Certificate" in "Part II: Conditions of issue of the Core Capital Deferred Shares" below.*

## **5. WINDING-UP OR DISSOLUTION**

Upon the winding-up of the Society, or upon it being dissolved by consent, any surplus remaining after payment in full of the Society's creditors and repayment to Members of the amount of their Shares (together with interest due thereon) according to their priority under their respective terms and conditions of issue (but excluding Core Capital Deferred Shares unless and to the extent provided in their terms and conditions of issue) shall be applied as follows:

- (a) up to 20% of the surplus may be distributed to holders of all or some of the Deferred Shares (excluding Core Capital Deferred Shares) at the relevant date. The proportion (if any) of such 20% to which any particular issue of Deferred Shares is entitled shall be set forth in the terms and conditions of issue of that issue of Deferred Shares;
- (b) to holders of Core Capital Deferred Shares at the relevant date subject to, and in proportion to the amount specified in, or calculated by reference to, their terms and conditions of issue; and
- (c) the remainder of the surplus will be distributed among qualifying Members (other than holders of Deferred Shares) in proportion to the value of their Shareholding at the relevant date.

The relevant date is the earlier of either the date of notice of a winding-up or dissolution resolution or the date of presentation of a winding-up petition or such other date as may be specified by the insolvency official appointed with primary responsibility for the winding-up or dissolution of the Society.

If there are insufficient assets to repay all Members the amounts payable on their Shares in accordance with their terms and conditions of issue, no repayments shall be made in respect of any Deferred Share until after all other Members have been repaid in full.

For the purposes of (c) above, "**qualifying Members**" means Persons who hold on the relevant date, and have held, throughout the period of two years up to that date, Shares (excluding any holding of Deferred Shares) to the value of not less than £100.

*On a winding-up or dissolution of the Society, the rights of the CCDS holders to participate in the winding-up or dissolution will, subject as provided in Condition 4.8, be limited to an entitlement to share, to the extent and in the manner provided in the Conditions, in the Surplus (if any) of the Society remaining following payment of all amounts in respect of Liabilities of the Society and any amounts payable pursuant to Condition 4.8. If there are insufficient assets of the Society to pay all amounts in respect of Liabilities of the Society, no payment shall be made to the CCDS holders in the winding-up or dissolution of the Society.*

*The provisions under (a) to (c) above reflect Rule 45 of the Society's Rules. Rule 45 provides the basis for distribution of any surplus amongst members of the Society on a proportionate basis, having regard to the nature and amount of their investments, and without preference as to priority. The reference in (a) to up to 20% of the surplus being available for distribution to holders of Deferred Shares other than Core Capital Deferred Shares establishes a limit on the amount of any surplus which can be distributed to such holders but does not result in such amount of the surplus being ring-fenced for the benefit of such holders. As at 24 June 2014, none of the Deferred Shares of the Society which are outstanding confer on their holders any right to share in any surplus of the Society on a winding-up or dissolution. For the avoidance of doubt, the calculation of the Core Capital Contribution Share in Condition 4.4 of the Conditions of Issue of the CCDS will, in the event of a winding-up or dissolution of the Society as referred to in Condition 4.2, be calculated by reference to the entire amount of Surplus before deduction of any amounts of such Surplus which may be distributed to holders of Deferred Shares (other than Core Capital Deferred Shares) or any other members.*

The liability of a CCDS holder to contribute to the winding up or dissolution of the Society is limited to the amount which has been actually paid, or the amount (if any) which is in arrear, on such holder's CCDS. For these purposes, amounts would only be in arrear on CCDS if, and to the extent that, the Nominal Amount and Premium Amount (each as defined in the Conditions) payable in respect of such CCDS on issue had not been paid in full.

*In accordance with condition 8.3 of the terms and conditions of the Perpetual Capital Securities, the nominal amount by which the Perpetual Capital Securities will be written down following the occurrence of the Conversion Trigger shall be applied, directly or indirectly, to paying up the CCDS to be issued to holders of the Perpetual Capital Securities, and such holders shall be deemed irrevocably to have directed and authorised the Society to apply such amounts for such purpose on their behalf. Accordingly, CCDS issued upon conversion of the Perpetual Capital Securities will be paid up in full upon issue, and there will be no liability of holders of such CCDS to further contribute in the winding up or dissolution of the Society.*

## **6. DISPUTES AND LEGAL PROCEEDINGS**

Section 85 of, and Schedule 14 to, the Act provide that no court other than the High Court in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society or the Act. Under various other enactments, the High Court is empowered to transfer cases over which it has jurisdiction to the County Court.

## PART II

### CONDITIONS OF ISSUE OF THE CORE CAPITAL DEFERRED SHARES

*The following (save for paragraphs in italics, which do not form part of the conditions) are the indicative conditions of issue of the CCDS as they are expected to apply to holders of the CCDS and in the form in which they are expected to appear on the reverse of each CCDS Certificate, subject to amendment and completion:*

The Core Capital Deferred Shares (the "**CCDS**", which term shall include any further core capital deferred shares issued pursuant to Condition 13 which are consolidated and form a single series with the CCDS) are issued under the Rules (the "**Rules**") of Coventry Building Society (the "**Society**") for the time being. CCDS holders are entitled to the benefit of, are bound by and are deemed to have notice of, the Rules. The CCDS are also issued subject to, and with the benefit of, these conditions of issue (the "**Conditions**") and subject to an agency agreement (as amended from time to time, the "**Agency Agreement**") dated on or around [date] between the Society and [entity name] as registrar and transfer agent (in such capacities, the "**Registrar**", which term shall include any other registrar and transfer agent appointed by the Society in respect of the CCDS from time to time) and principal paying agent (in such capacity, the "**Principal Paying Agent**", which term shall include any other principal paying agent appointed by the Society in respect of the CCDS from time to time). In the event of inconsistency between the Rules, these Conditions and the Agency Agreement, the Rules will prevail and, subject thereto, in the event of inconsistency between these Conditions and the Agency Agreement, these Conditions will prevail. CCDS holders are bound by and are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

*The CCDS are expected to be held through accounts with the Clearing Systems and to be issued in definitive form only in the very limited circumstances described under "Overview of provisions relating to the CCDS while represented by the Global CCDS Certificate – Exchange of the Global CCDS Certificate and registration of title". While CCDS are held on behalf of investors through an account with a Clearing System, CCDS will be registered in the name of the Nominee. The Nominee shall be the CCDS holder for all of the CCDS for the purposes of the Conditions, and not the investors holding beneficial interests in the CCDS through the Clearing Systems. The investors holding the beneficial interests in CCDS through Clearing System accounts shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of the relevant Clearing System.*

#### 1. GENERAL

- 1.1 Terms defined in the Rules will, unless otherwise defined herein or unless the context otherwise requires, have the same meanings when used in these Conditions. Other capitalised terms used in these Conditions shall have the meanings set out in Condition 17.
- 1.2 The CCDS:
- (a) are deferred shares for the purposes of section 119 of the Building Societies Act 1986, as amended (the "**Act**");
  - (b) are not protected deposits for the purpose of the Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000 as amended (the "**FSMA**");
  - (c) are not withdrawable; and
  - (d) are Core Capital Deferred Shares for the purposes of the Rules.
- 1.3 By purchasing CCDS, each CCDS holder agrees to assign any rights to Conversion Benefits to which it may become entitled by reason of its holding of CCDS to Coventry Building Society Charitable



Foundation (or other charities nominated by Coventry Building Society Charitable Foundation) pursuant to any scheme for charitable assignment established by the Society for the time being. For these purposes, "**Conversion Benefits**" shall mean any benefits under the terms of any future transfer of the Society's business to a company (other than rights to receive ordinary shares issued by the Successor Entity or its parent, as specifically provided for under Condition 10) and, if the Society merges with any other building society, "**Society**" shall, after the date of such merger, extend to such other society.

- 1.4 If a CCDS holder fails to assign any Conversion Benefits as required pursuant to Condition 1.3, it acknowledges that, by purchasing CCDS, it waives its entitlement to retain any Conversion Benefits received by it and covenants promptly to pay and deliver such Conversion Benefits to Coventry Building Society Charitable Foundation (or to the Society for payment and delivery to Coventry Building Society Charitable Foundation) and until such time as payment is made, will hold a sum equal to such amount on trust for Coventry Building Society Charitable Foundation.

*As investors holding the beneficial interests in CCDS through Clearing System accounts will not, by virtue of such holding, be members of the Society they will not be entitled to any Conversion Benefits by virtue of such holding. Any Conversion Benefits relating to the CCDS will belong instead to the Nominee, as the registered holder of the CCDS in the CCDS Register. It is expected that the Nominee will, on or prior to date of issue of the CCDS, irrevocably agree to assign to Coventry Building Society Charitable Foundation (or other charities nominated by Coventry Building Society Charitable Foundation) any Conversion Benefits.*

## 2. FORM, TITLE AND TRANSFER

### 2.1 Form

The CCDS are in registered form and have a nominal value of £1 each (the "**Nominal Amount**"). The CCDS are transferable in accordance with the Rules and subject to Condition 2.2.

In the event that a CCDS is subscribed at a price higher than the Nominal Amount, the difference between the subscription price and the Nominal Amount shall constitute CCDS premium (the "**Premium Amount**").

### 2.2 Title and transfer

Title to the CCDS passes only by registration in the CCDS Register. The holder of any CCDS will (except as otherwise required by law) be treated as its absolute owner for all purposes (regardless of any notice of ownership, trust or any other interest or any writing on, or the theft or loss of, the CCDS Certificate issued in respect of it) and no person will be liable for so treating the holder.

CCDS are transferable in whole numbers and no CCDS may be transferred in part. A transfer of CCDS will not be valid, and will not be registered in the CCDS Register, unless the number of CCDS transferred is equal to or greater than the specified minimum transfer amount (the "**Minimum Transfer Amount**") prevailing at the time of transfer. The initial Minimum Transfer Amount is [number] CCDS. The Minimum Transfer Amount may be reduced in agreement with the Relevant Regulators upon not less than 30 nor more than 60 days' notice to CCDS holders in accordance with Condition 14. The Minimum Transfer Amount prevailing from time to time will be published on the Society's website.

*The Society currently expects that, if it were to issue CCDS, the initial Minimum Transfer Amount would be approximately 250 CCDS (which assumes an issue price per CCDS of approximately £100). However, the actual Minimum Transfer Amount which may be set, or which may be prevailing, at the time of conversion of the Perpetual Capital Securities may be higher or lower than 250 CCDS, and will depend upon agreement with the Relevant Regulators.*

No legal transfer of a CCDS shall be valid unless made in the form endorsed on the CCDS Certificate or in such other form as the Board may agree, which form shall be duly completed and signed (as appropriate) and presented to the Registrar. Legal title to the CCDS will pass upon registration of such transfer in the CCDS Register and, if so requested in writing by the registered holder, the Registrar shall, on behalf of the Society, issue a CCDS Certificate in respect of such holding (which will be made available at the specified office of the Registrar).

