

OFFERING CIRCULAR dated 7 June 2024



Coventry Building Society
(incorporated in England under the Building Societies Act 1986)

£665,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities

Issue price: 100 per cent.

Coventry Building Society (the "**Society**") will issue £665,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the "**Perpetual Capital Securities**") on or about 11 June 2024 (the "**Issue Date**") at an issue price of 100 per cent. of their nominal amount.

This Offering Circular does not constitute (i) a prospectus for the purposes of Part VI of the United Kingdom Financial Services and Markets Act 2000 (the "**FSMA**"), (ii) a prospectus for the purposes of Regulation (EU) 2017/1129 or (iii) a prospectus for the purposes of Regulation (EU) 2017/1129 as it forms part of the domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**") (the "**UK Prospectus Regulation**").

Application has been made to the London Stock Exchange plc (the "**London Stock Exchange**") for the Perpetual Capital Securities to be admitted to trading on the London Stock Exchange's International Securities Market ("**ISM**") on or about the Issue Date. References in this Offering Circular to the Perpetual Capital Securities being "**listed**" (and all related references) shall mean that the Perpetual Capital Securities have been admitted to trading on the ISM. The ISM is neither (i) a regulated market for the purpose of the Markets in Financial Instruments Directive 2014/65/EU ("**MiFID II**") nor (ii) a UK regulated market for the purposes of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA ("**UK MiFIR**").

The ISM is a market designated for professional investors. Perpetual Capital Securities admitted to trading on the ISM are not admitted to the Official List of the Financial Conduct Authority (the "FCA"). The London Stock Exchange has not approved or verified the contents of this Offering Circular. This Offering Circular comprises an admission particulars for the purposes of the admission to trading of the Perpetual Capital Securities on the ISM.

The Perpetual Capital Securities will bear interest on their outstanding 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 11 June and 11 December in each year. For each Interest Period which commences prior to 11 December 2029 (the "**First Reset Date**"), the Interest Rate shall be 8.750 per cent. per annum. For each Interest Period which commences on or after the First Reset Date, the Interest Rate shall be the sum of: (a) the Benchmark Gilt Reset Reference Rate in relation to that period; and (b) 4.727 per cent. per annum (the "**Margin**"). Any payment of interest may be cancelled (in whole or in part) at the sole discretion 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 at any time 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 any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society) 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) (subject as provided in the Conditions) 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 prevailing 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 indicative terms of, and other provisions relating to, the CCDS which the Society would expect to issue in the event of a Conversion are set out in the Annex to this Offering Circular. As at the date of this Offering Circular, no CCDS have been issued by the Society.

The Perpetual Capital Securities may also be written down or converted to Common Equity Tier 1 capital by the United Kingdom ("**UK**") resolution authorities in certain circumstances pursuant to the bank and building society recovery and resolution regime under the Banking Act 2009.

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 up to (but excluding) the date of repayment (excluding interest which has been cancelled in accordance with the Conditions): (i) on any date during a Par Call Period (as defined in the Conditions); or (ii) on any date if 75 per cent. or more of the aggregate nominal amount of the Perpetual Capital Securities originally issued (and, for this purpose, any Further Perpetual Capital Securities (as defined in the Conditions) issued pursuant to Condition 16(a) shall be deemed to have been originally issued) has been repaid or purchased and cancelled; or (iii) 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 or any part thereof ceases (or would 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).

UK MiFIR professionals and ECPs-only/No UK/EU PRIIPs KID/FCA CoCo Restriction - In addition to the restrictions described in the section headed "Prohibition on marketing and sales of Perpetual Capital Securities to retail investors" below, pursuant to the FCA's Conduct of Business Sourcebook ("COBS") the Perpetual Capital Securities are not intended to be offered, sold or otherwise made available, and should not be offered, sold or otherwise made available, to retail clients (as defined in COBS 3.4) in the United Kingdom. Investors in Hong Kong should not purchase the Perpetual Capital Securities in the primary or secondary markets unless they are professional investors (as defined in the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and its subsidiary legislation, "Professional Investors") only and understand the risks involved. The Perpetual Capital Securities are generally not suitable for retail investors. The Perpetual Capital Securities are not intended to be offered, sold or otherwise made available, and should not be offered, sold or otherwise made available, to retail clients, as defined in MiFID II, in the European Economic Area (the "EEA"). Prospective investors are referred to the section headed "Prohibition on marketing and sales of Perpetual Capital Securities to retail investors" below for further information.

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

The Perpetual Capital Securities are expected to be rated BB+ by Fitch Ratings Limited ("**Fitch**") and Baa3 by Moody's Investors Service Limited ("**Moody's**"). Each of Fitch and Moody's is established in the UK and is registered under the Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the EUWA. Neither Fitch nor Moody's is established in the EEA and neither of them has applied for registration under Regulation (EC) No. 1060/2009 (the "**CRA Regulation**"). Accordingly, the ratings issued by Fitch and Moody's have been endorsed by Fitch Ratings Ireland Limited ("**Fitch Ireland**") and Moody's Deutschland GmbH ("**Moody's Deutschland**"), respectively, in accordance with the CRA Regulation and have not been withdrawn. Each of Fitch Ireland and Moody's Deutschland is established in the EEA and registered under the CRA Regulation. As such each of Fitch Ireland and Moody's Deutschland is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. 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 SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**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 Agent to the Society

J.P. Morgan

Joint Lead Managers

BNP PARIBAS

NatWest Markets

J.P. Morgan

**Lloyds Bank Corporate Markets
UBS Investment Bank**

The Perpetual Capital Securities will be deferred shares in the Society for the purposes of section 119 of the Building Societies Act 1986 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 Coventry House, Harry Weston Road, Binley, Coventry, CV3 2TQ, 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 incorporated in it by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that those documents are incorporated in and form part of this Offering Circular and references herein to this Offering Circular shall be construed accordingly.

The admission of the Perpetual Capital Securities to trading on the ISM is not to be taken as an indication of the merits of an investment in the Society, the Group or the Perpetual Capital Securities. In making an investment decision, investors must rely on their examination of the Society, the Group and the terms of the Perpetual Capital Securities, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Perpetual Capital Securities.

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, the Structuring Agent to the Society (as defined in "*Subscription and Sale*") 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 (the "**Securities Act**") or any other U.S. State securities laws and may not be offered or sold in the United States of America (the "**United States**" or "**U.S.**") or to, or for the account or the benefit of, U.S. persons as defined in Regulation S under the Securities Act unless an exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction.

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

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Society, the Structuring Agent to 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, the Structuring Agent to 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*".

Neither this Offering Circular nor any other information supplied in connection with any Perpetual Capital Securities (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Society, the Structuring Agent to the Society or any of the Joint Lead Managers that any recipient of this Offering Circular or any other information supplied in connection with any Perpetual Capital Securities should purchase any Perpetual Capital Securities. Each investor contemplating purchasing any Perpetual Capital Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Society. Neither this Offering Circular nor any other information supplied in connection with the issue of any Perpetual

Capital Securities constitutes an offer or invitation by or on behalf of the Society, the Structuring Agent to the Society or any of the Joint Lead Managers to any person to subscribe for or to purchase any Perpetual Capital Securities.

PROHIBITION ON MARKETING AND SALES OF PERPETUAL CAPITAL SECURITIES TO RETAIL INVESTORS

PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Perpetual Capital Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a "**retail investor**" means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of UK MiFIR. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law in the UK by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Perpetual Capital Securities or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Perpetual Capital Securities or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

PROHIBITION OF SALES TO EUROPEAN ECONOMIC AREA RETAIL INVESTORS – The Perpetual Capital Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a "**retail investor**" means a person who is one (or both) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**EU PRIIPs Regulation**") for offering or selling the Perpetual Capital Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Perpetual Capital Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

UK MIFIR PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Perpetual Capital Securities has led to the conclusion that: (i) the target market for the Perpetual Capital Securities is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**"), and professional clients, as defined in UK MiFIR; and (ii) all channels for distribution of the Perpetual Capital Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Perpetual Capital Securities (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Perpetual Capital Securities (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

FCA CoCo RESTRICTION: The Perpetual Capital Securities are complex financial instruments and are not a suitable or appropriate investment for all investors, especially retail investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Perpetual Capital Securities. Potential investors in the Perpetual Capital Securities should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Perpetual Capital Securities (or any beneficial interests therein).

In the UK, COBS requires, in summary, that the Perpetual Capital Securities should not be offered or sold to retail clients (as defined in COBS 3.4 and each a "**retail client**") in the UK. Each of the Joint Lead Managers and the Society is required to comply with COBS.

In addition, in October 2018, the Hong Kong Monetary Authority (the "**HKMA**") issued guidance on enhanced investor protection measures on the sale and distribution of debt instruments with loss-absorption features (such as the Perpetual Capital Securities) and related products (the "**HKMA Circular**"). Under the HKMA Circular, debt instruments with loss absorption features, being subject to the risk of being written-down or converted to ordinary shares, and investment

products that invest mainly in, or whose returns are closely linked to the performance of such instruments (together, "**Loss Absorption Products**"), are to be targeted in Hong Kong at professional investors (as defined in the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and its subsidiary legislation, "**Professional Investors**") only and are generally not suitable for retail investors in either the primary or secondary markets.

By purchasing, or making or accepting an offer to purchase, any Perpetual Capital Securities (or a beneficial interest therein) from the Society and/or any Joint Lead Manager, each prospective investor represents, warrants, agrees with, and undertakes to, the Society and the Joint Lead Managers that:

1. it is not a retail client (as defined above) in the UK; and
2. if it is in Hong Kong, it is a Professional Investor (as defined above);
3. it will not (a) sell or offer the Perpetual Capital Securities (or any beneficial interest therein) to retail clients in the UK or to a retail investor in Hong Kong; or (b) communicate (including the distribution of this document) or approve an invitation or inducement to participate in, acquire or underwrite the Perpetual Capital Securities (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the UK or any customer in Hong Kong who is not a Professional Investor. In selling or offering the Perpetual Capital Securities or making or approving communications relating to the Perpetual Capital Securities, a prospective investor may not rely on the limited exemptions set out in COBS.

The obligations in paragraph 2 above are in addition to the need to comply at all times with all other applicable laws, regulations and regulatory guidance (whether inside or outside the EEA, the UK or Hong Kong) relating to the promotion, offering, distribution and/or sale of the Perpetual Capital Securities (or any beneficial interests therein), whether or not specifically mentioned in this document, including (without limitation) those set out below and any requirements under the UK FCA Handbook or the HKMA Circular as to determining the appropriateness and/or suitability of an investment in the Perpetual Capital Securities (or any beneficial interests therein) for investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Perpetual Capital Securities (or any beneficial interests therein) from the Society and/or the Joint Lead Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client(s).

SUITABILITY OF INVESTMENT

The Perpetual Capital Securities are complex and high-risk financial instruments and 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, and the possibility that the entire investment in the Perpetual Capital Securities could be lost, including following the exercise of any bail-in power by the resolution authorities under the Banking Act 2009;

- (iv) understands thoroughly the terms of the Perpetual Capital Securities, including without limitation the terms relating to the Conversion, the CET1 Ratio and the determination of the Solvency Test 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.

Perpetual Capital Securities must be held through an account (or through an institution which has an account) with Euroclear and/or Clearstream, Luxembourg or any replacement or successor clearing system (together, the "**Clearing Systems**"). This requirement applies (unless the Society has or will become subject to adverse tax consequences which would not be suffered were the Perpetual Capital Securities represented by definitive Certificates) for so long as Euroclear or Clearstream, Luxembourg remain in business and, even if Euroclear and Clearstream, Luxembourg both cease to carry on business, will apply so long as there is a successor or alternative clearing system available. There are certain consequences for holders of this requirement which are discussed in the section headed "*Risk Factors*".