*The Society currently expects that, if it were to issue CCDS, it will not be possible for investors to transfer CCDS in amounts less than the Minimum Transfer Amount prevailing as at the time of transfer. The Clearing Systems will not accept instructions to settle transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount, and (in the limited circumstances in which definitive CCDS are issued) the Registrar will not register in the CCDS Register any transfer of CCDS in definitive form in amounts less than the prevailing Minimum Transfer Amount. Accordingly, purported transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount will be incapable of settlement. Investors in CCDS are responsible for ensuring that any trades they enter into in respect of the CCDS are capable of settlement; failure to do so may result in an investor breaching its contract of sale and purchase. If, and for so long as, CCDS are admitted to trading on the London Stock Exchange, investors and potential investors in CCDS who are members of the London Stock Exchange are reminded of their obligations under the Rules of the London Stock Exchange, including rule G5000 (obligation to settle).*

*Any decision by the Society to propose a reduction in the Minimum Transfer Amount to the Relevant Regulators will be based on all relevant factors at the time, which may include (if it is the case) the fact that an established trading market has developed for the CCDS which would enable a wider range of investors to better assess whether or not CCDS would be a suitable investment for them. The Society does not expect to make such proposals frequently.*

### **2.3 CCDS Certificates**

A certificate (each a "**CCDS Certificate**") will, if so requested in writing by such CCDS holder, be issued to each CCDS holder in respect of its registered holding of CCDS. Each CCDS Certificate will be numbered serially with an identifying number which will be recorded on the relevant CCDS Certificate and in the CCDS Register, and will specify the number of CCDS registered in the name of such holder(s).

Each new CCDS Certificate to be issued following a transfer will be mailed by uninsured mail at the risk of the holder entitled to the CCDS to the address specified in the form of transfer within one month of the date of registration of the transfer in the CCDS Register (or, if later, within one month of the written request of the relevant CCDS holder to be issued a CCDS Certificate).

Where some but not all of the CCDS in respect of which a CCDS Certificate is issued are to be transferred, a new CCDS Certificate in respect of the number of CCDS not so transferred will, within 14 days of receipt by the Registrar of the original CCDS Certificate, be mailed by uninsured mail at the risk of the holder of the CCDS not so transferred to the address of such holder appearing on the CCDS Register or as specified in the form of transfer.

*It is expected that, except in the limited circumstances described under "Overview of provisions relating to the CCDS while represented by the Global CCDS Certificate – Exchange of the Global CCDS Certificate and registration of title", owners of interests in the CCDS will not be entitled to receive physical delivery of CCDS Certificates.*

### **2.4 Formalities free of charge**

Registration of transfer of CCDS will be effected without charge by or on behalf of the Society or the Registrar but upon payment (or the giving of such indemnity as the Society or the Registrar may

reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

### **3. CCDS REGISTER**

- 3.1 The Society has appointed the Registrar to act as registrar and transfer agent in respect of the CCDS under the terms of the Agency Agreement.
- 3.2 Pursuant to the Agency Agreement, the Society shall procure that the Registrar maintains the CCDS Register, in which shall be entered the name and address of each CCDS holder. Each CCDS holder shall notify the Registrar immediately of any change of name or address and shall produce such evidence of change of name or address as the Registrar may reasonably require.
- 3.3 A CCDS holder must provide the Registrar with a written order containing such instructions and other information as the Society and the Registrar may reasonably require to complete, execute and deliver a CCDS Certificate to such CCDS holder.
- 3.4 Transfers and other documents or instructions relating to or affecting the title of any CCDS shall be recorded in the CCDS Register. No charge shall be made in respect of any entry in the CCDS Register or any change in relation to such entry. The CCDS Register shall be maintained at the specified office of the Registrar or at such other place as the Society and the Registrar shall agree.

### **4. STATUS, SUBORDINATION AND RIGHTS ON A WINDING-UP**

#### **4.1 Status and subordination**

The CCDS constitute direct, unsecured and subordinated investments in the Society and, on a winding-up or dissolution of the Society, rank (a) *pari passu* among themselves and with any other investments ranking or expressed to rank *pari passu* with the CCDS (provided that participation of CCDS holders in the Surplus (as defined in Condition 4.2) will be in the manner and proportion described in this Condition 4), and (b) junior to (i) all Liabilities of the Society and (ii) any claims in respect of declared, unconditional and unpaid Distributions in accordance with Condition 4.8 and claims ranking or expressed to rank *pari passu* therewith.

#### **4.2 Rights on a winding-up or dissolution**

On a winding-up or dissolution of the Society (other than a winding-up or dissolution in connection with an amalgamation or transfer as described Condition 10, in respect of which the provisions of Condition 10 will apply), the rights of the holders of Outstanding CCDS to participate in the winding-up or dissolution shall, save as provided in Condition 4.8, be limited to an entitlement to share, to the extent and in the manner provided in Condition 4.3, in the surplus assets (if any) of the Society remaining ("**Surplus**") following payment of all amounts in respect of Liabilities of the Society and any amounts payable pursuant to Condition 4.8 and claims ranking or expressed to rank *pari passu* therewith, provided that such entitlement shall be capped at the Average Principal Amount per CCDS as provided in Condition 4.7.

#### **4.3 Distribution of Surplus**

In the event of a distribution of Surplus, such Surplus shall, subject to Condition 4.7, be shared without preference as to priority between:

- (a) CCDS holders (whose entitlement shall be for such amount as will, upon such sharing of the Surplus, result in CCDS holders receiving, in respect of each CCDS held which is Outstanding at the Relevant Time, an amount equal to (i) the Core Capital Contribution Share determined in

accordance with Condition 4.4 or, if less (ii) the Average Principal Amount determined as at the Relevant Time in accordance with Condition 4.5);

- (b) those Persons who are qualifying Members (whose entitlement shall be calculated based on the proportionate value of their Shareholding (excluding any holding of Deferred Shares) at the Relevant Time);
- (c) (unless the terms of the relevant Deferred Shares otherwise provide) holders of any other Deferred Shares in the Society at the Relevant Time (whose entitlement (if any) shall be calculated based on and subject to the terms of issue of such Deferred Shares and subject to any limit specified in the Rules as regards distributions of surplus to holders of Deferred Shares); and
- (d) any other persons entitled to share in the surplus assets in accordance with the Rules from time to time (whose entitlement shall be calculated based on and subject to the Rules).

If there are insufficient assets to repay all Members the amounts payable on their Shares in accordance with their terms and conditions of issue, no repayments shall be made in respect of any Deferred Share until after all other Members have been repaid in full.

In this Condition 4.3, the terms "**Member**", "**Person**", "**qualifying Members**", "**Share**" and "**Deferred Share**" have their respective meanings given in the Rules.

In these Conditions, "**Relevant Time**" means (i) 1.00 a.m. (London time) on the earlier of the date on which notice is given of a winding-up or dissolution resolution of the Society or the date on which notice is given of presentation of a winding-up petition of the Society (including, without limitation, notice of an order made under a building society insolvency or building society special administration (each as defined in the Act) but excluding notice of an effective resolution passed for dissolution of the Society by virtue of section 93(5) (dissolution following an amalgamation with one or more building societies by the establishment of a successor building society), section 94(10) (dissolution following transfer of all engagements to another building society) or section 97(9) or (10) (dissolution following transfer of the whole business to a company) of the Act), or (ii) such other time and date as may be specified by the insolvency official appointed with primary responsibility for the winding-up or dissolution of the Society.

#### **4.4 Core Capital Contribution Share**

*This Condition 4.4 determines the amount of any Surplus the CCDS holders will be eligible to receive upon a winding-up of the Society as described in Condition 4.2 (unless the amount calculated in accordance with this Condition 4.4 exceeds the Average Principal Amount per CCDS calculated in accordance with Condition 4.5, in which case CCDS holders will instead be eligible to receive the Average Principal Amount for each CCDS held). For the avoidance of doubt, if the Society is wound up and there is no Surplus, CCDS holders will not be eligible to receive any amount pursuant to this Condition 4.4 or Condition 4.5.*

*The calculation in Condition 4.4(b) determines the relative contribution proportion (expressed as a percentage) of the CCDS holders (as a class) to the total Common Equity Tier 1 Capital of the Society from time to time. This Core Capital Contribution Proportion will be first calculated at the time of issue of the first tranche of CCDS and subsequently adjusted upon recalculation from time to time to reflect any additional issues of CCDS pursuant to Condition 13 and any cancellations of CCDS. If the Society is wound up in circumstances where a Surplus is available for distribution, Condition 4.4(a) provides that the CCDS holders (as a class) would be eligible to receive such share (i.e. percentage) of that Surplus as is equal to the Core Capital Contribution Proportion prevailing at that time, which amount would be shared amongst the CCDS holders pro rata based on the number of CCDS they hold.*

*In addition to recognising new issues and cancellations of CCDS from time to time, the calculation in Condition 4.4(b) also recognises that the CCDS holders have a notional proportionate interest in the profits and losses of the Society on an ongoing basis: each time the calculation is repeated, the section of the formula " $(CCCP_{DT-1} \times \text{Core Capital}_{DT})$ " effectively apportions to outstanding CCDS a notional interest in the appropriate proportion of profits generated or losses incurred (recognised as increases or decreases in Common Equity Tier 1 Capital) in the period between the previous calculation and the current calculation. The amount of those profits or losses attributed to the CCDS is based on the Core Capital Contribution Proportion prevailing at the time those profits were generated or losses incurred. Thus all CCDS will have a notional proportionate interest in the profits and losses of the Society from their time of issue (subject, on a winding-up or dissolution, to Condition 4.5). For the avoidance of doubt, the calculation is relevant for determining the proportion of any Surplus that CCDS holders would be eligible to receive upon the winding-up or dissolution of the Society. The notional proportionate interest in profits is not an entitlement to receive any amounts in respect of such profits at any time. Except for any payment of Surplus upon the winding-up or dissolution of the Society, no payments will be made to CCDS holders as a result of the calculation being performed.*

*The Core Capital Contribution Proportion will be first calculated as at the time of issue of the first tranche of CCDS, which may be the CCDS issued upon conversion of the Perpetual Capital Securities or may alternatively be CCDS which are issued prior to conversion of the Perpetual Capital Securities and with which the CCDS issued upon such conversion are consolidated and form a single series.*

- (a) The "**Core Capital Contribution Share**" means the amount (rounded to the nearest penny, with £0.005 being rounded up) calculated by (i) multiplying (x) the total amount of Surplus available for distribution in accordance with Condition 4.2 by (y) the Core Capital Contribution Proportion calculated in accordance with Condition 4.4(b) as at the Relevant Time and (ii) dividing the resulting figure by the total number of CCDS which are Outstanding as at the Relevant Time.
- (b) The "**Core Capital Contribution Proportion**" at any given Determination Time (as defined below) is the portion (expressed as a percentage) of the total Common Equity Tier 1 Capital of the Society at such time which is determined, in accordance with the following provisions of this Condition 4.4(b), to have been contributed by the CCDS which are Outstanding at such time.
  - (i) The Core Capital Contribution Proportion shall be calculated as at the time of issue of the first tranche of CCDS (whether upon conversion of other securities of the Society or otherwise) and recalculated (A) as at the time of each issue of Additional CCDS (as defined in Condition 13.1), (B) upon the cancellation of any CCDS and (C) as at the Relevant Time (the time of each such calculation, a "**Determination Time**"). For the purposes of calculating the Core Capital Contribution Proportion at the Relevant Time (but not at any other Determination Time), all CCDS held by the Society in its treasury function at the Relevant Time shall be deemed to be cancelled at the Relevant Time (such cancellation to be reflected in the determination of the Core Capital Contribution Proportion at the Relevant Time).
  - (ii) The Core Capital Contribution Proportion as at each Determination Time shall be determined by the Board (or, if applicable, in the case of determination as at the Relevant Time, by or on behalf of the administrator, receiver, liquidator or other insolvency official appointed with primary responsibility for the winding-up or dissolution of the Society) on the basis of the most recently published consolidated annual, interim or *ad hoc* accounts of the Society available as at the relevant Determination Time, and such determination shall be reviewed and confirmed by an independent accountant or firm of accountants of recognised standing appointed or approved by the Board (or, if applicable, the relevant insolvency official) as an expert for such purpose (provided that such expert shall have no responsibility or liability whatsoever to CCDS holders in connection with such review and confirmation).