The Society considers that it is unlikely that there will not be a Clearing System through which the Perpetual Capital Securities can be held. However, should this be the case, or should definitive notes be printed due to the adverse tax consequences referred to above, each investor would at the appropriate time receive a Certificate evidencing the Perpetual Capital Securities registered in its name.

Any investor who is in any doubt as to the suitability of the Perpetual Capital Securities as an investment should take professional advice.

STABILISATION

In connection with the issue of the Perpetual Capital Securities, J.P. Morgan Securities plc (the "Stabilising Manager") (or any person 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, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Perpetual Capital Securities is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the 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 person(s) acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Unless otherwise indicated, the financial information in this Offering Circular relating to the Society has been derived from the audited consolidated financial statements of the Society for the financial years ended 31 December 2022 and 31 December 2023 (together, the "**Financial Statements**").

The Society's financial year ends on 31 December, and references in this Offering Circular to any specific year are to the 12-month period ended on 31 December of such year. The Financial Statements have been prepared in accordance with UK-adopted international accounting standards ("**IFRS**") and the requirements of the Building Societies Act 1986.

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

Certain Defined Terms and Conventions

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

- the "**Act**" are to the Building Societies Act 1986;
- "**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;
- the "**Rules**" are to the Rules of the Society;
- the "**Memorandum**" are to the Memorandum of the Society;
- Perpetual Capital Securities being "**listed**" (and all related references) shall mean that such Perpetual Capital Securities have been admitted to trading on the ISM; and
- a "**billion**" are to a thousand million.

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.

In this Offering Circular, unless the contrary intention appears, a reference to a law or a provision of a law is a reference to that law or provision as extended, amended or re-enacted.

Websites

Other than in relation to the documents which are incorporated by reference in this Offering Circular (see "*Documents Incorporated by Reference*") the information on the websites to which this Offering Circular refers does not form part of this Offering Circular.

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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.

Issuer of the Perpetual Capital Securities:	Coventry Building Society (the " Society ")
Society's Legal Entity Identifier (LEI):	2138004G59FXEAZ6IO10
Description of the Perpetual Capital Securities:	£665,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the " Perpetual Capital Securities ") to be issued by the Society on 11 June 2024 (the " Issue Date ").
Joint Lead Managers:	BNP PARIBAS J.P. Morgan Securities plc Lloyds Bank Corporate Markets plc NatWest Markets Plc UBS AG London Branch
Registrar and Principal Paying Agent:	Citibank, N.A., London Branch
Issue Date:	11 June 2024
Status of the Perpetual Capital Securities:	The Perpetual Capital Securities will constitute direct, unsecured and subordinated investments in the Society (subordinated in the manner set out below) and, on a winding up or dissolution of the Society, rank <i>pari passu</i> and without any preference among themselves, and are subject to conversion as provided under " <i>Conversion</i> " below. No security or guarantee has been, or will at any time be, provided by the Society or any other person to the Securityholders in respect of their rights under the Perpetual Capital Securities.
Subordination of the Perpetual Capital Securities:	On a winding up or dissolution of the Society which commences prior to the Conversion Date (save as otherwise provided in an Excluded Dissolution (as defined below)), the rights and claims of Securityholders in respect of their Perpetual Capital Securities (including claims for any damages awarded in respect thereof) shall, subject to applicable insolvency law, rank: <ul style="list-style-type: none">(i) junior to the claims of all creditors (including all subordinated creditors) and Shareholding Members (as regards the principal of 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 (a) for so long as they remain outstanding, the Existing PCS of the Society, (b) for so long as they remain outstanding and unless a Ranking Event occurs, the PIBS, (c) any other Deferred Shares (as defined in the Rules) outstanding of the Society ranking, or

expressed by their terms to rank, *pari passu* with or junior to the Perpetual Capital Securities and (d) any other Parity Obligation or Junior Obligation ("**Senior Obligations**");

(ii) *pari passu* among themselves and with any claims ranking, or expressed by their terms to rank, *pari passu* therewith, including (without limitation and for so long as any of the same remain outstanding):

(a) unless they are Senior Obligations by virtue of the occurrence of a Ranking Event, all claims in respect of the PIBS (as regards the principal thereof and interest due thereon); and

(b) the Existing PCS 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 by their terms to rank, junior to the claims in respect of the Perpetual Capital Securities ("**Junior Obligations**").

Upon the occurrence of a Ranking Event, the ranking of the Perpetual Capital Securities shall immediately and automatically, without the need for any action by the Society or any other person, and without the need for any consent or approval by the Securityholders, adjust such that the PIBS shall no longer be Parity Obligations and will instead become Senior Obligations.

"**Excluded Dissolution**" means each of (i) a winding up or dissolution of the Society for the purpose of a reconstruction, union, transfer, merger or amalgamation or the substitution in place of the Society of a successor in business, the terms of which reconstruction, union, transfer, merger or amalgamation or the substitution (x) have previously been approved by the Securityholders in accordance with Condition 15 and (y) do not provide that the Perpetual Capital Securities shall thereby become repayable in accordance with the Conditions, and (ii) 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 Mutual Societies Transfers Act 2007.

"**Existing PCS**" means the outstanding Perpetual Contingent Convertible Additional Tier 1 Capital Securities (ISIN: XS1961836712) of the Society.

"**PIBS**" means the £40,000,000 12¹/₈ per cent. Permanent Interest Bearing Shares (ISIN GB0002290764) of the Society.

Claim on a winding up or dissolution:

Holders of the Perpetual Capital Securities shall, in a winding up or dissolution of the Society (save as otherwise provided in 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) and any damages awarded in respect thereof, *provided that* 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 first 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.

Solvency Test:

No payment of principal, interest or any other amount 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 dissolution 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 are Senior Obligations as they fall due and (y) its Assets exceed its Liabilities.

Any payment of interest not due on a scheduled payment date by virtue of the Solvency Test shall not be or become due and payable at any time and shall be cancelled, as further described in Condition 6.3.

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

Conversion:

If, at any time, the Society, the Regulator or any agent appointed for such purpose by the Regulator determines that either CET1 Ratio has fallen below 7.00 per cent. (the "**Conversion Trigger**"), the Society shall immediately notify the Regulator (unless the relevant determination was made by the Regulator or its agent) and promptly 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 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) (subject as provided in Condition 8) 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 prevailing Conversion Price (such write-down under (b) and issue of CCDS under

(c) 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, Substitution, Variation 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.

Securityholders do not have any right to require the Society to repay the Perpetual Capital Securities (but this is without prejudice to their rights to claim in a winding up or dissolution of the Society pursuant to, and in accordance with, Condition 4.3).

Society's Option to Repay

Subject to the "*Conditions to Repayment, Substitution, Variation and Purchase*" below, the Society may in its sole discretion elect to repay all, but not some only, of the Perpetual Capital Securities then outstanding: (i) on any date during a Par Call Period; or (ii) on any date if 75 per cent. or more of the aggregate nominal amount of the Perpetual Capital Securities originally issued (and, for this purpose, any Further Perpetual Capital Securities issued pursuant to Condition 16(a) shall be deemed to have been originally issued) has been repaid or purchased and cancelled, in each case at their nominal amount together with accrued but unpaid interest thereon up to (but excluding) the date of repayment (excluding interest which has been cancelled in accordance with the Conditions).

Optional Repayment for Tax Reasons or Regulatory Reasons

The Society may in its sole discretion 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 up to (but excluding) the date of repayment (excluding interest which has been cancelled in accordance with the Conditions).

Such repayment is subject, in each case, to the conditions set out below under "*Conditions to Repayment, Substitution, Variation and Purchase*".

Purchases

Subject to the "*Conditions to Repayment, Substitution, Variation and Purchase*" below and the Capital Regulations, the Society or any of its Subsidiaries may 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.

Substitution and Variation

If a Regulatory Event or a Tax Event has occurred and is continuing, then the Society may, in its sole discretion but subject to the "*Conditions to Repayment, Substitution, Variation and Purchase*" below, at its option and without any requirement for the consent or approval of the Securityholders, at any time either substitute all (but not some only) of the Perpetual Capital Securities for, or vary the terms of the Perpetual Capital Securities so that they remain or, as appropriate, become, Compliant Securities (as defined in Condition 20).

Conditions to Repayment, Substitution, Variation and Purchase

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

- (i) (A) the Society providing such notice to the Regulator and obtaining such approval, permission or consent from the Regulator as is required under the then prevailing Capital Regulations and (B) the Society obtaining such other approval, permission or consent (if any) as is then required under the laws and regulations applicable to deferred shares of the Society;
- (ii) in the case of any repayment or purchase, the Society having demonstrated to the satisfaction of the Regulator that either: (A) the Society has (or by no later than the time of settlement of such repayment or purchase will have) 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 own funds and eligible liabilities of the Society would, following such repayment or purchase, exceed the minimum requirements (including any buffer requirements) applicable to the Society, as laid down under the Capital Regulations by a margin that the Regulator considers necessary at such time; and
- (iii) in respect of a repayment or purchase prior to the fifth anniversary of the Reference Date, (A) in the case of repayment upon the occurrence of a Tax Event, the Society having 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 Reference Date, or (B) in the case of repayment upon the occurrence of a Regulatory Event, the Society having 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 Reference Date, or (C) otherwise, either (1) in the case of any repayment or purchase, the Society having demonstrated to the satisfaction of the Regulator that the Society has (or by no later than the time of settlement of such repayment or purchase will have) 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, and the Regulator having permitted such action on the basis of the determination that it would be beneficial from a prudential point of view and justified by exceptional circumstances or (2) in respect of any purchase only (and subject to the Society or the relevant Subsidiary then being permitted to conduct market-making activity under the Act), the Society (or the relevant Subsidiary) having purchased the Perpetual Capital Securities for market-making purposes,

provided that if, at the time of such repayment, substitution, variation or purchase, the prevailing Capital Regulations and/or any other laws or

regulations applicable to deferred shares of the Society permit the repayment, substitution, variation or purchase only after compliance with one or more alternative or additional pre-conditions to those set out in paragraphs (i), (ii) and (iii) above (as applicable), the Society shall, in the alternative or in addition to the foregoing (as required by the Capital Regulations and/or, as the case may be, any other laws or regulations applicable to deferred shares of the Society), comply with such alternative and/or additional pre-condition(s).

Impact of Solvency Test and Conversion Trigger on Repayment

(x) 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; and (y) if the Society or any of its Subsidiaries has entered into an agreement to purchase any Perpetual Capital Securities but the Solvency Test is not satisfied in respect of the relevant payment on the date scheduled for purchase, the Securityholder (by virtue of its holding of any Perpetual Capital Security) acknowledges and agrees that the relevant purchase agreement shall be automatically rescinded and shall be of no force and effect and, accordingly, no purchase of the relevant Perpetual Capital Securities will be made by the Society or any of its Subsidiaries on the scheduled purchase date, and the relevant Securityholder will continue to hold such Perpetual Capital Securities.

Further, if the Society has elected to repay the, substitute or vary the terms of the Perpetual Capital Securities or if the Society or any of its Subsidiaries has entered into an agreement to purchase any Perpetual Capital Securities but, prior to (as the case may be) the repayment of the nominal amount, the substitution of the Perpetual Capital Securities, the variation of the terms of the Perpetual Capital Securities or the settlement of the purchase of the Perpetual Capital Securities, a Conversion Trigger occurs, the relevant repayment, substitution or variation notice or, as the case may be (and as acknowledged and agreed by the relevant Securityholder by virtue of its holding of any Perpetual Capital Security), the relevant purchase agreement 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, no substitution or variation will be effected and no purchase shall be made, as applicable, 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 on their outstanding nominal amount 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 Reset Date, at the Initial Interest Rate of 8.750 per cent. per annum and (ii) for each Interest Period which commences on or after the First Reset 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 Benchmark Gilt Reset Reference Rate in relation to that Reset Period; and (b) the Margin of 4.727 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.