- (iii) The Core Capital Contribution Proportion for a particular Determination Time ("**DT**") shall be a percentage (rounded to five decimal places, with 0.000005 being rounded up) equal to:

$$\frac{\text{New Issue Amount}_{DT} + (\text{CCCP}_{DT-1} \times \text{Core Capital}_{DT}) - \text{Cancellation Adjustment Share}_{DT}}{\text{New Issue Amount}_{DT} + \text{Core Capital}_{DT} - \text{Cancellation Adjustment Amount}_{DT}}$$

where:

"**New Issue Amount<sub>DT</sub>**" is the sum of the aggregate Nominal Amounts and aggregate Premium Amounts (in each case expressed in pounds sterling) of the CCDS (if any) being issued at time DT (and shall be zero if no CCDS are being issued at time DT);

"**CCCP<sub>DT-1</sub>**" is the Core Capital Contribution Proportion calculated as at, and applicable to, the Determination Time immediately preceding time DT ("**DT-1**") (provided that, for the purposes of determining the Core Capital Contribution Proportion at the first Determination Time upon issue of the first tranche of CCDS, **CCCP<sub>DT-1</sub>** shall be zero);

"**Core Capital<sub>DT</sub>**" is the total amount of Common Equity Tier 1 Capital of the Society, calculated in accordance with the Capital Rules, as at time DT, adjusted if necessary to disregard the impact of (i) any **New Issue Amount<sub>DT</sub>** as a result of any new CCDS being issued at time DT, (ii) any **Cancellation Adjustment Amount<sub>DT</sub>** as a result of any CCDS being cancelled at time DT and (iii) any CCDS held, as a result of treasury trading, by the Society in its treasury function as at time DT, in each case having regard to the Capital Rules and accounting standards then applicable;

"**Cancellation Adjustment Amount<sub>DT</sub>**" is the amount (expressed in pounds sterling) by which the Common Equity Tier 1 Capital of the Society is or was reduced as a result of the purchase by the Society of the CCDS (if any) which are being cancelled at time DT (and shall be zero if no CCDS are being cancelled at time DT); and

"**Cancellation Adjustment Share<sub>DT</sub>**" is an amount (which, for the avoidance of doubt, shall be zero if no CCDS are being cancelled at time DT) equal to:

$$(N \times \text{Notional}_{DT}) + \text{CCCP}_{DT-1}[\text{Cancellation Adjustment Amount}_{DT} - (N \times \text{Notional}_{DT})]$$

where:

"**N**" is the number of CCDS which are being cancelled at time DT;

"**Notional<sub>DT</sub>**" is the deemed notional contribution (expressed in pounds sterling) of each CCDS to the Common Equity Tier 1 Capital of the Society as at the relevant Determination Time, which shall be calculated by (i) multiplying (x) **Core Capital<sub>DT</sub>** by (y) **CCCP<sub>DT-1</sub>** and (ii) dividing the resulting figure by the total number of CCDS which are Outstanding immediately prior to the relevant Determination Time; and

"**Core Capital<sub>DT</sub>**", "**CCCP<sub>DT-1</sub>**" and "**Cancellation Adjustment Amount<sub>DT</sub>**" have the meanings given above.

*The "Cancellation Adjustment Share<sub>DT</sub>" formula allocates (notionally, and for the purposes only of determining the Core Capital Contribution Proportion from time to time) between CCDS holders and the other members of the Society the reduction in the Common Equity Tier 1 Capital of the Society as a result of the purchase by the*

*Society of the CCDS which are being cancelled at the relevant Determination Time. "Notional<sub>DT</sub>" represents the deemed notional contribution of each CCDS being cancelled to the Common Equity Tier 1 Capital of the Society as at the relevant Determination Time, and such amount will (notionally, in the context of the determination of the Core Capital Contribution Proportion) be borne by the CCDS holders. If the amount of the reduction in Common Equity Tier 1 Capital per cancelled CCDS is higher or lower than such deemed notional contribution, the difference is apportioned between the CCDS holders and the other members of the Society proportionately by reference to the prevailing Core Capital Contribution Proportion.*

- (c) The Core Capital Contribution Proportion shall be determined as soon as reasonably practicable following each Determination Time and shall promptly, and in any event within 14 days following the confirmation of such determination in the manner provided in Condition 4.4(b)(ii) above, be published on the Society's website (or, if this is not possible, via the Regulatory News Service operated by the London Stock Exchange or another regulatory information service as may be recognised by any stock exchange on which the CCDS are for the time being listed).
- (d) If, at any time, by reason of any change in the Capital Rules (or official interpretation thereof) or otherwise, the CCDS cease to qualify as Common Equity Tier 1 Capital of the Society, they will, nevertheless, be treated as contributing to Common Equity Tier 1 Capital of the Society (on the same basis as immediately prior to ceasing so to qualify) for the purposes of determining the Core Capital Contribution Proportion.

#### 4.5 Average Principal Amount

- (a) "**Average Principal Amount**" means an amount (expressed in pounds sterling) per CCDS calculated as follows and rounded to the nearest penny (with £0.005 being rounded up):

$$\frac{\text{Aggregate Nominal} + \text{Aggregate Premium}}{\text{Total CCDS Issued}}$$

Total CCDS Issued

where:

"**Aggregate Nominal**" is the aggregate of all Nominal Amounts (expressed in pounds sterling) paid at initial subscription of all CCDS issued at any time up to (and including) the time at which the Average Principal Amount is being calculated (whether or not the same remain Outstanding);

"**Aggregate Premium**" is the aggregate of all Premium Amounts (expressed in pounds sterling) paid at initial subscription of all CCDS issued at any time up to (and including) the time at which the Average Principal Amount is being calculated (whether or not the same remain Outstanding); and

"**Total CCDS Issued**" is the total number of CCDS issued at any time up to (and including) the time at which the Average Principal Amount is being calculated (whether or not the same remain Outstanding).

- (b) The Average Principal Amount will be determined in accordance with this Condition 4.5 by the Board as at the time of each new issue of CCDS, and in each case shall be published on the Society's website (or, if this is not possible, via the Regulatory News Service operated by the London Stock Exchange or another regulatory information service as may be recognised by any stock exchange on which the CCDS are for the time being listed) promptly, and in any event within 14 days, following its determination.

#### **4.6 CCDS issued other than for cash**

If at any time CCDS are issued and allotted other than for cash (including, without limitation, CCDS issued and allotted by way of a bonus issue (including a capitalisation issue) or pursuant to a remuneration scheme for directors or employees of the Society, or CCDS issued in exchange for, or upon the write-down and/or conversion of, other securities of the Society), the Premium Amount of each such CCDS shall be determined by the Board in good faith (and in accordance with generally accepted accounting practices and the accounting policies of the Society for the time being) as an amount equal to the notional value (such notional value being, as close as practicable, the equivalent cash value) in respect of which such CCDS is issued and allotted less the £1 Nominal Amount of such CCDS. The Nominal Amount and Premium Amount of each such CCDS shall be included in any calculation of the Core Capital Contribution Proportion and Average Principal Amount as if such Nominal Amount and Premium Amount had been paid to the Society in cash.

#### **4.7 Entitlement to Surplus capped**

The entitlement of CCDS holders to share in the Surplus shall be capped at the Average Principal Amount per CCDS. Accordingly, following payment to the holders of CCDS, by way of distribution of Surplus, of an amount equal to the Average Principal Amount in respect of each CCDS, the holders of the CCDS shall have no further entitlement to share in any remaining or further distribution of Surplus, and any such remaining or further Surplus shall be distributed amongst the persons and in the manner specified in Conditions 4.3(b), (c) and (d) only, or otherwise as provided in the Rules.

#### **4.8 Declared and unpaid Distributions**

On a winding-up or dissolution of the Society, the CCDS holders shall, in respect of any declared, unconditional (which term shall, for these purposes, include any conditional Distribution (as described in Condition 5.3) or part thereof in respect of which the relevant conditions have been satisfied) and unpaid Distributions, be entitled to prove in the winding-up or dissolution of the Society, as the case may be, for the amount of such Distributions but only if, and subject to the condition that, all sums due from the Society in respect of Liabilities in the winding-up or dissolution have been paid in full, and accordingly the claims of the CCDS holders in respect thereof shall rank (a) *pari passu* amongst themselves and with any other claims ranking or expressed to rank *pari passu* therewith and (b) junior to all Liabilities of the Society. Accordingly, such claims shall constitute the most junior claim in the winding-up or dissolution of the Society other than a claim to participate in any Surplus.

#### **4.9 Set-off**

By acceptance of the CCDS, each CCDS holder will be deemed to have waived any right of set-off or counterclaim that such CCDS holder might otherwise have against the Society in respect of or arising under the CCDS whether prior to or in a winding-up or dissolution. Notwithstanding the preceding sentence, if any of the rights and claims of any CCDS holder in respect of, or arising under, the CCDS are discharged by set-off, such CCDS holder will immediately pay an amount equal to the amount of such discharge to the Society or, if applicable, the administrator, receiver, liquidator or other insolvency official appointed with primary responsibility for the winding-up or dissolution of the Society and, until such time as payment is made, will hold a sum equal to such amount on trust for the Society or, if applicable, such administrator, receiver, liquidator or other insolvency official (as the case may be). Accordingly, such discharge will be deemed not to have taken place.