Interest Payment Dates:

11 June and 11 December in each year, starting on (and including) 11 December 2024.

Interest Cancellation:

Optional Cancellation of Interest

The Society may, at its sole discretion but subject at all times to the requirements for mandatory cancellation of interest payments pursuant to Condition 4.4 or Condition 6.2, at any time elect to cancel any interest payment, in whole or in part, which is scheduled to be paid on any date.

Mandatory Cancellation of Interest

- (i) The Society shall cancel any interest payment, in whole or in part, if so directed by the Regulator.
- (ii) To the extent required under then prevailing Capital Regulations, the Society shall not pay any interest payment otherwise due on any date if and to the extent that the amount of such interest payment otherwise due (together with any Additional Amount payable thereon pursuant to Condition 10, if applicable), 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 the Perpetual Capital Securities and on other own funds items (but excluding any such interest payments or other 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 payment date.
- (iii) To the extent required under then prevailing Capital Regulations, the Society shall not pay any interest payment otherwise due on any date, and the relevant payment will be cancelled and will not be made, if and to the extent that payment of such interest payment (together with any Additional Amounts payable thereon pursuant to Condition 10, if applicable), when aggregated together with the amounts of any distributions of the kind referred to in rule 4.3(2) of Chapter 4 (*Capital Conservation Measures*) of the Part of the PRA Rulebook entitled "Capital Buffers" (as the same may be amended or

replaced) and/or referred to in any other applicable provisions of the Capital Regulations which require a maximum distributable amount to be calculated if the Society is failing to meet any relevant requirement or any buffer relating to any such requirement (in each case to the extent then applicable to the Society), would cause any Maximum Distributable Amount (if any) then applicable to the Society to be exceeded.

"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 such interest payment (on the basis that the Perpetual Capital Securities are intended to qualify as Additional Tier 1 Capital).

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, any profits which are non-distributable pursuant to national law or the institution's by-laws and any sums placed in non-distributable reserves in accordance with the law of the United Kingdom, or any part of it, or of a third country or the statutes of the institution, in each case with respect to the specific category of own funds instruments to which the law of the United Kingdom, or any part of it, or of a third country, institutions' by-laws, or statutes relate; such profits, losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts'.

"Maximum Distributable Amount" means any applicable maximum distributable amount relating to the Society required to be calculated in accordance with Chapter 4 (*Capital Conservation Measures*) of the Part of the PRA Rulebook entitled "Capital Buffers" (as the same may be amended or replaced) and/or in accordance with any other applicable provisions of the Capital Regulations which require a maximum distributable amount to be calculated if the Society is failing to meet any relevant requirement or any buffer relating to any such requirement.

See further the risk factor entitled "*The Capital Regulations provide for 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 payment date by reason of Condition 4.4, 6.1, 6.2 or 8 shall be cancelled and shall not accumulate and will not become due or 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. The Society may use such cancelled amounts of interest without restriction and the cancellation of such interest amounts will neither impose any restrictions on the Society nor prevent or restrict the Society from declaring any distributions or interest payments on any of its shares or other instruments or obligations.

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

Enforcement:

The Conditions will contain no events of default and as such the ability of a Securityholder to enforce the terms of the Perpetual Capital Securities will be very limited.

A holder of any Perpetual Capital Securities may institute such steps, actions or proceedings against the Society as it may think fit to enforce any term or condition binding on the Society under the Perpetual Capital Securities (other than any payment obligation of the Society under or arising from the Perpetual Capital Securities, including, without limitation, payment of any principal or interest in respect of the Perpetual Capital Securities, and payment of any damages awarded for breach of any obligations or, as the case may be, for any Assumed Breach, by the Society in respect of the Perpetual Capital Securities), *provided that* (except in a winding up or dissolution of the Society, in which event the provisions of Condition 4.3 shall apply) in no event shall the Society, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been due and payable by it pursuant to the Conditions.

Nothing in Condition 4.6 shall prevent a holder of any Perpetual Capital Securities from exercising its rights to claim in respect of its Perpetual Capital Securities in a winding up or dissolution of the Society pursuant to, and in accordance with, Condition 4.3.

See also "*Conversion*", "*Repayment, Substitution, Variation and Purchase*", "*Claim on a winding up or dissolution*" 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 any Relevant Tax Jurisdiction (as defined in Condition 10), 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 in respect of payments of interest (but not of principal or any other amount) subject to certain exceptions as are more fully described in Condition 10 of "*Conditions of Issue of the Perpetual Capital Securities*". See also "*Repayment, Substitution, Variation 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.

Ratings: The Perpetual Capital Securities are expected to be rated BB+ by Fitch and Baa3 by Moody's. A security 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.

Admission to Trading: The Perpetual Capital Securities are expected to be admitted to trading on the ISM on or around the Issue Date.

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 (including, where relevant, as amended pursuant to an order made under section 3 of the Mutual Societies Transfers 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 Restrictions: The United States, Canada, the United Kingdom, the EEA, Italy, Hong Kong and Singapore (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.

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*".

UK MiFIR Product Governance:

Solely for the purposes of each manufacturer's product approval processes, the manufacturers have concluded that: (i) the target market for the Perpetual Capital Securities is eligible counterparties and professional clients only; and (ii) all channels for distribution of the Perpetual Capital Securities to eligible counterparties and professional clients are appropriate.

EU PRIIPs Regulation/UK PRIIPs Regulation

No EU PRIIPs Regulation or UK PRIIPs Regulation KID has been prepared as the Securities are not available to retail investors in the EEA or the UK.

FCA CoCo Restriction:

The Perpetual Capital Securities are not intended to be offered, sold or otherwise made available and should not be offered, sold or otherwise made available to retail clients (as defined in COBS 3.4) in the UK.

Use of Proceeds:

The net proceeds of the issue of the Perpetual Capital Securities will be used by the Society to strengthen its regulatory capital base (including in the context of the proposed Acquisition) and for general business purposes consistent with the Society's principal purpose as a UK building society, including financing the tender offer with respect to the outstanding Perpetual Contingent Convertible Additional Tier 1 Capital Securities issued in 2019 (ISIN: XS1961836712) announced by the Society on 3 June 2024.

Risk Factors:

There are certain factors that may affect the Society's ability to fulfil its obligations under the Perpetual Capital Securities (including, without limitation, factors relating to the proposed Acquisition (as defined below)). In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Perpetual Capital Securities and certain factors which are material for the purpose of assessing the market risks associated with CCDS, in the event that any are issued. 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 a nominee for the common depository for the Clearing Systems (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 or the persons shown in the records of the Clearing Systems (such persons, subject as described herein, the "**Accountholders**"). An Accountholder (and an investor holding interests in the Perpetual Capital Securities via an Accountholder) 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. The persons shown in the records of the Clearing Systems (other than 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: XS2826591740

Common Code: 282659174

CFI: As set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN for the Perpetual Capital Securities.

FISN: As set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN for the Perpetual Capital Securities.

RISK FACTORS

The Perpetual Capital Securities are complex and high-risk financial instruments and may not be a suitable investment for all investors. Prospective 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 of their own 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 issued) 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 persons shown in the records of the Clearing Systems or other investors holding beneficial interests in the Perpetual Capital Securities through the Clearing Systems or (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

Risks relating to the Society's business and financial performance

In respect of the proposed Acquisition (as defined below), please refer to "*Factors which are material for the purpose of assessing the risks relating to the Acquisition*" below.

The Society'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 Society's earnings and profitability to decline

The Society is directly and indirectly subject to risks arising from general economic conditions in the UK and elsewhere, and to the state of global financial markets both generally and as they specifically affect financial institutions. The impact of global stresses on the UK economy (in particular, those caused by a pandemic such as the coronavirus ("**Covid-19**")), rising inflation and global energy prices, stress within the Eurozone or the global banking sector, and increased geopolitical tensions and conflicts such as the Russia-Ukraine conflict) could adversely affect the Society, including by exposing it to potential losses in its lending operations and on its portfolio of treasury assets and through adverse impacts

on the cost and level of competition for retail funding, and on the cost and availability of wholesale funding, with a resultant impact on the Society's net interest margin.

Forecasts by the Bank of England suggest that the UK is facing a period of modest economic growth, reflecting, among other factors, the impact of higher interest rates and of higher prices after a period of high inflation, alongside residual impacts of the UK's departure from the EU and the Covid-19 pandemic and associated lockdowns. There is a risk that any slowdown in economic activity in the Eurozone economy could contribute to a slowdown in economic activity in the UK as the EU is the UK's largest export market, a risk that could be exacerbated by any additional barriers to trading or other economic activity resulting from the UK's withdrawal from the EU. Domestically, rises in energy prices, general inflation and higher interest rates have placed pressure on disposable incomes and there is a risk that, if levels of unemployment increase and inflation and higher interest rates persist, and/or the economy contracts or sees a period of low growth, there could be further pressure on real disposable incomes and the ability of consumers to fulfil obligations on borrowings.

The exact nature of the risks that the Society faces from external economic factors and the manner and the extent to which they ultimately will impact the Society is difficult to predict and to guard against in light of: (i) the inter-related nature of the risks involved; (ii) the difficulties in predicting events; and (iii) the fact that the risks are totally or partially outside of the control of the Society. Therefore, no assurance can be given that the Society will not be adversely affected by any external economic factors.

Any and all such events described above could have a material adverse effect on the Society's business, financial condition, results of operations, prospects, liquidity, capital position and credit ratings (including potential changes of outlooks or ratings), as well as on its customers, borrowers, counterparties, employees and suppliers.

Changes in interest rates could adversely impact the Society's financial and operational performance

Consumers in the UK remain heavily indebted by historical standards, and this could lead to a vulnerability to increases in unemployment, inflation, higher interest rates and/or falling house prices.

Increased unemployment and cost-of-living pressures (including, but not limited to, higher interest rates and higher energy costs) could lead to borrowers being unable to service their loan payments in a timely fashion, which would result in higher levels of arrears in the Society's lending operations, which, in turn, could lead to an increase in the Society's impairment charges in respect of its lending portfolio.

After a prolonged period of low rates, interest rates in the UK have risen significantly. Interest rates may see further increases and/or may stabilise at a higher level than seen in recent years. Having slowed in 2022 as a result of inflation triggered by the invasion of Ukraine and legacy effects from the Covid-19 pandemic on global supply chains and domestic political uncertainty, the UK economy saw only very modest growth in 2023, and reported a reduction in gross domestic product in the third and fourth quarters of 2023. Most forward looking expectations for the UK are for a period of relatively low economic growth. UK inflation peaked at 11.1 per cent. in October 2022 before falling slightly to 10.5 per cent. in December 2022, and whilst inflation has followed a broadly downward trend since then, it remains significantly above the Bank of England's 2 per cent. target. Central banks around the world responded to high inflation by increasing interest rates in order to reduce demand from consumers and businesses. The Bank of England increased its base rate eight times in 2022 to 3.50 per cent. from 0.25 per cent. in 2021, with four further rises in 2023 taking the base rate to 5.25 per cent. As at the date of this Offering Circular the base rate remains 5.25 per cent. but a further increase in interest rates, or a period in which rates remain at or near current levels (which remain high in comparison to recent years), may have an impact on the payment obligations of borrowers, either where their loans with the Society are linked to the Bank of England base rate or are otherwise variable in nature, where their loans have come to the end of an initial fixed rate period or where borrowers have other commitments which are subject to variable interest rates. Borrowers may have become accustomed to the low interest rate environment, and will need to adjust spending behaviours to respond to the increasing cost of borrowing, which may be challenging for some borrowers. A significant portion of the Society's outstanding mortgage loan products are potentially subject to changes in interest rates, and as such these borrowers are exposed to the risk of 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 Society's retail lending portfolio as well as an increase in the Society's retail loan impairment charges. These events, alone or in combination, may contribute to higher delinquency rates and losses for the Society which could have a material adverse effect on the Society's business, results of operations and financial condition.