## 5. DISTRIBUTIONS

### 5.1 Declaration of Distributions

The Board may, in its sole and absolute discretion, from time to time declare Periodic Distributions (as defined in the Rules, and referred to herein as "**Distributions**", which term shall include any Interim Distribution and any Final Distribution each as defined below) in respect of the CCDS. With respect to any given financial year of the Society, the Board may declare an interim Distribution (an "**Interim Distribution**") during such financial year and/or a final Distribution (a "**Final Distribution**") in respect of such financial year.

A Distribution (or any part thereof) may be declared unconditionally or subject to satisfaction of such conditions as the Board may determine (which may include, without limitation, any consents or approvals which may be necessary for distribution of reserves of the Society).

If an Interim Distribution is declared during any financial year, it will (subject to satisfaction of the relevant conditions to payment, if any) be paid on 1 November in such financial year and if a Final Distribution is declared in respect of any financial year, it will (subject to satisfaction of the relevant conditions to payment, if any) be paid on 1 May falling in the financial year immediately following the financial year in respect of which the Final Distribution is declared, provided that if any such date is not a Business Day, such Interim Distribution or Final Distribution (as the case may be) will be paid on the immediately following Business Day (the "**Distribution Payment Dates**").

If, at any time, the Society changes its accounting reference date, the Board shall be entitled to change the Distribution Payment Date for the payment of Final Distributions to a date which the Board considers appropriate given the new accounting reference date (provided that such date shall fall not more than five months following the end of the financial year in respect of which the relevant Final Distribution is declared), and the Distribution Payment Date for the payment of Interim Distributions shall at the same time be changed to the date falling six months prior to such date. Any new Distribution Payment Dates so determined will be promptly notified to CCDS holders in accordance with Condition 14 and published on the website of the Society (or, if this is not possible, via the Regulatory News Service operated by the London Stock Exchange or another regulatory information service as may be recognised by any stock exchange on which the CCDS are for the time being listed).

### 5.2 Distributions discretionary

The Board shall have full discretion at all times whether or not to declare any Interim Distribution or Final Distribution. Interim Distributions and Final Distributions are independent, and accordingly whether or not the Board declares an Interim Distribution during any financial year shall have no effect or bearing on the Board's discretion whether or not to declare a Final Distribution in respect of that financial year (save that the amount of the Final Distribution (if any) declared in respect of a financial year shall not, when aggregated with any Interim Distribution paid during that financial year, exceed the Cap provided in Condition 5.5). If, at any time, the Board elects not to declare any Interim Distribution or Final Distribution, no Distribution or other amount in respect of the relevant period shall accumulate to CCDS holders or be payable at any time thereafter, and CCDS holders shall have no right to any Distribution or other amount in respect of such period, whether in a winding-up or dissolution of the Society or otherwise.

Notwithstanding the discretion of the Board referred to above, if the Supervisory Authority, by notice in writing to the Society, requires the Society not to declare any Distributions on the CCDS at any time or whilst any specified circumstances subsist or during a specified period, the Board shall not declare any Distributions until such time as the Supervisory Authority authorises it to resume Distributions on the CCDS, such circumstances cease to subsist or, as the case may be, expiration of the specified period.

### 5.3 Conditional Distributions

If a Distribution (or any part thereof) is declared subject to the satisfaction of one or more conditions and any such condition is not satisfied on or prior to the relevant Distribution Payment Date, such Distribution (or, as the case may be, the part of such Distribution subject to the relevant condition) shall not accumulate to CCDS holders or be payable at any time thereafter, and CCDS holders shall have no right to such Distribution (or, as the case may be, the conditional part thereof) whether in a winding-up or dissolution of the Society or otherwise.

### 5.4 Distributions payable out of Distributable Items

Distributions will be paid out of Distributable Items, and the Board shall not declare a Distribution that is greater than the amount of Distributable Items available for payment of such Distribution.

If the Distribution is to be paid entirely out of the Society's profits available for distribution, such payment is subject to the discretion of the Board. To the extent that the Distribution is to be paid from the Society's reserves, such payment is subject to the discretion of the Board and applicable legal and regulatory requirements relevant to making payments from the reserves.

### 5.5 Cap on Distributions

The total Distribution paid on each CCDS in respect of any given financial year of the Society (being the aggregate of the Interim Distribution (if any) paid during such financial year and the Final Distribution (if any) paid in respect of such financial year) shall not exceed the prevailing Periodic Distributions Cap (as defined in the Rules) determined in accordance with the Rules (the "**Cap**"). The Cap prevailing from time to time in respect of the CCDS shall be published on the Society's website.

*The Rules provide that the initial Cap, which would have been applicable to Distributions in respect of the financial year to 31 December 2013 had CCDS been in issue during that financial year, was £15 per CCDS, and that (subject as stated below) in respect of each subsequent financial year the Cap will be adjusted for inflation by reference to the United Kingdom Consumer Price Index (overall index, 2005=100) ("**CPI**") published by the Office for National Statistics (or any successor to that index). Such adjustment will be made by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for the last full calendar month of the financial year in respect of which the Distributions are payable (being the percentage increase or decrease over the twelve months to and including that month) to the prevailing Cap. If the CPI ceases to be published and no direct successor or replacement index is published, the Board shall be entitled to determine an appropriate replacement index for determining inflation-based adjustments to the Cap, and shall have sole discretion to determine any modifications to the method of determining inflation-based adjustments to the Cap during the transition from CPI to the replacement index. The Society shall in each year determine the adjustment to the Cap promptly following publication of the relevant CPI (or successor or replacement index) data by the Office for National Statistics (or such successor or other organisation as may be responsible for publishing official data with respect to the relevant index) and will notify the members of the Society of the adjusted Cap not later than at the first Annual General Meeting following publication of the relevant data. In the event that adjustment of the Cap in the manner described above would prejudice the regulatory capital treatment of the CCDS, the Society will disapply those adjustment provisions and the Cap will remain at (or revert to) £15 per CCDS.*

*The Cap will be adjusted by reference to the CPI in each year and notified to the members of the Society whether or not CCDS are in issue during the relevant financial year. The first adjustment will, accordingly, be made by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for December 2014 to the initial Cap of £15.*

## **5.6 Distribution due and payable following declaration**

Once declared, a Distribution will be due and payable by the Society on the relevant Distribution Payment Date, provided that any Distribution (or any part thereof) that is stated to be conditional as aforesaid will become due and payable on the relevant Distribution Payment Date only if the relevant conditions are satisfied on or prior to such Distribution Payment Date.

## **5.7 Non-declaration not default**

Neither a decision by the Board not to declare a Distribution (whether an Interim Distribution or a Final Distribution) at any time, nor non-payment of any Distribution (or any part thereof) in respect of which a relevant condition to payment of such Distribution (or such part) has not been satisfied on or before the relevant Distribution Payment Date, shall constitute a default by the Society under the CCDS for any purpose, and neither such event shall entitle CCDS holders to petition for the winding-up or dissolution of the Society.

## **5.8 Notice of Distribution**

Following determination by the Board whether any Interim Distribution or Final Distribution shall be declared, the Society will publish an announcement confirming (a) the amount (if any) of such Distribution, expressed as an amount per CCDS and (b) whether the Distribution (or any part thereof) is conditional and, if so, the relevant condition(s).

If the Board declares a Distribution which is, in whole or in part, conditional and one or more relevant conditions have not been satisfied on or before the relevant Distribution Payment Date, the Society will promptly publish an announcement confirming that such condition(s) have not been satisfied and that, accordingly, the Distribution (or the relevant part thereof) subject to such condition(s) is not, and shall not become, due and payable.

## **5.9 Distribution Policy**

The Society will from time to time publish on its website a distribution policy (the "**Distribution Policy**") setting out the Board's expectations as regards the declaration of Distributions and certain factors which the Board may consider when determining whether or not to declare a Distribution and, if so, the amount of such Distribution. Upon any change in the policy, the Society shall promptly publish the revised Distribution Policy on its website.

The Distribution Policy may give an indication of the Board's current expectations with respect to declaration of Distributions (the "**Indication**"). Any Indication will not be binding on the Board or the Society and the Board shall (subject to there being available sufficient Distributable Items) have absolute discretion to declare a Distribution which is higher (subject to the Cap) or lower than the Indication or to determine that no Distribution shall be declared in respect of the relevant period. The Board will have regard to a range of factors including those set out in the Distribution Policy and must satisfy itself that the declaration of any Distribution is consistent with maintaining the financial strength of the Society.

*The Society does not intend to publish a Distribution Policy until such time as it has any CCDS in issue.*

## **6. PAYMENTS**

### **6.1 Payment by cheque or transfer**

Subject as follows, all payments in respect of the CCDS will be made by sterling cheque drawn on a bank or building society in the United Kingdom, posted on the Business Day immediately preceding the relevant due date for payment and made payable to the CCDS holder appearing in the CCDS Register in

respect of the CCDS of which it is the holder at the close of business on the fifteenth day before the relevant due date (the "**Record Date**") at the addresses shown in the CCDS Register on the Record Date, or in such other manner as the Principal Paying Agent shall agree with the Society.

Upon application of the CCDS holder to the Society, in the form from time to time prescribed by the Society, not less than 10 days before the due date for any payment in respect of its CCDS, the payment may be made by transfer on the due date for payment or, if such date is not a Business Day, on the immediately following Business Day, to a sterling account maintained by the relevant CCDS holder with a bank or building society in the United Kingdom.

*Notwithstanding this Condition 6.1, all payments in respect of CCDS held through Clearing System accounts will be credited to the cash accounts of Accountholders in each Clearing System in accordance with the relevant Clearing System's rules and procedures. Each investor holding beneficial interests in the CCDS through a Clearing System must look solely to the relevant Accountholder through which it holds its CCDS for its share of each payment so made.*

## **6.2 Payments subject to applicable laws**

Payments in respect of the CCDS will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto or any other applicable law.

In the event that a withholding or deduction is required to be made under applicable law or regulation, the Society will cause the requisite amount to be withheld or deducted and CCDS holders will be entitled to receive only the balance of the relevant Distribution following such withholding or deduction.

*On the basis of United Kingdom tax law and practice prevailing as at 24 June 2014, all payments of Distributions in respect of any CCDS, if issued, would be expected to be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax.*

## **6.3 Partial payments**

If any amount due on the CCDS is not paid in full, the Registrar will annotate the CCDS Register of the amount in fact paid.

## **7. PRESCRIPTION**

Any amounts payable in respect of CCDS in respect of which no cheque or warrant has been cashed and no payment claimed shall cease to be payable after 12 years from the due date and shall revert to the Society.

## **8. NO REDEMPTION; PURCHASES**

### **8.1 No redemption**

The CCDS constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no maturity date. The Society has neither an obligation nor any right to redeem or, save following a purchase as referred to in Condition 8.2, cancel the CCDS and CCDS holders do not have any right to require the Society to redeem, purchase or cancel the CCDS.