In addition, a cut in interest rates (in particular the Bank of England base rate) and any subsequent period of very low interest rates may have the effect of reducing the net interest margin of the Society, and so adversely impacting the profitability of the Society. If these circumstances prevail for a significant period of time, this may have an impact on the Society's results of operations, financial condition and prospects.

The Society'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

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. Financial institutions such as the Society are subject to liquidity risk as an inherent part of their business given the maturity mismatch between relatively short-dated funding and longer-dated mortgage assets.

The Society raises funds principally through accepting retail deposits and issuing bonds in the wholesale funding market. If access to liquidity is constrained for a prolonged period of time, the Society's cost of funding would increase as competition for retail deposits would intensify and the cost of accessing the wholesale markets would rise. This could adversely affect the Society'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 events. There is also a risk that the funding structure employed by the Society may prove to be inefficient, giving rise to a level of funding cost that is not sustainable in the long term for the Society.

The ongoing availability of retail deposit funding is dependent on a variety of factors outside of the Society's control, such as general economic and market conditions, the confidence of retail depositors in the economy and the UK banking sector in general and in the Society in particular, and the extent of deposit guarantees. These or other factors could lead to a reduction in the Society's ability to access retail deposit funding on appropriate terms in the future. Given the relative size of the Society'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 Society's lending activities depend, to a greater extent, on the availability to the Society of retail deposits and, to a lesser extent, wholesale funding, on appropriate terms. A restriction on the Society's access to liquidity (including retail and wholesale funding, or to government and central bank funding and liquidity support, where available) and a decline in consumer confidence which results in high levels of withdrawals from the Society's retail deposit base, could affect the Society'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 circumstances, the Society 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 Society's viability.

In past years the UK government has provided significant support to UK financial institutions, including the Bank of England Funding for Lending Scheme ("FLS"), the Term Funding Scheme ("TFS") and the Term Funding Scheme with additional incentives for SMEs ("TFSME"). The withdrawal of such schemes and subsequent repayments of borrowings under the schemes could increase competition for other sources of funding which could adversely impact the Society

In past years the UK government, acting through the Bank of England or otherwise, has provided significant support to UK financial institutions through a range of measures, including through the FLS, the TFS and, in response to Covid-19,

the TFSME. The availability of funding through central bank schemes has supported a benign funding environment for UK banks and building societies in terms of both the cost and availability of funding. Whilst the FLS, TFS and TFSME are no longer available for any further funding, with the drawdown period for TFSME having closed on 31 October 2021, significant borrowings under the schemes remain outstanding and will need to be repaid over the coming years, and institutions will be required to raise alternative funding to do so.

The availability of UK government support for UK financial institutions, to the extent that it provided access to cheaper and more attractive funding than other sources, reduced the need for those institutions to fund themselves in the retail or wholesale markets and, by participating in these schemes, the Society has, in common with other participants in the schemes, benefitted from this reduced need. With the cessation of FLS and TFS and the drawdown period for the TFSME closed, it can be expected to result in an increase in competition for other forms of funding as outstanding borrowings under the schemes are repaid and refinanced, which has the potential to increase funding costs across the industry. As a result, the Society may see a reduction in the availability of funding, and an increase in the cost of such funding. A decrease in the availability of funding may adversely impact the Society's ability to support its lending operations. Any increase in the cost of funding, driven by this increased competition or by other factors, may adversely impact the Society's net interest margin, 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, including rounds of "quantitative easing" (most recently at the start of the Covid-19 pandemic), which the Bank of England is now looking to unwind. Any fall in gilt prices as a result of the unwinding by the Bank of England of its quantitative easing programmes could lead to valuation adjustments within the liquidity book the Society holds, in turn impacting its capital levels. Similarly, if interest rates continue to rise, the market rate for variable rate deposits may increase, and the extent to which the Society is able to maintain its net interest margin will be dependent on how this is managed and upon the availability of variable rate mortgage assets where rates can also be increased. Insufficient availability of rates that the Society can administer at its discretion may lead to margin compression. In circumstances where such flexibility exists, a material increase in interest rates on mortgages could lead to significant increases in arrears levels were this discretion to be exercised, or to an erosion of the Society's relative competitiveness which may have wider consequences for the business. Variation of interest rates is also a matter which the FCA may look to challenge or intervene in. See also "*Failure of the Society to manage its regulatory and conduct risk may have a material adverse effect on the Society's business, financial condition and reputation*" below.

If margin compression were to occur, this could affect the profitability, financial condition and prospects of the Society.

Rating downgrade and/or market sentiment with respect to the sector, the UK and/or other sovereign issuers may have an adverse effect on the Society's performance and/or the marketability and liquidity of the Perpetual Capital Securities

If sentiment towards banks, building societies and/or other financial institutions operating in the UK mortgage market (including the Society) were to deteriorate, or if the ratings of the Society and/or the ratings of the sector were to be adversely affected, this may have a material adverse impact on the Society. Events in the UK or globally can lead to changes in sentiment towards the banking sector, and this has recently been adversely impacted by events in the US and Europe. Similarly, changes or potential changes in the Society's business (for example, and without limitation, the proposed Acquisition) may negatively affect sentiment or ratings. Moody's has indicated the Society's current A2 rating as being under 'review for downgrade' and Fitch has indicated that the Society's current A rating is on 'rating watch negative'. Any negative change in sentiment or reduction in ratings could result in an increase in the cost, 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 Society. Any such events could affect the market value of the Perpetual Capital Securities and/or their liquidity in the secondary market.

Any future declines in those aspects of the Society's business, or of aspects of the UK financial services sector or wider UK economy, which are identified by the rating agencies as significant or otherwise could adversely affect the rating agencies' perception of UK financial services institutions in general, or the Society's credit specifically, and cause them to take negative ratings actions. Any downgrade in the Society's credit ratings could adversely affect its liquidity position, particularly through cash outflows to meet collateral requirements or other obligations on existing contracts, and its business position, undermining confidence in its business, increasing its borrowing costs, limiting its access to the capital markets, or limiting the range of counterparties willing to enter into transactions with it. Any such downgrade could also lead to a loss of customers and counterparties which could have a material adverse effect on the Society's business, results of operations and financial condition.

Any downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur could destabilise the financial markets, impacting the Society's rating, its borrowing costs and its ability to fund itself and could have a material adverse effect on the Society's operating results and financial condition. A downgrade or perception that one is likely, may also negatively impact the marketability and trading value of the Perpetual Capital Securities, as well as the Society's credit ratings, borrowing costs and ability to fund itself.

A UK sovereign downgrade or the perception that such a downgrade may occur could have a material adverse effect on depressing consumer confidence, restricting the availability, and increasing the cost, of funding for individuals and companies, depressing economic activity, increasing unemployment and/or reducing asset prices. These risks may be exacerbated by concerns over the levels of the public debt, the risk of further sovereign downgrades, and other negative events inside or outside the UK. The Society's financial performance has been and will be affected by general economic conditions in the UK, the Eurozone and elsewhere, and other adverse developments in the UK or global financial markets could have an adverse impact on its results of operations.

Any and all such events described above could have a material adverse effect on the Society's business, financial condition, results of operations, prospects, as well as on its customers, borrowers, counterparties, employees and suppliers.

UK residential housing market risks may adversely impact the Society's business

The Society's core lending business is that of residential mortgage lending in the UK. The performance of the UK residential mortgage market is generally 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 Society's natural concentration in the UK market could be exacerbated by over-exposure to one regional location, or by reliance on particular product types within the portfolio. A downturn in the UK economy, either regionally or nationally, could reduce demand for housing and consequently reduce house price growth and property market activity, which could result in lower levels of mortgage lending, impacting the Society's core lending activity. A fall in property prices resulting from a deterioration of the economy and increased unemployment could lead to increased numbers of borrowers defaulting on their mortgage loans and result in losses being incurred by the Society where the net recovery proceeds from the sale of properties are insufficient to redeem the outstanding loans. Conversely, an increasing interest rate environment may adversely affect the Society's business and financial performance. Increases in the Bank of England base rate may increase the Society's cost of funding, and may also result in other market participants offering more competitive product pricing, which could result in increased customer attrition. Furthermore, increased or persistent inflation in the UK or globally, both by itself and together with increases in the cost of borrowing, may put increasing pressure on household budgets, which could result in an increase in the Society's customers defaulting on their mortgages. These pressures may be exacerbated by continued increases in energy prices and/or the persistence of high energy prices.

In addition, the UK Financial Policy Committee (FPC) took the decision on 20 June 2022 to withdraw its affordability test recommendation with effect from 1 August 2022. Although lenders are not required to make changes as a result of the withdrawal, this decision could impact the Society's assessment of affordability in the medium term.

The performance of the buy-to-let market and competition within it may have a material impact on the future performance of the Society and its business, financial condition and prospects

The Society has exposure to buy-to-let mortgage loans, representing a relatively large share of this market in relation to the Society's size. These advances have been secured on residential properties within the UK.

While the Society's buy-to-let book has performed well to date, there can be no assurance that, in the event of a material downturn in the private rental market, the performance of the Society would not be adversely affected. Such a downturn could be precipitated by a range of factors, which may include (but are not limited to) a reduction in margins for buy-to-let mortgage loans, increased competition, an expansion of owner-occupied lending and/or legislative changes, such as the introduction of rental caps or the regulation of the market or parts thereof, affect the sector. Regulatory changes to buy-to-let lending, such as this being reclassified as non-residential lending in a manner which would impact the level of risk weighted assets ("**RWAs**") reported by the Society, would detrimentally impact the Society's risk-based measures of capital. Any reduction in margin or volumes of the Coventry Group's buy-to-let mortgage book, or impact on the level of RWAs reported by the Society, could have a material adverse effect on the Society's business, results of operations and financial condition.

There have been various tax-related changes to UK legislation in recent years which may affect the ability of the borrowers to repay their buy-to-let loans due to the increased tax costs associated with buy-to-let mortgages and there may be further changes in the future which further impact the borrowers' ability to meet their obligations under such loans. For example, with effect from 6 April 2020, there is no longer a deduction available for finance costs against rental income for individual landlords and instead an individual landlord is only entitled to relief for interest payable at the basic rate of income tax (20 per cent.) which may result in higher taxes for the individual landlords depending on their personal circumstances. This change could further impact demand in this area of the market, and could impact the ability of individual borrowers of buy-to-let loans to meet their obligations under those loans. Legislation has also been passed which increased the rate of: (i) stamp duty land tax ("**SDLT**") in England and Northern Ireland; and (ii) land transactions tax ("**WLTT**") in Wales, in the case of acquisitions of additional residential properties (including where an individual acquires a second residential property on a buy-to-let basis). The broad impact of this legislation is to increase the rate at which SDLT or WLTT applies and the increased rate for each of these taxes is currently 3 per cent. and 4 per cent. above the standard rates in these circumstances respectively. The Scottish government has implemented a similar additional dwelling supplement in respect of land and buildings transaction tax. The current additional rate is 6 per cent. of the full chargeable consideration of the property (where the property is valued at £40,000 or more).

In addition, from 1 April 2021, a 2 per cent. SDLT surcharge applies to non-UK residents purchasing residential property in England and Northern Ireland. This applies in addition to the 3 per cent. additional rate that applies to the purchase of additional residential properties in England and Northern Ireland described above.

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

Further, since 1 April 2018, landlords of relevant domestic properties in England and Wales have not been permitted to grant a tenancy to new or existing tenants if their property has an EPC rating of band F or G (as shown on a valid Energy Performance Certificate ("**EPC**") for the property) and, since 1 April 2020, landlords have not been permitted to continue letting a relevant domestic property which is already let if that property has an EPC rating of band F or G (as shown on a valid EPC for the property). In both cases described above this is referred to in the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 (the "**Energy Efficiency Regulations 2015**") as the prohibition on letting sub-standard property. Where a landlord wishes to continue letting property which is currently sub-standard, they will need to ensure that energy efficiency improvements are made which raise the EPC rating to a minimum of E. In certain circumstances, landlords may be able to claim an exemption from this prohibition on letting sub-standard property; this includes situations where the landlord is unable to obtain funding to cover the cost of making improvements, or where all improvements which can be made have been made, and the property remains below an EPC rating of band E. Local authorities will enforce compliance with the domestic minimum level of energy efficiency. They may check whether a

property meets the minimum level of energy efficiency, and may issue a compliance notice requesting information where it appears to them that a property has been let in breach of the Energy Efficiency Regulations 2015 (or an invalid exemption has been registered in respect of it). Where a local authority is satisfied that a property has been let in breach of the Energy Efficiency Regulations 2015 it may serve a notice on the landlord imposing financial penalties. If landlords are prevented from letting a property or financial penalties are imposed, it may affect the performance of the Society's buy-to-let book which may in turn adversely affect the Society's business, results of operations and financial condition, and such impacts could increase if the applicable EPC criteria are amended and lead to a greater number of properties being captured by this form of restriction.

In order to set similar standards in the private rented sector in Scotland compared to those in England and Wales, the Scottish government has published, in draft form, The Energy Efficiency (Domestic Private Rented Property) (Scotland) Regulations 2020 to ensure that all privately rented homes in Scotland meet a minimum standard of energy efficiency. However, whilst it was anticipated that these regulations would come into force on 1 April 2020, the Scottish government initially delayed the implementation of the new minimum standards due to the impact of the Covid-19 pandemic and the timescale for these coming into effect continues to be unclear.

Landlords in Scotland currently need to have a valid EPC available for a property offered for let when there is a change in tenancy. Under the Energy Performance of Building (Scotland) Regulations 2008 the EPC is valid for a period of up to ten years, and must be lodged on the EPC register. There are existing mechanisms to enforce this requirement, although it should be noted that in Scotland the basis for assessment of EPC ratings is different from that in England and Wales, which can lead to different ratings for similar buildings in both jurisdictions.

On 16 June 2022, the government published a White Paper "A Fairer Private Rented Sector" which proposes certain changes in relation to the standard of rented housing, the ability of tenants to challenge rent increases and fetters on the ability of a landlord to terminate a rental agreement where the tenant is not in breach of the contractual terms. It remains to be seen whether the proposals change as they go through the legislative process and what impact that will have, if any, on the performance of the Society's buy-to-let portfolio and, consequently, on the Society's business, financial condition or results of operations.

The future impact of these initiatives on the UK housing market and other regulatory changes or government programs is difficult to predict. Volatility in the UK housing market occurring as a result of these changes, or for any other reason, could have a material adverse effect on the Society's business, financial condition or results of operations.

Failure to manage retail credit risk in the Society's mortgage operations may adversely impact profitability

Retail credit risk is present in the Society's mortgage operations, and represents the potential inability of a mortgage borrower to repay their mortgage. In particular, an inability to repay may result in the repossession of the borrower's property, and the Society will be exposed to a subsequent loss if the value of the property upon sale is insufficient to pay the mortgage balance in full. A failure of the Society to effectively manage retail credit risk could lead to an increased incidence of retail credit losses, which could impact the profitability of the Society and could adversely affect its results of operations, financial condition and prospects.

Credit losses in the Society's treasury operations could adversely impact profitability and the Society's ability to make payments on the Perpetual Capital Securities

Credit risk within the treasury liquidity book (wholesale credit risk) arises from the portfolio of liquid and other financial assets held by the Society, and represents the risk that counterparties will fail to repay amounts when due. A failure to manage credit risk in the Society's treasury operations effectively could lead to credit losses if counterparties default, and could adversely affect its results of operations, financial condition and prospects.

Competition in the UK personal financial services markets may adversely affect the Society's operations

Developments in the Society's industry, including increased competition and changes in regulation, could have a material adverse impact on its operations. The Society operates in the UK personal financial services market, which has

historically been very competitive. Factors such as the entrance of new participants to the market, and new technological developments, including (but not limited to) the wide use of price comparison websites, have increased the level of competition in recent years.

Competitors, particularly, but not limited to, the large banking groups and new market entrants (such as challenger banks and account aggregators), may disrupt the Society's ability to grow or to maintain its market share. Technological advances (such as the development of open banking and the development of "stablecoins" or other "digital currencies"), the ability of some banks to cross-subsidise products from other parts of their businesses, the developing of economies of scale, and other competitive advantages (including regulatory or technological) may be exploited by these or other competitors. Such competition could impact the volumes and margin available on both retail savings and mortgages, and may require the Society, alongside other market participants, to adapt its business model or to change its business plans. The Society has historically attracted the necessary retail and wholesale funding, and volumes of mortgage originations required to maintain and grow its business, but there is no assurance that it will continue to be able to do so.

In addition, the PRA's implementation of the final Basel III standards (i.e. Basel IV, which the PRA refers to as "**Basel 3.1**") and the expectation that changes to capital requirements will be implemented in the EU and the UK over a five-year transitional period commencing on 1 July 2025, could have a disproportionate impact on the Society's capital requirements compared to its competitors, particularly large banking groups with diversified portfolios and non-bank mortgage lenders, that may result in other market participants offering more competitive product pricing. See "*Regulatory reforms may result in a reduction of the Society's capital surplus*" below.

The cessation of government funding schemes can be expected to increase the competition and the cost for other sources of funding, which also could adversely impact the Society. See "*In past years the UK government has provided significant support to UK financial institutions, including the Bank of England Funding for Lending Scheme ("FLS"), the Term Funding Scheme ("TFS") and the Term Funding Scheme with additional incentives for SMEs ("TFSME") . The withdrawal of such schemes and subsequent repayments of borrowings under the schemes could increase competition for other sources of funding which could adversely impact the Society*" above.

The Society 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 Society's performance

The Society operates a multi-channel distribution model for mortgage origination, including through its own branches and online. However, the largest distribution channel for mortgages is through intermediaries, whereby the Society pays intermediaries a procurement fee to introduce new mortgage customers to the Society. 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 Society to grow or maintain its interest margins, business volumes and profitability. Such changes could result from a number of factors, including (but not limited to) regulatory changes or a shift in consumer preferences. Given the Society's relatively small branch network compared to other national lenders, any such change could have a more significant impact on the Society's business than some of its competitors.

Failure by the Society to manage its financial risks, which include liquidity, market, funding and concentration risks, may result in adverse effects on its business, financial condition and/or reputation

The Society's success depends on its ability to manage and control its financial risks, which include liquidity, market, funding and concentration risks.

Liquidity risk is the risk that the Society has insufficient funds to meet its obligations as they fall due. The Society is exposed to liquidity risk as a result of mismatches in cashflows from balance sheet assets and liabilities, off-balance sheet financial instruments and changes in market sentiment. Funding risk is the inability to access funding markets or to do so only at excessive cost.

The Society is exposed to market risks as a result of changes in interest rates, foreign currency prices, asset prices or in other financial contracts. The most significant market risks the Society faces are interest rate risks (including swap spread risk), along with, to a lesser extent, 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 rate, may 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 Society's investment portfolios. Changes in economic or market conditions may have an adverse impact on the Society's financial performance and business operations.

Credit risk is the risk that a customer or counterparty is unable to meet its obligations to the Society as they fall due. Credit risk exists in the Society's treasury operations and in its mortgage lending operations. A failure of one or more of the Society's counterparties could have a material adverse effect on the Society's financial position. For more information, see "*Failure to manage retail credit risk in the Society's mortgage operations may adversely impact profitability*", "*Credit losses in the Society's treasury operations could adversely impact profitability and the Society's ability to make payments on the Perpetual Capital Securities*", "*UK residential housing market risks may adversely impact the Society's business*" and "*The performance of the buy-to-let market and competition within it may have a material impact on the future performance of the Society and its business, financial condition and prospects*".

A failure by the Society to manage and control these financial risks could have a material adverse effect on its business, results of operations, financial condition and reputation.

Regulatory and Conduct Risk

Failure of the Society to manage its regulatory and conduct risk may have a material adverse effect on the Society's business, financial condition and reputation

UK-authorized firms are subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations thereof in the UK. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking and building society sector, and which the Society expects to continue for the foreseeable future. The UK government, the PRA, the FCA and other regulators in the UK may intervene further in relation to areas of industry risk already identified, or in new areas, each of which could adversely affect the Society. The effects that such regulations may have on the Society include, without limitation, the imposition of additional costs or the limitation or restriction on the manner in which the Society conducts elements of its business. The Society continues to work closely with regulatory authorities and industry associations to ensure that it is able to identify and respond to proposed regulatory changes and mitigate the risks posed, although future changes are difficult to predict and could materially adversely affect the business of the Society.

The Society is exposed to various forms of regulatory risk in its operations, including the risk of mis-selling financial products, acting in breach of legal or regulatory principles or requirements, or other claims of alleged misconduct on the part of the Society, any of which could have a material adverse effect on its results or its relations with its customers. The Society may settle litigation or regulatory proceedings prior to a final judgment or determination of liability in order to avoid the cost, management efforts, negative business, and regulatory or reputational consequences of continuing to contest liability, even when the Society believes that it has no liability. The Society may also do so when the potential consequences of failing to prevail would be disproportionate to the costs of settlement.

Although the Society would meet the current UK leverage ratio requirements, should the Society fail to manage these regulatory and conduct risks adequately, such failure could have a material adverse effect on the Society's business, results of operations, financial condition and reputation.

Regulatory reforms may result in a reduction of the Society's capital surplus

A perceived or actual reduction in capital surplus could result in actions or sanctions, which may have a material adverse effect on the Society's business, including its operating results, financial condition and its prospects. The Society's capacity to continue its business operations or pursue strategic opportunities may also be affected as a result and may have an impact on future growth potential.

The circumstances which could give rise to a reduction in capital surplus could include the following:

- The Society may experience a depletion of its capital resources through increased costs or liabilities incurred as a result of the crystallisation of any of the other risk factors described elsewhere in this section.
- The Society may experience an increased demand for capital. For example, the Society is subject to extensive regulation and regulatory supervision in relation to the levels of capital in its business. New or revised minimum and buffer capital requirements could be applied and/or the manner in which existing regulatory requirements are applied to the Society could be changed. If the Society fails, or is perceived to be likely to fail, to meet its minimum regulatory capital requirements, this may result in administrative actions or regulatory sanctions. This may adversely impact the competitiveness of the Society relative to banks and financial institutions subject to less stringent requirements.

The Society manages its capital taking account of market and rating agency expectations as well as regulatory requirements. If market and rating agency expectations increase, driven by, for example, the capital levels or targets among peer banks or building societies or through the changing views of rating agencies, then the Society may experience pressure to increase its capital ratios.