## 8.2 Purchases

The Society may, in its sole discretion but subject to Condition 8.3, at any time purchase CCDS in the open market or otherwise at any price. CCDS so purchased may, at the option of the Society, be held, re-issued and/or re-sold or surrendered to the Registrar for cancellation.

Subsidiaries of the Society shall not be permitted to purchase and hold CCDS for their own account or that of the Society, and any such purchase shall be deemed to be a purchase by the Society for immediate cancellation. Nothing in the previous sentence shall prohibit a subsidiary of the Society from purchasing or holding CCDS in its capacity as personal representative, agent or trustee for or on behalf of, or for the benefit of, a person other than the Society or a subsidiary of the Society, and any such purchase shall not be deemed to be a purchase by the Society (for immediate cancellation or otherwise).

## 8.3 Purchases subject to supervisory consent

Any purchase of CCDS by the Society will, if so required by the Supervisory Authority, the prudential rules applicable to the Society or any laws or regulations applicable to deferred shares of the Society at the relevant time, be conditional upon the Society having duly notified the Supervisory Authority of its intention to purchase the CCDS and the Supervisory Authority having consented, or, if applicable, within any applicable period not having objected, to such purchase.

## 9. REPLACEMENT OF CCDS CERTIFICATES

A CCDS holder who has lost a CCDS Certificate shall immediately give notice in writing of such loss to the Society at its principal office and to the Registrar and Principal Paying Agent at its specified office. If a CCDS Certificate is damaged or alleged to have been lost, stolen or destroyed, a new CCDS Certificate representing the same CCDS shall be issued by the Registrar, on behalf of the Society, to the CCDS holder upon request, subject to delivery up of the old CCDS Certificate or (if alleged to have been lost, stolen or destroyed) subject to compliance with such conditions as to evidence and indemnity as the Society and the Registrar may think fit and to payment of any exceptional expenses of the Society and the Registrar incidental to any investigation of the evidence of such alleged loss, theft or destruction. The duplicate CCDS Certificate will be made available at the specified office of the Registrar.

## 10. SUCCESSION AND TRANSFERS

### 10.1 Amalgamation or transfer under section 93 or 94 of the Act

Upon an amalgamation by the Society with another building society under section 93 of the Act or a transfer of all or substantially all of its engagements to another building society under section 94 of the Act, the CCDS shall become deferred shares in the amalgamated or transferee building society, as appropriate (the "**Resulting Society**"), having such terms and conditions as are necessary to ensure that both the CCDS and any other deferred shares which, prior to such amalgamation or transfer, constituted Common Equity Tier 1 Capital of the other society, shall constitute Common Equity Tier 1 Capital of the Resulting Society and, subject thereto, in all material respects identical to the terms of the CCDS, all as determined by an independent financial adviser (having regard to such factors as it considers appropriate) appointed by the Society in its sole discretion.

*It may be necessary, upon an amalgamation by the Society with another building society or a transfer of all or substantially all of its engagements to another building society as envisaged by Condition 10.1, for the terms of the CCDS and/or the rules of the Resulting Society to be amended in certain respects and/or for certain adjustments to be made to the prevailing Core Capital Contribution Proportion, Average Principal Amount and/or Cap on Distributions and, where applicable, the formulae for calculating the same. With a view to minimising the financial impact of such amendments and adjustments on CCDS holders, it is the intention of the Society that, if and to the extent that the Society has control over such*

*matters, any such amendments and adjustments should be limited to the minimum necessary in order to ensure that the CCDS and any other deferred shares of the other society which, prior to such amalgamation or transfer, constituted Common Equity Tier 1 Capital of the other society, shall constitute Common Equity Tier 1 Capital of the Resulting Society.*

## **10.2 Transfer of business under section 97 of the Act**

Upon a transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company (a "**Successor Entity**", which expression includes a subsidiary of a mutual society as referred to in the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 as amended (the "**Mutual Societies Transfers Act**")) the Successor Entity will, in accordance with section 100(2)(a) of the Act, as from the vesting date, assume a subordinated liability (a "**Subordinated Deposit**") to each holder of CCDS, which Subordinated Deposit shall be applied on the vesting date (or as soon as reasonably practicable thereafter), on behalf of the CCDS holder, in the subscription of such number of ordinary shares (which may or may not carry voting rights) in the Successor Entity or, if appropriate, any direct or indirect parent company of the Successor Entity, ranking *pari passu* in all respects with the then existing ordinary shares of such Successor Entity or such parent, as applicable, as have an aggregate market value immediately following such subscription as near as practicable to, but not less than, the market value of the CCDS immediately prior to the time of transfer of the business of the Society to the Successor Entity, as determined by an independent financial adviser (having regard to such factors as it considers appropriate, including recent trading prices if available) appointed by the Society in its sole discretion.

## **10.3 Basis of appointment of independent financial adviser**

Any independent financial adviser appointed pursuant to Condition 10.1 or 10.2 shall act as an expert and not as an arbitrator, and all fees, costs and expenses in connection with such appointment shall be borne by the Society. Any determination made in good faith by such independent financial adviser pursuant to Condition 10.1 or 10.2 shall be binding on the Society, the Registrar and the CCDS holders. No independent financial adviser appointed pursuant to Condition 10.1 or 10.2 shall have any responsibility or liability whatsoever to any CCDS holder or to any other person in connection with any determination made by it in good faith pursuant to Condition 10.1 or 10.2.

## **10.4 Failure to obtain a determination by independent financial adviser**

If, in circumstances which require an independent financial adviser to make any determination pursuant to Condition 10.1 or 10.2, the Society is unable to appoint such independent financial adviser, or the appointed independent financial adviser fails to make any necessary determination and the Society is unable to appoint an alternative or additional independent financial adviser to make such determination, the Society shall convene a meeting of the CCDS holders in accordance with Condition 12 in order for such holders to approve by resolution those determinations which remain to be made. Such approval may alternatively be obtained by way of a written resolution in accordance with Condition 12.7.

## **10.5 Undertakings**

- (a) The Society undertakes to procure that any amalgamation or transfer referred to in Condition 10.1 or 10.2 will comply with the provisions of Condition 10.1 or, as the case may be, 10.2. The Society undertakes to use all reasonable endeavours to enter into such agreements, and to take such other reasonable steps, as are necessary to give effect to the provisions of this Condition 10 (including, but not limited to, the appointment, if applicable, of an independent financial adviser).
- (b) In connection with any amalgamation by the Society with another building society under section 93 of the Act or a transfer of all or substantially all of its engagements to another building society under section 94 of the Act as provided in Condition 10.1, the Society:

- (i) shall, and shall use all reasonable endeavours to procure that the Resulting Society shall, comply with the rules of any competent authority, stock exchange and/or quotation system by or on which the CCDS are, for the time being, listed, traded and/or quoted; and
  - (ii) shall pay, or shall use all reasonable endeavours to ensure that Resulting Society pays, any taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties payable in the United Kingdom arising on the issue and initial delivery of such deferred shares, but will not pay (and each CCDS holder as to itself will be required to pay) any other taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on or following the issue and initial delivery of such deferred shares pursuant to Condition 10.1.
- (c) In connection with any transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company as provided in Condition 10.2, the Society:
- (i) shall, and shall use all reasonable endeavours to procure that the Successor Entity shall, comply with the rules of any competent authority, stock exchange and/or quotation system by or on which the CCDS are, for the time being, listed, traded and/or quoted; and
  - (ii) shall pay, or shall use all reasonable endeavours to ensure that the terms upon which its business is transferred to the Successor Entity shall require the Successor Entity to pay, any taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties payable in the United Kingdom arising on the issue and initial delivery of such ordinary shares, but will not pay (and each CCDS holder as to itself will be required to pay) any other taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on or following the issue and initial delivery of such ordinary shares pursuant to Condition 10.2.

## **11. VARIATIONS OF THESE CONDITIONS**

- 11.1 These Conditions may only be varied by the Society with the consent in writing of the CCDS holders in accordance with Condition 12.7 or with the sanction of a resolution passed at a separate meeting of the CCDS holders held in accordance with Condition 12.
- 11.2 These Conditions do not limit the rights of members of the Society to amend the Rules.
- 11.3 The Society undertakes not to initiate any amendment to the Rules that is both (a) inconsistent with the provisions of these Conditions and (b) materially prejudicial to the interests of the CCDS holders in that capacity.
- 11.4 The provisions of Condition 11.2 and any amendment to the Rules or any resolution of members of the Society (in either case whether such amendment or resolution is initiated by the Society or by one or more of its members) shall not:
- (a) limit any rights of any CCDS holder to bring an action against the Society for breach of contract in circumstances where the Society is in breach of these Conditions, and furthermore any CCDS holder shall be entitled to bring an action against the Society as if there had been a breach of contract (such that a CCDS holder may sue for a liquidated sum equal to its loss) in circumstances where an amendment has been made to the Rules or any resolution of members of the Society has been passed which is materially prejudicial to the holders of CCDS as a class and which would have been a breach of these Conditions had such amendment been instituted by the Society; or

(b) afford the Society any defence to any claim made in any action referred to under (a) above,

provided, however, that no CCDS holder shall be entitled to bring an action against the Society under (a) above, and the Society shall have a valid defence to any such action under (b) above, if the holders of CCDS have at any time passed a resolution in accordance with Condition 12 (whether at a duly convened meeting of the holders of CCDS or by way of written resolution) approving, ratifying and/or consenting to the relevant amendment to the Rules or the relevant member resolution, as the case may be.

## **12. MEETINGS OF THE CCDS HOLDERS**

### **12.1 Convening the meeting, notice and quorum**

The Society alone may at any time convene a separate meeting of the CCDS holders. Every meeting shall be held at such place as the Society may approve.

At least 21 clear days' notice specifying the hour, date and place of the meeting shall be given to the CCDS holders entered in the CCDS Register 35 days prior to the date specified for the meeting, such notice to be given in accordance with Condition 14. The notice shall specify generally the nature of the business to be transacted at the meeting and the terms of any resolution to be proposed to alter these Conditions.

Any person (who may, but need not, be a CCDS holder) nominated in writing by the Society shall be entitled to take the chair at every meeting but if no nomination is made or if at any meeting the person nominated shall not be present within 15 minutes after the time appointed for holding the meeting, the CCDS holders present shall choose one of their number who is present to be chairman.

At any meeting one or more persons present in person or by proxy and holding or representing in aggregate not less than one-third of the number of CCDS for the time being Outstanding shall form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum shall be present at the commencement of business. Every question submitted to the meeting (other than the choosing of a chairman which will be decided by a simple majority) shall be decided by a poll of one or more persons present and holding CCDS or being proxies and representing in aggregate not less than three-quarters of the number of the CCDS represented at such meeting voting in favour of such question.

### **12.2 Adjournment**

If within half an hour after the time appointed for any meeting a quorum is not present, the meeting shall stand adjourned for such period, being not less than 14 days nor more than 42 days and at such place as may be appointed by the chairman and if at the adjourned meeting a quorum shall not be present within half an hour from the time appointed for the adjourned meeting, the CCDS holders present in person or by proxy at the adjourned meeting shall be a quorum.

The chairman may with the consent of (and shall if directed by a resolution of) the meeting adjourn any meeting from time to time and from place to place but no business shall be transacted at any adjourned meeting other than business left unfinished or not reached at the meeting from which the adjournment took place.

Notice of any adjourned meeting shall be given in the same manner as notice of an initial meeting but as if 10 were substituted for 21 in Condition 12.1.



### **12.3 Conduct of business of the meeting**

Any director or officer of the Society and its professional advisers may attend and speak at any meeting of the CCDS holders. Save as provided above, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any such meeting unless it is a CCDS holder or is a proxy thereof.

A poll shall be taken in such manner as the chairman directs and the result of the poll shall be deemed to be the resolution of the meeting.

At any meeting every CCDS holder or proxy who is present shall have one vote for each CCDS held or, as the case may be, in respect of which it is a proxy.

### **12.4 Proxies**

A CCDS holder entitled to attend a separate meeting of the CCDS holders:

- (a) may appoint one person (whether or not a CCDS holder) as its proxy to attend and, on a resolution, to vote at such meeting in its place; and
- (b) may direct the proxy how to vote at the meeting.

A proxy shall be appointed in the manner provided in Schedule 3 to the Agency Agreement.

### **12.5 Effect of resolution**

Any resolution passed at a meeting duly convened and held in accordance with the provisions of this Condition 12 shall be binding upon all the CCDS holders whether or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution.

### **12.6 Other matters**

Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Society and any minutes purporting to be signed by the chairman of the meeting at which resolutions were passed or proceedings had shall be conclusive evidence of the matters contained in the minutes and until the contrary is proved every meeting in respect of the proceedings of which minutes have been so made and signed shall be deemed to have been duly held and convened and all resolutions passed or proceedings had to have been duly passed or had.

The accidental omission to send notice of a separate meeting or to send any document required to be sent with the notice or otherwise before the meeting to, or the non-receipt of notice of a separate meeting or any such document as aforesaid by, any person entitled to receive notices or documents shall not invalidate the proceedings at that meeting.

### **12.7 Written resolution**

A resolution may also be passed, without the need for a meeting of CCDS holders, by way of a resolution in writing signed by or on behalf of CCDS holders holding in aggregate not less than three-quarters of the number of CCDS for the time being Outstanding. Such written resolution may be contained in one document or several documents in like form each signed by or on behalf of one or more such CCDS holders. Any written resolution passed shall be binding upon all the CCDS holders whether or not signing the written resolution and each of them shall be bound to give effect to the resolution accordingly.

## 12.8 Notice

Notice of any resolution duly passed by the CCDS holders, whether at a meeting of CCDS holders or by written resolution, shall be given in accordance with Condition 14 by the Society within 14 days of the passing of the resolution, provided that failure to give such notice shall not invalidate the resolution.

## 13. FURTHER ISSUES AND PRE-EMPTION

### 13.1 Further issues

The Society shall, subject to Condition 13.2, be at liberty from time to time, without the consent of the CCDS holders, to create and issue at any price further deferred shares ranking *pari passu* in all respects and so that the same shall be consolidated and form a single series with the Outstanding CCDS ("**Additional CCDS**").

The Society shall be at liberty from time to time, without the consent of the CCDS holders, to create and issue, at any price, deferred shares upon such other terms of issue as the Society may at the time of issue determine, provided that the Society shall not issue any Core Capital Deferred Shares (within the meaning of the Rules) other than Additional CCDS.

### 13.2 Pre-emption Opportunity

Upon the issue of any Additional CCDS, each Eligible CCDS holder of CCDS then Outstanding shall, subject to Condition 13.7, be given, in the manner provided in Condition 13.3 and in priority to any other person, the opportunity (the "**Pre-emption Opportunity**") to subscribe an amount of the Additional CCDS which (as nearly as practicable) bears the same proportion to the total issue of such Additional CCDS as the number of such Eligible CCDS holder's CCDS bear to the total number of CCDS then Outstanding (the "**Relevant Proportion**").

"**Eligible CCDS holder**" means each holder of CCDS appearing in the CCDS Register at the close of business on the Business Day prior to the date on which the Pre-emption Notice is given.

The Pre-emption Opportunity shall not apply upon the re-issue or re-sale of CCDS following the purchase thereof by the Society.

### 13.3 Pre-emption Offer

If the Society intends to issue Additional CCDS in circumstances where the Pre-emption Opportunity applies, the Society shall give notice (the "**Pre-emption Notice**") to the CCDS holders, in accordance with Condition 14, of such intention and offering Eligible CCDS holders the opportunity, on the same terms, to subscribe the Relevant Proportion of the Additional CCDS to which they are entitled (the "**Pre-emption Offer**").

### 13.4 Pre-emption Notice

The Pre-emption Notice shall specify (a) the terms on which the Pre-emption Offer is made and the conditions (if any) to which it is subject, (b) the period during which the Pre-emption Opportunity is available to Eligible CCDS holders (the "**Pre-emption Offer Period**") and (c) the procedures which Eligible CCDS holders must follow if they wish to participate in the Pre-emption Offer.

The Pre-emption Offer Period shall be at least 10 Business Days.

### **13.5 Additional CCDS not subscribed pursuant to the Pre-emption Offer**

If any Additional CCDS are not subscribed in the Pre-emption Offer (whether by Eligible CCDS holders declining to subscribe the Relevant Proportion of Additional CCDS to which they are entitled or by Eligible CCDS holders failing validly to participate in the Pre-emption Offer before expiration of the Pre-emption Offer Period), the Society shall be entitled to issue and offer such Additional CCDS to any person (including, but not limited to, other Eligible CCDS holders), provided that such offer is on terms no more favourable to subscribers than the terms of the Pre-emption Offer.

### **13.6 Results of the Pre-emption Offer**

The Society shall notify CCDS holders, in accordance with Condition 14, of the results of the Pre-emption Offer not later than 14 days following expiration of the Pre-emption Offer Period.

### **13.7 Disapplication of Pre-emption Opportunity**

- (a) The Pre-emption Opportunity shall not apply to Additional CCDS:
- (i) all or substantially all of the subscription price for which is paid otherwise than in cash (including, without limitation, where Additional CCDS are issued and allotted in exchange for or upon conversion of other securities of the Society);
  - (ii) issued and allotted pursuant to any remuneration scheme operated by or on behalf of the Society for the benefit of the Directors and/or employees of the Society; or
  - (iii) issued in circumstances where the Supervisory Authority has directed the Society, in writing, to disapply the Pre-emption Opportunity.
- (b) In addition, the Society may, in any financial year, issue (in one or more tranches) a number of Additional CCDS not exceeding, in aggregate, 15 per cent. of the number of Outstanding CCDS at close of business on the last day of the immediately preceding financial year, in circumstances where it elects to disapply the Pre-emption Opportunity. Any Additional CCDS issued in circumstances where Condition 13.7(a) applies shall not count towards the 15 per cent. limit referred to in the previous sentence.

## **14. NOTICES**

All notices regarding the CCDS shall be valid if sent by post to the CCDS holders at their respective addresses in the CCDS Register. Any such notice shall be deemed to have been given on the second Business Day following the mailing of such notice. For so long as the CCDS are listed or admitted to trading on any stock exchange, such notice shall also be made available in any other manner required by the rules of such stock exchange then in effect.

## **15. RIGHTS OF THIRD PARTIES**

No person shall have any right to enforce any term or condition of the CCDS under the Contracts (Rights of Third Parties) Act 1999.

## **16. GOVERNING LAW**

The rights and obligations in respect of the CCDS and any non-contractual obligations arising out of or in connection with the CCDS are governed by, and shall be construed in accordance with, English law.

*Section 85 of, and Schedule 14 to, the Act provide that no court other than the High Court in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society or the Act. Under various other enactments, the High Court is empowered to transfer cases over which it has jurisdiction to the County Court.*

## 17. DEFINITIONS

For the purpose of these Conditions:

"**Act**" has the meaning given in Condition 1.2(a).

"**Additional CCDS**" has the meaning given in Condition 13.1.

"**Agency Agreement**" has the meaning given in the preamble to these Conditions.

"**Average Principal Amount**" has the meaning given in Condition 4.5.

"**Board**" means the Board of Directors of the Society.

"**Business Day**" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London.

"**Cap**" has the meaning given in Condition 5.5.

"**Capital Rules**" means the applicable rules of the Supervisory Authority (as amended or replaced from time to time) and any other rules or regulations relating to the capital adequacy or prudential requirements to which the Society and its group are subject from time to time, and shall include (without limitation) any measures applicable to the Society which are intended to implement the reforms contained in "*Basel III: A global regulatory framework for more resilient banks and banking systems*" published by the Basel Committee on Banking Supervision in December 2010, including (without prejudice to the generality of the foregoing) *Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC* (commonly referred to as the "**Capital Requirements Directive IV**" or "**CRD IV**"), *Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 as restated* (commonly referred to as the "**Capital Requirements Regulation**" or "**CRR**"), applicable regulatory technical standards published by the European Banking Authority and adopted by the European Commission (by way of regulation or otherwise) and any rules promulgated in connection with any of the foregoing.

"**CCDS**" has the meaning given in the preamble to these Conditions.

"**CCDS Certificate**" has the meaning given in Condition 2.3.

"**CCDS holder**" means a person whose name and address is entered in the CCDS Register as the holder of CCDS, and references to a "**holder**" of CCDS shall be construed accordingly.

"**CCDS Register**" means the records of the Society, for the purposes of the Deferred Shares Register (as defined in the Rules), maintained by the Registrar constituting the register of the CCDS.

"**Common Equity Tier 1 Capital**", at any time, has the meaning ascribed thereto (or to any equivalent term) at such time in the Capital Rules.

"**Conditions**" means these conditions of issue of the CCDS, and references to a numbered Condition shall be construed accordingly.

"**Conversion Benefits**" has the meaning given in Condition 1.3.

"**Core Capital Contribution Proportion**" has the meaning given in Condition 4.4.

"**Core Capital Contribution Share**" has the meaning given in Condition 4.4.

"**Core Capital Deferred Shares**" has the meaning given in the Rules and, where the context admits, means or includes the CCDS.

"**Determination Time**" or "**DT**" has the meaning given in Condition 4.4.

"**Distributable Items**" means, in respect of the payment of a Distribution at any time, those profits and reserves (if any) of the Society which are available, in accordance with applicable law and regulation for the time being, for the payment of such Distribution.

*As at 24 June 2014, Article 4(1)(128) of the Capital Requirements Regulation provides as follows: "distributable items' means the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution's bye-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts."*

"**Distribution Payment Dates**" has the meaning given in Condition 5.1, and "**Distribution Payment Date**" shall be construed accordingly.