In particular, it should be noted that the Basel Committee on Banking Supervision ("**BCBS**") has approved significant changes to the Basel regulatory capital and liquidity framework in January 2011, January 2014 and December 2017 (such changes being referred to by the BCBS as "**Basel III**", and referred to, colloquially, as Basel III in respect of reforms finalised prior to 7 December 2017 and "**Basel IV**" in respect of reforms finalised on or following that date) including additional capital requirements, higher capital ratios, more stringent eligibility requirements for capital instruments, a new leverage ratio and liquidity requirements.

The Basel III reform package agreed in 2010 has been implemented in the EEA through the Capital Requirements Regulation (575/2013) (the "**EU CRR**") and an associated directive (the Capital Requirements Directive (2013/36/EU), as amended or supplemented from time to time (the "**CRD**") (together, "**CRD IV**"), which were published in the Official Journal of the EU on 27 June 2013. The further Basel III reforms finalised between 2010 and 2017 are being implemented in the EEA through the CRR II Regulation ((EU) 2019/876) and the CRD V Directive ((EU) 2019/878). The EU CRR establishes a single set of harmonised prudential rules which will apply directly to all credit institutions in the EEA with the CRD containing less prescriptive provisions which should be transposed into national law. The EU CRR gives express recognition for Common Equity Tier 1 ("**CET1**") capital instruments for mutual and cooperative entities and permits the use of a cap or restriction to safeguard the interests of members and reserves. Full implementation began from 1 January 2013, with particular elements being phased in over a period of time, to be fully effective by 2028. In relation to the Basel III reforms which were finalised in December 2017, the BCBS published a press release in March 2020 deferring the implementation deadline to January 2023 in light of the Covid-19 outbreak.

The CRD IV framework, as applicable in the EU as at the end of the transition period relating to the UK's exit from the EU (31 December 2020), has broadly been reflected in the UK, with EU CRR and related EU regulations (which had direct binding effect in the UK until expiry of the transition period) being retained as domestic UK law, with certain exceptions and adjustments, primarily through the EUWA and ancillary legislation (the "**UK CRR**"). Most of the CRR II provisions only applied in the EU from 28 June 2021, which was after the Brexit transition period, and accordingly those CRR II provisions were not onshored into UK law. To implement those remaining elements of CRR II relating to the Basel Standards in the UK, HM Treasury has revoked a number of onshored UK CRR articles and the PRA published its Policy Statement PS21/17.

On 30 November 2022, the PRA published a consultation paper (CP16/22 (Implementation of the Basel 3.1 standards)) on the implementation of the final Basel III standards (i.e. Basel IV, which the PRA refers to as 'Basel 3.1'), and that its current intention is to consult on a proposal that these changes will become effective on 1 July 2025. The PRA's proposed approach to the BCBS's proposals for standardised risk weights and output floors may cause a reduction in the Society's reported CET1 capital.

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, including additional 'minimum requirement for own funds and eligible liabilities' ("MREL") capital following a reduction in reported CET1 capital. See *"The Society'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"* above and *"The structure, capital, leverage, liquidity, MREL and resolution profile of the Combined Group remains uncertain"* below. If and to the extent that the PRA adopts capital or other requirements which exceed existing capital requirements, this may adversely impact the Society's competitiveness relative to any banks and financial institutions subject to less stringent requirements.

In addition, as at the date of this Offering Circular, the UK leverage ratio is not binding on the Society, but the UK leverage ratio will be binding on the Society once it has retail deposits of £50 billion or more (as the Society expects to become the case regardless of whether the Acquisition (as defined below) is completed, and which will become the case if the Acquisition is completed). Should the Society fail, or be perceived to be likely to fail, to meet any applicable future UK leverage ratio requirements, this may result in administrative actions or regulatory sanctions and could have a material adverse effect on the Society's capital position, business, results of operations and financial condition.

Climate change

The physical and transition risks of climate change are becoming ever more apparent and have the potential to pose a significant threat to the Society if the Society fails to implement a coordinated and timely response.

Climate change and businesses' response to the emerging threats are under increasing scrutiny by governments, regulators and the public alike. These include physical risks resulting from changing climate and weather patterns and extreme weather-related events, as well as transition risks resulting from the process of adjustment towards a lower carbon economy. Governments and regulators may introduce increasingly stringent rules and policies designed to achieve targeted outcomes, which could increase compliance costs for the Society, drive asset impairments and result in regulatory fines or other action if the Society is unable to implement adequate reforms sufficiently quickly. In particular, in 2019, the PRA published its Supervisory Statement 3/19 (SS3/19) titled "Enhancing banks' and insurers' approaches to managing the financial risks from climate change" (with an update of this Supervisory Statement expected during 2024) and Climate Change Adaptation Report. The Supervisory Statement sets out the PRA's expectation that firms develop and embed effective risk management processes to understand and manage their climate risks. In October 2022, the PRA further highlighted that firms' internal capital adequacy assessment processes (ICAAPs) and own risk and solvency assessments (ORSAs) should now provide sufficient contextual information to address climate risk and capital. How the Society assesses and responds to these developments and challenges could increase its costs of business, and a failure to identify and adapt its business to meet new rules or evolving expectations, or any perception that it is under-performing relative to its peers, could result in increased supervision, reputational damage and/or the risk of legal claims and may have an adverse impact on the Society's financial performance and business operations.

Operational Risk

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

Operational risk is defined as the risk of a loss arising from inadequate or failed internal processes, people and systems, or from external events. Operational risk can arise from, among other things, legal and regulatory non-compliance, information technology ("IT") system failures or breaches, and information security breaches, business continuity failures, financial crime, people, change, property and physical security, third parties, business processes and financial reporting.

Although the Society has implemented risk controls and loss mitigation actions, it is not possible to implement procedures which wholly eliminate each of the operational risks faced by the Society and a failure to manage these risks effectively could adversely impact the Society's business and financial profile.

Operational resilience has been a key focus area for the PRA, the Bank of England and the FCA in recent years. On 29 March 2021, the PRA published its Policy Statement PS6/21 titled "Operational resilience: Impact tolerances for important business services". The Policy Statement sets out the PRA's policy interventions on operational resilience, effective from 31 March 2022. The regulators expect firms to identify their important business services that, if disrupted, could cause harm to consumers or market integrity, threaten the viability of firms or cause instability in the financial system. Impact tolerances should be set for each important business service and firms should take actions to be able to remain within their impact tolerances through a range of severe but plausible disruption scenarios. Firms are expected to identify and document the people, processes, technology, facilities and information that support their important business services. The policy requires boards and senior management to approve the important business services identified for the firms and the impact tolerances set. Boards are expected to ensure they have the appropriate management information, adequate knowledge, skills and experience to provide constructive challenge to senior management and make informed decisions that have consequences on operational resilience.

The FCA also published its Policy Statement PS21/3 titled "Building operational resilience: Feedback to CP19/32 and final rules" on 29 March 2021. These rules and guidance are also effective from 31 March 2022, and require that:

- firms must, by 31 March 2022, have identified their important business services, set impact tolerances for the maximum tolerable disruption and carried out mapping and testing to a level of sophistication necessary to do so. Firms must also have identified any vulnerabilities in their operational resilience; and
- as soon as possible after 31 March 2022, and no later than 31 March 2025, firms must have performed mapping and testing so that they are able to remain within impact tolerances for each important business service. Firms must also have made the necessary investments to enable them to operate consistently within their impact tolerances.

Although the Society has implemented all measures required to date by the PRA under each of Policy Statements PS6/21 and PS21/3, a failure to comply with these new operational resilience rules in the future (particularly following the 31 March 2025 deadline) may expose the Society to administrative sanctions and regulatory fines.

Failure by the Society to manage change could have a material adverse effect on the Society's business and financial condition

The pace and scope of change facing the financial services sector and individual firms continue unabated. The Society maintains an ongoing programme designed to keep pace with developments in the industry and as part of this is currently working to implement a new mortgage platform, which is a significant project for the Society. The increasing pace of IT change in the industry may raise obsolescence risk with the result that services become less stable or relevant or costs increase. The Society maintains a change management framework (comprising governance committees considering people, processes and technology), in line with industry practice.

A failure or delay in implementing the Society's change agenda successfully, including in delivering the investment being made in core IT infrastructure or an increase in the costs, complexity, or delivery time, of implementing such change, could have a material adverse effect on the Society's business and financial condition.

The Society may suffer a failure or interruption in or breach of its IT systems

The Society has a high dependency on its IT systems and operations infrastructure to conduct its business. The Society is exposed to risks in regard to the failure or outage of its IT, the risk of cybercrime and the unauthorised access to the Society's IT systems as well as demands of meeting increasing regulatory expectations as to operational resilience and the management of third party and outsourcing arrangements. Any failure, interruption or breach in security of these IT systems could result in failures or interruptions in the Society's risk management, general ledger, deposit servicing, loan servicing, debt recovery, payment custody and/or other important systems. If the Society's IT systems fail, even for a short period of time, it could be unable to serve some or all customers' needs on a timely basis which could result in a loss of business. In addition, a temporary shutdown of the Society's IT could result in costs that are required for information retrieval and verification.

The occurrence of any failures, breaches or interruptions in the Society's IT systems and operations infrastructure could have a material adverse effect on the Society's business, financial condition and/or results of operations.

Reputational risk could cause harm to the Society and its business prospects

The Society'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 Society 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 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 Society, which could adversely affect its business, financial condition and results of operations and could damage its relationships with its regulators.

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

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

The Society'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 Society 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 Society's business, prospects, results of operations and financial position. In addition, the strategy, business and prospects of the Society 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 Society will maintain the same business policies or strategies at all times.

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

The Financial Services and Markets Act 2000 (the "FSMA") established the Financial Services Compensation Scheme (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 a result of the various claims under the FSCS, the Society, in common with all regulated UK deposit takers, has in the recent past 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 Society.

There can also be no assurance that there will not be any actions taken under the Banking Act 2009 (the "**Banking Act**") that may lead to further claims against the FSCS, and concomitant increased FSCS levies payable by the Society (and other regulated UK deposit takers). Any such increases in the Society's costs and liabilities related to the levy may have a material adverse effect on its results and operations. Further costs and risks to the Society may also arise from discussions at national level around the future design of financial services compensation schemes, including increasing the scope and level of protection and moving to pre-funding of compensation schemes.

The Society is subject to regulatory capital and liquidity requirements which are subject to change and which could have an impact on its operations

While the Society monitors current and expected future capital, liquidity and MREL requirements, including having regard to both leverage and RWA-based requirements, and seeks to manage and plan the prudential position accordingly and on the basis of current assumptions regarding future capital and liquidity requirements, there can be no assurance that the assumptions will be accurate in all respects or that it will not be required to take additional measures to strengthen its capital or liquidity position.

Effective management of the Society's capital is critical to its ability and regulatory authorisations to operate and grow its business and to pursue its strategy. Any change that limits the Society's ability to manage its balance sheet and capital resources effectively (including, for example, reductions in profits and retained earnings as a result of credit losses, write-downs or otherwise, increases in RWAs (which may be 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.

If the Society fails, or is perceived to be likely to fail, to meet its minimum regulatory capital, leverage, liquidity or MREL requirements, this may result in administrative actions or regulatory sanctions. In addition, any actual or perceived weakness relative to the Society's competitors could result in a loss of confidence, which could result in high levels of withdrawals from its retail deposit base, upon which it relies for lending and which could have a material adverse effect on the Society's business, financial position and results of operations.