"**Distribution Policy**" has the meaning given in Condition 5.9.

"**Distributions**" has the meaning given in Condition 5.1, and "**Distribution**" shall be construed accordingly.

"**Eligible CCDS holder**" has the meaning given in Condition 13.2.

"**Final Distribution**" has the meaning given in Condition 5.1.

"**Interim Distribution**" has the meaning given in Condition 5.1.

"**Liabilities**" means (i) the claims of all creditors (including, without limitation, creditors in respect of subordinated liabilities) of the Society and (ii) the claims of all other Shareholding Members (as defined in the Rules) of the Society (including, without limitation, holders of permanent interest bearing shares (if any)) in respect of the amounts paid up on their shares (other than Core Capital Deferred Shares (within the meaning of the Rules)), in each case including any principal amount, any interest (including post-petition interest) thereon and any other amounts owing thereon, but excluding (x) any actual, prospective or contingent claims to participate in a distribution of Surplus of the Society and (y) any claims in respect of declared, unconditional and unpaid Distributions in accordance with Condition 4.8 and claims ranking or expressed to rank *pari passu* therewith.

"**Minimum Transfer Amount**" has the meaning given in Condition 2.2.

"**Nominal Amount**" has the meaning given in Condition 2.1.

"**Outstanding**" means, in relation to the CCDS, all the CCDS issued other than:

- (a) those CCDS which have been cancelled in accordance with Condition 8; and
- (b) any global CCDS Certificate to the extent that it shall have been exchanged for definitive CCDS Certificates pursuant to its provisions;

PROVIDED THAT for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of the CCDS holders or any of them or to pass a resolution by way of written resolution in place of a meeting and any direction or request by CCDS holders;
- (ii) the determination of how many and which CCDS are for the time being Outstanding for the purposes of Condition 12 and paragraphs 8, 9, 21 and 22 of Schedule 3 to the Agency Agreement;
- (iii) the entitlement of a CCDS holder to a Pre-emption Opportunity (including the determination of the Relevant Proportions to which the CCDS holders are entitled);
- (iv) any discretion, power or authority (whether granted under these Conditions, the Rules or applicable laws) which any person is required, expressly or impliedly, to exercise in or by reference to the interests of the CCDS holders or any of them; and
- (v) the determination by any person whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the CCDS holders or any of them,

those CCDS (if any) which are for the time being held by or on behalf of or for the benefit of the Society, any subsidiary of the Society or any holding company of the Society or any other subsidiary of such holding company, in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain Outstanding;

AND FURTHER PROVIDED THAT for the purposes of Conditions 4.2, 4.3(a), 4.4(a) and 4.4(b), all CCDS held by the Society in its treasury function at the Relevant Time (but, for the avoidance of doubt, not at any other Determination Time) shall be deemed to be cancelled at the Relevant Time (such cancellation to be reflected in the determination of the Core Capital Contribution Proportion at the Relevant Time) and not to be or remain Outstanding for such purposes.

*The effect of the second proviso above is that CCDS held by the Society as beneficial owner shall be treated as being cancelled upon a winding up or dissolution of the Society and accordingly shall not be Outstanding for the purposes of any calculation of the Core Capital Contribution Share, and accordingly no claim shall be made in respect of those CCDS so held in the winding-up or dissolution of the Society.*

"**Pre-emption Notice**" has the meaning given in Condition 13.3.

"**Pre-emption Offer**" has the meaning given in Condition 13.3.

"**Pre-emption Offer Period**" has the meaning given in Condition 13.4.

"**Pre-emption Opportunity**" has the meaning given in Condition 13.2.

"**Principal Amount**" has the meaning given in Condition 2.1.

"**Principal Paying Agent**" has the meaning given in the preamble to these Conditions.

"**Record Date**" has the meaning given in Condition 6.1.

"**Registrar**" has the meaning given in the preamble to these Conditions.

"**Relevant Proportion**" has the meaning given in Condition 13.2.

"**Relevant Regulators**" means the Supervisory Authority and/or the Financial Conduct Authority (or any successor thereto) as required in the circumstances.

"**Relevant Time**" has the meaning given in Condition 4.3.

"**Rules**" has the meaning given in the preamble to these Conditions.

"**Supervisory Authority**" means the Prudential Regulation Authority (or any successor or other authority having primary supervisory authority with respect to prudential matters in relation to the Society).

"**Surplus**" has the meaning given in Condition 4.2.

## PART III

### OVERVIEW OF PROVISIONS RELATING TO THE CCDS WHILE REPRESENTED BY THE GLOBAL CCDS CERTIFICATE

*This Part III would be expected to apply to CCDS represented by a Global CCDS Certificate and cleared in the Clearing Systems. If the Society issues any CCDS, it intends that all such CCDS would be so represented and cleared whilst the Clearing Systems remain open for business, provided the Clearing Systems accept the CCDS for clearing.*

The following is a summary of the provisions to be contained in the Agency Agreement and in the global certificate representing all the CCDS upon issue (the "**Global CCDS Certificate**") which will apply to, and in some cases modify the effect of, the Conditions while the CCDS are represented by the Global CCDS Certificate:

#### 1. EXCHANGE OF THE GLOBAL CCDS CERTIFICATE AND REGISTRATION OF TITLE

Registration of title to CCDS in a name other than that of the Nominee will be permitted only if all Clearing Systems have closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or do in fact do so.

Thereupon, the Nominee (acting on the instructions of one or more of the Accountholders (as defined below)) may give notice to the Society of its intention to exchange the Global CCDS Certificate for definitive CCDS Certificates on or after the Exchange Date (as defined below). References herein to "**Accountholders**" are to each person (other than a Clearing System) who is for the time being shown in the records of a Clearing System as the holder of a particular number of CCDS (in which regard any certificate or other document issued by that Clearing System as to the number of CCDS standing to the account of any person shall be conclusive and binding for all purposes).

On or after the Exchange Date, the Nominee may surrender the Global CCDS Certificate to or to the order of the Registrar. In exchange for the Global CCDS Certificate, the Registrar will deliver, or procure the delivery of, definitive CCDS Certificates printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. On exchange of the Global CCDS Certificate, the Society will procure that it is cancelled and, if the Nominee so requests, returned to the Nominee together with any relevant definitive CCDS Certificates.

For these purposes, "**Exchange Date**" means a day specified in the notice requiring exchange falling not less than 10 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Registrar is located.

#### 2. PAYMENTS

Payments due in respect of CCDS represented by the Global CCDS Certificate shall be made by the Registrar or the Principal Paying Agent to or to the order of the Nominee. A record of each payment made in respect of CCDS represented by the Global CCDS Certificate will be endorsed on the appropriate part of the schedule to the Global CCDS Certificate by or on behalf of the Registrar, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the CCDS.

Payment by the Registrar or the Principal Paying Agent to or to the order of the Nominee as aforesaid will discharge the obligations of the Society in respect of the relevant payment under the CCDS. Each Accountholder must look solely to its Clearing System for its share of each payment made to or to the order of the Nominee, and each Beneficial Owner (as defined in paragraph 4 below) who is not itself an Accountholder must look solely to the relevant Accountholder through which it holds its CCDS for its share of each payment made to such Accountholder.



### 3. TRANSFERS

Transfers of book-entry interests in the CCDS will be effected through the records of the Clearing Systems and their respective direct and indirect participants in accordance with their respective rules and procedures.

The Minimum Transfer Amount prevailing from time to time, as determined in accordance with Condition 2.2, shall apply *mutatis mutandis* to transfers of book-entry interests in the CCDS. Accordingly, a transfer of book-entry interests in the CCDS will only be effected by the Clearing Systems if such transfer is in respect of a whole number of CCDS equal to or greater than the Minimum Transfer Amount prevailing at the time of the transfer.

*The CCDS will be transferable in whole numbers, subject to the Minimum Transfer Amount, and not on the basis of principal amount. For example, an instruction to sell or purchase "100,000" CCDS in a Clearing System will be an instruction to sell or purchase (as the case may be) one hundred thousand CCDS (and not an instruction to sell or purchase £100,000 in principal amount of CCDS).*

*The Clearing Systems will not accept instructions to settle transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount. Accordingly, purported transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount will be incapable of settlement. Investors in CCDS are responsible for ensuring that any trades they enter into in respect of the CCDS are capable of settlement; failure to do so may result in an investor breaching its contract of sale and purchase. If, and for so long as, the CCDS are admitted to trading on the London Stock Exchange, investors and potential investors in CCDS who are members of the London Stock Exchange are reminded of their obligations under the Rules of the London Stock Exchange, including under rule G5000 (obligation to settle).*

### 4. DISCLOSURE OF CCDS HOLDINGS

*This paragraph 4 would be expected to apply if the CCDS were to be admitted to trading on the London Stock Exchange. If the CCDS were to be listed or admitted to trading on another stock exchange and such stock exchange's rules contain any free-float or other obligations which require the Society to obtain or monitor certain compliance information, this paragraph 4 would be expected to apply with such amendments as are necessary to enable the Society to comply with such obligations.*

For so long as any CCDS are represented by the Global CCDS Certificate and such Global CCDS Certificate is registered in the name of the Nominee, the Society (or an agent on its behalf) may from time to time give notice (a "**Compliance Notice**"), in accordance with the usual procedures of the Clearing Systems, requiring Beneficial Owners and Intermediaries (each as defined below) to disclose to the Society (or to its appointed agent, which shall be bound to confidentiality by contract or by generally applicable law and regulation) such information as the Society considers necessary in order for it to establish its continued compliance with its obligations under Listing Rule 14.3.2R in connection with Listing Rule 14.2.2R and Article 48 of EU Directive 2001/34/EC as amended (the "**Compliance Information**").

The Compliance Information to be provided will be specified in the relevant Compliance Notice, and may include (without limitation) (i) the legal name of the holder of any CCDS; (ii) the number of CCDS held by such person; (iii) whether, to its knowledge, such person has any connection with the Society or any Director of the Society or whether any other circumstance exists which would be relevant for the purpose of determining whether the requirements contained in Listing Rule 14.2.2R are being met; and (iv) if that person acquired any CCDS after the Record Time (as defined below), the legal name of the person from whom it acquired such CCDS.

Each Beneficial Owner will be required to provide the specified Compliance Information as regards itself and its own holding of CCDS. Each Intermediary will be required to provide the specified Compliance Information both as regards (i) itself and its holdings of CCDS as Intermediary and (ii) to the best of its

knowledge, the persons (whether Beneficial Owners or other Intermediaries) for whom it is acting as Intermediary and the CCDS which it holds for such persons.

The relevant Compliance Notice will specify, in addition to the nature of the Compliance Information to be disclosed, the reference date and time as at which holdings of CCDS must be disclosed (the "**Record Time**"), the period during which the relevant information must be disclosed (the "**Disclosure Period**") and the procedure for providing such information (which is expected to be in accordance with the usual procedures of the Clearing Systems).