Future legislative and regulatory changes could impose operational restrictions on the Society, require the Society to raise further capital, increase the Society's expenses and/or otherwise adversely affect its business, results, financial condition or prospects

The Society is regulated by the PRA and the FCA. The regulatory regime requires the Society to be compliant across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Society fails to be compliant with any relevant regulations, there is a risk of an adverse impact on its business due to sanctions, fines or other action imposed by the regulatory authorities. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking, personal finance and real estate sectors.

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

Certain legislative and regulatory changes (including those referred to in "*Regulatory reforms may result in a reduction of the Society's capital surplus*" above) have been made or proposed which could materially adversely affect the Society's business, results, financial condition or prospects. HM Treasury set out the UK Government's approach to repealing and replacing retained EU law ("**REUL**") on financial services in December 2022 in the so-called "**Edinburgh Reforms**". HM Treasury identified 43 core areas of REUL in scope of this programme and will deliver the programme by splitting REUL into 'tranches'.

As part of the Edinburgh Reforms, the UK Government is also seeking to foster competition through reforms to the Act, which is set out in its December 2022 response to the Call for Evidence (the "**Building Societies Reforms**"). The Building Societies Reforms include proposed changes to how the calculation of the funding limit under the Act is performed, by excluding the following sources of funding: (i) funding from specific Bank of England Liquidity Insurance Facilities under the Sterling Monetary Framework; (ii) funding from senior non-preferred debt instruments raised to meet MREL; (iii) funding from repurchase agreements of high-quality liquid assets where funding essentially counts twice for the purpose of the funding limit; and (iv) deposits from small to medium-sized enterprises with a turnover of up to £6.5 million (up to 10 per cent. of a building society's overall funding).

Following a consultation on the optimal structure for UK financial services post-Brexit, the Financial Services and Markets Act 2023 ("**FSMA 2023**") received Royal Assent on 29 June 2023. FSMA 2023 establishes a framework to revoke EU law relating to financial services, and will enable HM Treasury, the FCA and PRA to replace it with legislation and a regulatory rule set to deliver a comprehensive model of regulation. FSMA 2023 intends to move away from the onshored EU legislation towards the historic approach taken under the FSMA, whereby primary responsibility for regulation is delegated to the UK regulatory authorities, subject to the oversight of Parliament. FSMA 2023 provides the FCA new powers to protect access to cash, and consequently, once the Government designates which firms the FCA's regulation of cash access will apply to, the FCA will seek to develop new rules to ensure that as cash access services evolve they continue to be provided on a reasonable basis.

On 10 July 2023, the Chancellor of the Exchequer's Mansion House Speech included a package of reforms (the "**Mansion House Reforms**"), which build on the Edinburgh Reforms and FSMA 2023, aim to deliver a smarter regulatory framework, and elaborate on how the UK Government intends to deliver the first two tranches. The Mansion House Reforms confirmed that before the end of 2023: (i) statutory instruments would be laid to reform the Prospectus Regulation, and Securitisation Regulation amongst others; (ii) draft statutory instruments would be published proposing reform to the PRIIPs Regulation, the Short Selling Regulation and the Money Market Funds Regulations; (iii) a consultation would be published on the Taxonomy Regulation; (iv) a first round of "targeted reforms" would be made to payments and money rules; and (v) work would continue on Basel 3.1 implementation and the "strong and simple" framework for small banks and building societies. The Retained EU Law (Revocation and Reform) Act 2023, which also received royal assent on 29 June 2023, established a framework for the repeal of non-financial services retained EU law and provides for the abolition of the supremacy of retained EU law and general principles of EU law interpretation. This will end the special status that retained EU law (including relating to financial services) has on the UK statute book.

A new Consumer Duty was brought into effect by the FCA on 31 July 2023. The Consumer Duty sets higher and clearer standards of consumer protection across financial services and require firms to put their customers' needs first. The Consumer Duty is constituted of four high-level outcomes:

- a new Principle for Businesses and a new individual conduct rule, applicable to the Society, to "deliver good outcomes for retail customers"; and
- three cross-cutting rules to (i) act in good faith, (ii) avoid foreseeable harm to retail customers, and (iii) support those customers to pursue their financial objectives.

These four outcomes focus on products and services, price and value, consumer support and consumer understanding. Firms were required to implement the Consumer Duty for all new and existing products and services that are currently on sale by 31 July 2023, with the rules to be extended to closed book products (i.e. those which are no longer on sale) by 31 July 2024.

The Consumer Duty also includes requirements for firms to end unfair charges and fees, make it as easy to switch or cancel products as it was to take them out in the first place, provide helpful and accessible customer support, act quickly to respond to customer queries, provide timely, clear and easily understandable information to customers regarding products and services, provide products and services that are appropriate for their customers, and focus on the real and diverse needs of their customers, including those in vulnerable circumstances, at every stage and in each interaction. Firms will also need to monitor, evidence and report against many of the requirements. There may be added costs associated with making necessary changes in order to ensure that the Society is compliant with these new rules.

On 3 February 2023, the FCA published a "Dear CEO" letter entitled "*Implementing the Consumer Duty in the Retail Banks and Building Societies sector*" in which the FCA emphasised the need for retail banks and building societies to provide fair value to retail customers, how the Consumer Duty applies to building societies, and the FCA's expectations for how building societies should embed the Consumer Duty. The letter also underlined the importance of this regulatory initiative. On 3 February 2023, the FCA also published a Dear CEO letter entitled "*Implementing the Consumer Duty in Mainstream Consumer Credit Lenders (MCCL)*" in which the FCA emphasised the need for providers of mainstream consumer credit to implement the Consumer Duty effectively within the required timeframe.

If the Society fails to comply with these new rules, there is a risk of an adverse impact on the Society's business due to penalties imposed by the FCA, costs and payments associated with any investigations and/or required remediation and potential reputational damage. Future changes in regulation, fiscal or other policies are unpredictable and beyond the Society's control and could materially adversely affect the Society's business or operations.

Future changes to the Society's accounting policies or in accounting standards could materially affect its capital ratios, how it reports its financial condition and results of operations

From time to time, the International Accounting Standards Board ("**IASB**") makes changes to the standards that govern the preparation of the Society's financial statements. These changes can be difficult to predict and could materially impact how the Society records and reports its financial condition and results of operations. In some cases, the Society could be required to apply a new or revised standard retroactively, resulting in restating financial statements for a prior period.

The IASB has recently introduced IFRS 9: "Financial Instruments" as a new standard to replace IAS 39: "Financial Instruments: Recognition and Measurement". IFRS 9 will change the classification and measurement of some financial assets, the recognition and the financial impact of impairment and hedge accounting.

The Society has adopted IFRS 16: "Leases" from 1 January 2019. This has resulted in the recognition of operating lease liabilities which were previously 'off-balance sheet' and a 'right-of-use' asset for the leased asset.

The IASB may make other changes to financial accounting and reporting standards that govern the preparation of the Society's financial statements, which the Society may adopt prior to the date on which such changes become mandatory if determined to be appropriate by the Society, or which the Society may be required to adopt. Any such change in the Society's accounting policies or accounting standards could materially affect its reported financial condition and results of operations.

The implementation of the UK General Data Protection Legislation could lead to increased operational risk and compliance costs

The EU General Data Protection Regulation (EU) 2016/679 as it forms part of domestic law by virtue of the EUWA ("**UK GDPR**") and the Data Protection Act 2018, introduced new obligations on data controllers and rights for data subjects. The UK GDPR also introduced new fines and penalties for a breach of requirements, including fines for serious breaches of up to the higher of 4 per cent. of annual worldwide turnover or £17.5 million and fines of up to the higher of 2 per cent. of annual worldwide turnover or £8.7 million for other specified infringements. The UK GDPR identifies a list of points to consider when imposing fines (including the nature, gravity and duration of the infringement).

Further, there is a risk that the measures may not have been implemented correctly or that individuals within the Society will not be fully compliant with the procedures. If there are breaches of these measures, the Society could face significant administrative and monetary sanctions as well as reputational damage which may have a material adverse effect on the Society's operations, financial condition and prospects.

Risks relating to the Special Resolution Regime under the Banking Act

The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK banks and UK building societies which are considered to be at risk of failing. The exercise of any of these actions in relation to the Society or the Perpetual Capital Securities could materially adversely affect the value of the Perpetual Capital Securities and/or the rights of Securityholders

Under the Banking Act, substantial powers are granted to HM Treasury, the Bank of England acting through the PRA, FCA and the Bank of England (together, the "**Authorities**") as part of a special resolution regime (the "**SRR**"). These powers enable the Authorities to deal with, amongst other entities, a UK bank or building society (each a "**relevant entity**") in circumstances in which the Authorities consider that the resolution conditions are satisfied, through a series of stabilisation options.

The stabilisation options which may be commenced by the Authorities are: (i) private sector transfer of all or part of the business of the relevant entity; (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" established by the Bank of England; (iii) transfer to an asset management vehicle; (iv) temporary public ownership (nationalisation) of the relevant entity as well as powers to convert a building society into a company in connection with a bail-in; and (v) a bail-in tool which permits the Bank of England to (a) cancel, modify or convert the form of a liability owed by a relevant entity or provide that a contract under which, amongst others, a relevant entity has a liability is to have effect as if a specified right had been exercised under it or (b) transfer securities issued by a relevant entity to a bail-in administrator.

In respect of UK building societies, the relevant tools include (i) modified property transfer powers which also refer to cancellation of shares and conferring rights and liabilities in place of such shares, (ii) modified share transfer powers, as well as a public ownership tool which may involve (amongst other things) arranging for deferred shares in a building society to be publicly owned, cancellation of private membership rights and the eventual winding up or dissolution of the building society and (iii) modified bail-in powers such that exercise of the tool may be immediately preceded by the demutualisation of the building society through the conversion of it into a company or the transfer of all of the property, rights or liabilities of the society to a company. It is possible that the extended tools described above could be used prior to the point at which an application for insolvency proceedings with respect to a relevant institution could be made and, in certain circumstances, the UK authorities may exercise broad pre-resolution powers in respect of relevant institutions with a view to removing impediments to the exercise of the stabilisation tools.

In addition, the Banking Act contains a separate power, often referred to as the "**capital write-down tool**", enabling the Authorities to cancel or transfer CET1 capital instruments away from the original owners, or write down (including to nil) an institution's Additional Tier 1 and Tier 2 capital instruments, or to convert them into CET1 capital instruments (which, in the case of the Society, could be core capital deferred shares), if the Authorities consider that the institution or the Society is at the "point of non-viability" and certain other conditions are met. The capital write-down tool must be applied before any of the stabilisation options provided for in the SRR may be used and may be used whether or not the institution subsequently enters into resolution. The Perpetual Capital Securities, being Additional Tier 1 capital instruments, could be subject to the capital write-down tool.

The purpose of the stabilisation options and the capital write-down tool is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the stabilisation options may be exercised if (i) the relevant Authority is satisfied that a relevant entity (such as the Society) is failing or is likely to fail, (ii) having regard to timing and other relevant circumstances, the relevant Authority determines that it is not reasonably likely that (ignoring the stabilisation options) action will be taken that will enable the relevant entity to satisfy those conditions, (iii) the relevant Authority considers the exercise of the stabilisation options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial system, public confidence in the UK banking system and the protection of depositors) and (iv) the relevant Authority considers that the specific resolution objectives would not be met to the same extent by the winding up of the relevant entity. It is therefore possible that one or more of the stabilisation options could be applied prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated.

In general, the Banking Act requires the UK authorities to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK. The Banking Act includes provisions related to compensation in respect of instruments and orders made under it. In general, there is considerable uncertainty about the scope of the powers afforded to the UK authorities under the Banking Act and how the UK authorities may choose to exercise them.