By acquiring and holding CCDS, each Beneficial Owner and Intermediary:

- (a) acknowledges that the provision of Compliance Information is mandatory, and undertakes promptly (and in any event within the Disclosure Period) following receipt of a Compliance Notice to provide to the Society (or to its appointed agent) all Compliance Information specified in such Compliance Notice;
- (b) authorises and empowers (without the need for any further action or authorisation) each Intermediary through which it holds CCDS to disclose, on its behalf, to the Society (or to its appointed agent) all Compliance Information specified in such Compliance Notice (to the extent that such information is available to such Intermediary); and
- (c) acknowledges that the Society may share such Compliance Information, on a strictly confidential basis and for the purpose only of assessing and evidencing its compliance with its obligations under Listing Rule 14.3.2R, with its agents and its professional advisers (provided that such agents and advisers are bound to confidentiality by contract or by generally applicable law and regulation) and, if it so requests, the Financial Conduct Authority (or such other competent authority as may from time to time be responsible for ensuring compliance with Listing Rule 14.3.2R).

The Society undertakes that it will (i) use all Compliance Information obtained solely for the purpose of assessing and establishing its compliance with its obligations under Listing Rule 14.3.2R, (ii) retain appropriate internal records in respect of such Compliance Information and keep such internal records and information confidential and will not use or disclose any Compliance Information obtained except as set out under (c) above or otherwise as may be required by applicable law and regulation.

As used herein:

"**Beneficial Owners**" means each person who for the time being (or, where appropriate, as at the relevant Record Time) holds any interests in CCDS for its own account (and not only as custodian or an Intermediary for another person);

"**Intermediary**" means each Clearing System and each Accountholder, custodian, broker or other intermediary who for the time being (or, where appropriate, as at the relevant Record Time) holds interests in CCDS (as custodian or otherwise) for the account of another person (and "**Intermediaries**" shall be construed accordingly); and

"**Listing Rules**" means the rules made under Part VI of the FSMA and contained in the Financial Conduct Authority Handbook (or any successor rule book thereto) from time to time, and references to a numbered Listing Rule are to the relevant rule within the Listing Rules (including any amendment or successor to such rule from time to time).

For these purposes, CCDS will be deemed to be held by a Beneficial Owner or an Intermediary if an interest in such CCDS is (or, where appropriate, was as at the relevant Record Time) credited to the account of such Beneficial Owner or Intermediary with a Clearing System (or to an account with an Intermediary which in turn holds such CCDS, either directly or indirectly through one or more further

Intermediaries, in an account with a Clearing System) and references to "**held**", "**holds**", "**holder**" "**holding**" or similar references shall be construed accordingly.

*Listing Rule 14.3.2R requires the Society to ensure that a sufficient number of CCDS are, and on an ongoing basis remain, in 'public hands' within the meaning of Listing Rule 14.2.2R (commonly referred to as the 'free-float' listing requirement).*

## **5. NOTICES**

For so long as the CCDS are represented by the Global CCDS Certificate and such Global CCDS Certificate is held on behalf of one or more Clearing Systems, notices may be given to the CCDS holders by delivery of the relevant notice to the relevant Clearing Systems for communication to the relevant Accountholders and Beneficial Owners in substitution for despatch and service as required by Condition 14. Such notice shall be deemed to have been given on the date of delivery of the notice to the relevant Clearing Systems for such communication.

## **6. MEETINGS; MEMBERSHIP RIGHTS WHILST THE CCDS ARE HELD THROUGH CLEARING SYSTEMS**

Save as permitted in paragraph 1 above, investors will hold their CCDS directly or indirectly through Accountholders with the Clearing Systems and will not themselves be entered on the CCDS Register as holder of the relevant CCDS. Instead, the holder entered on the CCDS Register for such CCDS shall be the Nominee and the relevant Accountholder's holding of interests in such CCDS will be recorded in the internal records of the relevant Clearing Systems.

This means that Accountholders and Beneficial Owners will not themselves be members of the Society and, accordingly, will not be entitled to vote at any general meeting of the members of the Society or in a postal ballot or electronic ballot or to any other similar membership rights. Instead, the members' rights attaching to the CCDS held through the Clearing Systems will be held by the Nominee. Such Nominee will be entered in the CCDS Register as the holder of such CCDS, and will be entitled to exercise the voting and other members' rights attributable to such CCDS. Each member of the Society has one vote at any general meeting of the members of the Society. Accordingly, the Nominee will be entitled to exercise one vote at any such meeting, regardless of the number of CCDS held by it (and regardless also of the size and number of other relevant investments or interests (if any) conferring membership rights which the Nominee may have in the Society).

*Given the difficulty of casting the single vote at a general meeting of the members of the Society in a manner which reflects the views of all Beneficial Owners of CCDS and the insignificance of that vote in the context of all the votes which may be cast by members of the Society, it is expected that the Nominee will not exercise its vote insofar as it relates to its holding of CCDS.*

At a separate meeting of CCDS holders only, the Nominee will have one vote per CCDS and will act on the instructions of one or more Accountholders (who in turn will act on the direct or indirect instructions of Beneficial Owners holding through such Accountholders) received by it through the Clearing Systems. The Agency Agreement contains provisions relating to the convening and conduct of such meetings of CCDS holders. Those provisions include arrangements pursuant to which a Beneficial Owner will be able (i) to attend any such meeting and cast the votes attributable to its CCDS or (ii) otherwise to direct (including by way of electronic consents) how the votes attributable to its CCDS shall be cast at such meeting. For these purposes, notwithstanding the provisions of Condition 12.4(a), the Nominee shall be entitled to appoint one or more persons as its proxy or proxies to attend, speak and, on a resolution, vote at a meeting of CCDS holders. Each proxy shall be appointed in respect of such number of CCDS specified by the Nominee (provided that no two proxies can be appointed in respect of the same CCDS). The Agency Agreement also contains provisions for the passing of resolutions, without the need for a meeting of CCDS holders, by way of electronic consents communicated through the electronic

communications systems of the relevant clearing system(s) by or on behalf of CCDS holders holding in aggregate not less than three-quarters of the number of CCDS for the time being Outstanding.

As Accountholders and Beneficial Owners will not be members of the Society, they will also not be entitled to any Conversion Benefits (including any rights to windfall payments) arising on a demutualisation or merger of the Society. Any Conversion Benefits arising on a demutualisation or merger of the Society will belong instead to the Nominee, as the registered holder of the CCDS in the CCDS Register.

*It is expected that the Nominee will, on or prior to the date of issue of the CCDS, irrevocably agree to assign to Coventry Building Society Charitable Foundation (or other charities nominated by Coventry Building Society Charitable Foundation) any Conversion Benefits.*

#### **7. PRE-EMPTION OPPORTUNITY**

For so long as the CCDS are represented by the Global CCDS Certificate and such Global CCDS Certificate is held on behalf of one or more Clearing Systems, "**Eligible CCDS holder**" shall, for the purposes of Condition 13, mean each Beneficial Owner as at the close of business on the ICSD Business Day prior to the date on which the Pre-emption Notice is given. Such Beneficial Owners may participate in a Pre-emption Offer in accordance with the procedures of the relevant Clearing Systems from time to time, and otherwise in accordance with Condition 13. "**ICSD Business Day**" means a day on which the Clearing Systems are open for business.

#### **8. RECORD DATE**

For so long as all CCDS are held in the Clearing Systems, the Record Date shall be determined in accordance with Condition 6.1 provided that the words "fifteenth day" shall be deemed to be replaced with "ICSD Business Day".

#### **9. PRESCRIPTION**

Claims against the Society in respect of any amounts payable in respect of the CCDS represented by the Global CCDS Certificate will be prescribed after 12 years from the due date and shall revert to the Society.

#### **10. PURCHASE AND CANCELLATION**

Cancellation of any CCDS purchased and surrendered for cancellation in accordance with Condition 8.2 will be effected by a corresponding reduction in the number of CCDS represented by the Global CCDS Certificate.

#### **11. DIRECT RIGHTS**

Subject as follows, upon a breach of contract by the Society (which shall, for the purposes of this paragraph "*Direct Rights*", include a CCDS holder becoming entitled to bring any action against the Society as contemplated by Condition 11.4) or upon a winding up or dissolution of the Society, each Beneficial Owner at the time of such breach or, as the case may be, at the Relevant Time (each a "**Relevant Person**") shall (for the purpose only of bringing an action for such breach of contract or, as the case may be, claiming in the winding up or dissolution of the Society in accordance with Condition 4) acquire against the Society all those rights ("**Direct Rights**") which such Relevant Person would have had if, at the time of the relevant breach of contract or, as the case may be, at the Relevant Time, such Relevant Person had been identified in the CCDS Register as the registered holder of such number of CCDS (the "**Underlying CCDS**") as is equal to the number of CCDS which are credited to such Relevant Person's securities account with a Clearing System (or, as the case may be, with any Intermediary) at such time.

The Relevant Persons will acquire such Direct Rights only in the circumstances and for the purposes described in the preceding paragraph and for no other purpose. Direct Rights will be acquired automatically at the time of the relevant breach of contract or, as the case may be, at the Relevant Time, without the need for any further action on behalf of any person. The Society's obligation hereunder shall be a separate and independent obligation to each Relevant Person by reference to each Underlying CCDS of such Relevant Person, and the Society agrees that a Relevant Person may assign such Direct Rights in whole or in part.

The records of the Clearing Systems and (subject to the following proviso) each Intermediary (as applicable) shall be conclusive evidence of the identity of the Relevant Persons and the number of Underlying CCDS credited to the securities account of each Relevant Person; provided that the records of an Intermediary shall be conclusive evidence of the identity of any Relevant Persons only if accompanied by records of (i) the Accountholder (and any other Intermediary) through which such Intermediary holds the relevant CCDS and (ii) the relevant Clearing System, which records when taken together evidence a chain of ownership linking the records of such Intermediary and the records of the relevant Clearing System. For these purposes, a statement issued by a relevant Clearing System and/or a relevant Intermediary (as applicable) stating the name of the Relevant Person to which the statement is issued and the number of Underlying CCDS credited to the securities account of such Relevant Person as at the opening of business on the first business day following the time of the relevant breach of contract or the Relevant Time (as the case may be), shall be conclusive evidence of the records of the relevant Clearing System or (subject to the foregoing proviso) such Intermediary (as the case may be) at the time of the relevant breach of contract or the Relevant Time (as applicable).

## **12. SUCCESSION AND TRANSFERS**

Upon a transfer by the Society of the whole of its business to a Successor Entity in accordance with Condition 10.2, the Nominee will (unless otherwise agreed as part of the terms of the transfer at the relevant time) direct that the ordinary shares to be delivered to it shall instead be delivered directly to (or to the order of) the Beneficial Owners as if those Beneficial Owners had, at the vesting date, held in definitive form the number of CCDS corresponding to their book-entry interest in the CCDS at that time.

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