If an instrument or order were to be made under the provisions of the Banking Act currently in force in respect of the Society, such action may (amongst other things) affect the ability of the Society to satisfy its obligations under the Perpetual Capital Securities (including limiting its capacity to meet its repayment obligations) and/or result in other modifications to the Terms and Conditions of the Perpetual Capital Securities. In particular, modifications may be made, including (i) that certain trust arrangements could be removed or modified, (ii) that contractual arrangements between relevant entities and other parties could be removed, modified or created where considered necessary to enable a transferee in the context of a property or share transfer to operate the transferred business effectively and (iii) in connection with the modification of an unsecured liability through use of the bail-in tool (including any liability in respect of the Perpetual Capital Securities at the relevant time), the reduction of the relevant liability (including to zero) and/or the discharge of a relevant institution from further performance of its obligations under a contract. In addition, subject to certain conditions, powers would apply to require a relevant instrument or order (and related events) to be disregarded in determining whether certain widely defined "default events" have occurred.

If powers under the SRR were to be exercised in respect of the Society, HM Treasury or the Bank of England may exercise extensive share transfer powers (applying to a wide range of securities) and (subject to certain protections) property transfer powers (including powers for partial transfers of property, rights and liabilities) in respect of the Society and/or its securities, including the Perpetual Capital Securities. Exercise of these powers could involve taking various actions in relation to any securities issued by the Society, including the Perpetual Capital Securities, without the consent of the holders, including (among other things):

- transferring the securities out of the hands of the holders;
- delisting the securities;
- writing down (which may be to nil) the securities or converting the securities into another form or class of securities; and/or
- modifying or disapplying certain terms of the securities, which could include modifications to (without limitation) the maturity date (which may be to extend the maturity date), the interest provisions (including reducing the amount of interest payable, the manner in which interest is calculated and/or the scheduled interest payment dates, including by suspending payment for a temporary period), and/or the redemption provisions (including the timing of any redemption options and/or the amount payable upon redemption) of the securities, and may result in the disapplication of acceleration rights or events of default under the terms of the securities or the effect thereof.

The relevant Authorities may exercise the bail-in tool under the Banking Act to recapitalise a relevant entity in resolution by allocating losses to (amongst others) its capital providers and unsecured creditors (which would include Securityholders) in a manner that (i) ought to respect the hierarchy of claims in an ordinary insolvency and (ii) is consistent with shareholders and creditors not receiving a less favourable treatment than they would have received in ordinary insolvency proceedings of the relevant entity (known as the "no creditor worse off" safeguard). Accordingly, the ranking of the Perpetual Capital Securities in insolvency can be expected to have a direct impact on the relative losses imposed on Securityholders in a resolution. See also "*The Perpetual Capital Securities rank junior to most of the Society's liabilities*" below.

As noted above, the Banking Act contains a capital write-down tool which enables (and, if the institution enters into resolution, requires) the relevant Authorities permanently to write-down, or convert into common equity tier 1 instruments (which, in the case of the Society, could be core capital deferred shares), any Tier 1 capital instruments (including the

Perpetual Capital Securities) and Tier 2 capital instruments at the point of non-viability of the relevant entity and before or together with the exercise of any stabilisation power. For the purposes of the application of such mandatory write-down and conversion power, the point of non-viability is the point at which (i) the relevant Authority determines that the relevant entity meets the conditions for resolution (but no resolution action has yet been taken), (ii) that the relevant Authority determines that the relevant entity or its group will no longer be viable unless the relevant capital instruments are written-down or converted or (iii) extraordinary public financial support is required by the relevant entity other than, where the entity is an institution, for the purposes of remedying a serious disturbance in the UK economy and to preserve financial stability.

The Perpetual Capital Securities may therefore be subject to write-down or conversion into equity on application of such powers (without requiring the consent of the holders thereof), which may result in the holders losing some or all of their investment. The "no creditor worse off" safeguard may not apply in relation to an application of such powers in circumstances where resolution powers are not also exercised. The exercise of such mandatory write-down and conversion power under the Banking Act could, therefore, materially adversely affect the rights of Securityholders, and such exercise (or the perception that such exercise may occur) could materially adversely affect the price or value of their investment in the Perpetual Capital Securities and/or the ability of the Society to satisfy its obligations under the Perpetual Capital Securities, and/or may adversely affect liquidity and/or volatility in any market for the Perpetual Capital Securities.

As at the date of this Offering Circular, the UK authorities have not made an instrument or order under the Banking Act in respect of the Society and there has been no indication that any such instrument or order will be made, but there can be no assurance that this will not change and/or that the Securityholders will not be adversely affected by any such instrument or order if made. While there is provision for compensation to be ordered in certain circumstances under the Banking Act, there can be no assurance that the Securityholders would recover compensation promptly and equal to any loss actually incurred. It should also be noted that any extraordinary public financial support provided to a relevant institution through any stabilisation action (such as temporary public ownership) would likely only be used by the UK authorities as a last resort after having assessed and exploited, to the maximum extent practicable, the resolution tools and powers described above.

Factors which are material for the purpose of assessing the risks relating to the Acquisition

This section should be read together with the Acquisition Announcement (as defined below), as incorporated by reference in this Offering Circular. Terms defined in the Acquisition Announcement shall, where the context admits, have the same meaning in this section.

There can be no assurance that the proposed Acquisition will complete or, if it completes, that it will deliver the benefits anticipated by the Society

On 24 May 2024, the Society announced its proposed offer to acquire the whole of the issued share capital of The Co-operative Bank Holdings p.l.c. ("**Co-op Bank**") by the Society (the "**Acquisition**"). The Society presently expects the Acquisition will, subject to satisfaction or (where applicable) waiver of certain conditions, become effective in 2025. For further information on the proposed Acquisition, see the Acquisition Announcement, as incorporated by reference herein.

There can be no assurance that the Acquisition will complete. The Acquisition is subject to a number of conditions, including (without limitation) approvals being obtained from the Prudential Regulation Authority and the FCA. A number of the conditions to completion of the Acquisition are outside the control of the Society. There can be no assurance that these conditions will be satisfied or (where capable of waiver) waived on a timely basis, or at all. Accordingly the Acquisition remains subject to a number of uncertainties and there can be no assurance that it will be completed within the timeframe and/or on the terms currently contemplated, or at all, and the Society may face increases in its costs to seek to secure completion of the Acquisition.

Whether or not the Acquisition completes, the Society has incurred, and will continue to incur, irrecoverable costs (such as advisor fees) associated with the proposed Acquisition. In certain circumstances the Society would also incur irrecoverable break fees associated with the Acquisition. Furthermore, the Acquisition requires the Society's senior management team to devote considerable time and resources to planning for the Acquisition and subsequent integration, which may divert attention from normal business operations and evaluating other potential opportunities available to the Society.

If the Acquisition completes, there can be no assurance that the combined group consisting of the Group and Co-op Bank and its subsidiary undertakings (the "**Co-op Bank Group**") (the "**Combined Group**") will identify or achieve all or any of the anticipated strategic benefits or cost synergies in the manner or within the timeframe currently estimated, or at all. In addition, the costs of the Acquisition and subsequent integration may materially exceed the Society's expectations. The anticipated benefits are based on a number of assumptions that, notwithstanding the Society's direct focus on managing the Acquisition to avoid any such risks coming to pass, are inherently uncertain and subject to risks that could cause the actual results to differ materially from those envisaged by the Society. These include, but are not limited to, the following factors:

- the completion of the Acquisition may be delayed, or the Acquisition may not be completed at all;
- regulatory or competition authorities may impose conditions or constraints on the Acquisition, or on the operations of the Combined Group, which could affect its operational and capital synergies;
- unforeseen challenges in the integration of its IT and other systems, processes and operations could prevent or delay full integration, give rise to complications or errors, and/or increase the costs of integration;
- integration of the Combined Group's IT systems could increase the risk of cyber threat, data loss, service outage or other major IT incidents;
- integration and alignment of governance and reporting structures, organisation cultures, employee benefits or engagement terms may give rise to personnel risks and costs, including key personnel retention risks and pension costs;
- the risk of negative pressure on the Society's, Co-op Bank's and/or the Combined Group's financial performance and operations due to integration costs associated with the Acquisition, potential customer attrition and associated loss of revenue, loss of deposits and/or higher cost of funding compared to the respective current positions;
- the risk of downgrades issued by relevant rating agencies;
- management time required to be devoted to the integration may distract from the efficiency, accuracy, continuity and consistency of the Combined Group's control, administrative and support functions, such as financing operations, cash management, hedging, insurance, financial control and reporting, information technology, communications and compliance functions; and
- the combination will require significant amounts of management time and effort which may impair the ability of management of both the Society and Co-op Bank to effectively run their respective businesses during the proposed Acquisition and subsequent integration processes.

If any of these risks materialises, the Combined Group may fail to achieve the anticipated strategic benefits or cost synergies, and any of the above factors could have a material adverse effect on the business, financial condition, results of operation or prospects of the Society and (if the Acquisition is completed) the Combined Group.

The cash consideration for the Acquisition may not accurately reflect the risks associated with the Acquisition

The Society will pay total cash consideration of £780 million (subject to customary post-completion price adjustments and the terms of the relevant share purchase agreement (the "**SPA**")) to acquire the entire issued share capital of Co-op Bank. Of the total cash consideration, up to £125 million will be deferred for a period of three years from completion subject to the future performance of Co-op Bank and the terms of the SPA.

Such total cash consideration, and in particular the deferred amount and post-completion adjustment mechanisms, may not accurately reflect the risks associated with the Acquisition and, accordingly, may over value the assets acquired pursuant to the Acquisition. This could have a material adverse effect on the business, financial condition, results of operation or prospects of the Society and (if the Acquisition is completed) the Combined Group.

Limited inclusion of illustrative or Co-op Bank historical financial information in this Offering Circular

The Acquisition, if completed, would result in a significant increase in the size of the Society's consolidated balance sheet, including in particular the Society's loan book and deposit portfolio. The Society does not have, and to date has not had, any control (financially, legally or operationally) over Co-op Bank, and the Society has not had any oversight over the preparation of the audited financial statements of Co-op Bank. Accordingly, this Offering Circular does not contain or

incorporate by reference the audited financial statements of Co-op Bank or any other historical financial statements of Co-op Bank.

Furthermore, this Offering Circular does not, except as described in the paragraph below, contain or incorporate by reference any historical financial information illustrating the combined financial position and results of operation of the Group and the Co-op Bank Group, given that: (i) at the date of this Offering Circular, the Society does not control Co-op Bank, and therefore does not have direct access to, and under applicable competition law and regulation, faces some restrictions in its access to, the books and records of Co-op Bank; and (ii) while both the Society and Co-op Bank apply IFRS as adopted by the UK, their respective accounting policies and classification of primary financial statement items may differ and, in some cases, it may not be possible properly and accurately to assess such difference and/or to make adjustments appropriately to align the various financial statement items. Accordingly, the Society generally considers that any illustrative historical financial information for the Combined Group, if prepared at this time, would be inherently subject to the risk that it would be inaccurate.

The Society has prepared limited unaudited illustrative historical financial information for the purpose of showing certain financial information for the Combined Group, assuming for that purpose that the Acquisition had been completed at that time. Such illustrative historical financial information, which appears in the Acquisition Announcement, has been prepared for illustrative purposes only, is not audited or reviewed and is based in part on historical financial information previously published by Co-op Bank. See also "*The structure, capital, leverage, liquidity, MREL and resolution profile of the Combined Group remains uncertain*".

Prospective investors in the Perpetual Capital Securities should consider that, at the date of this Offering Circular, there is necessarily uncertainty as to the actual effect that the Acquisition will have on the Society's consolidated financial position and results of operations and there is a risk that the financial condition and results of operations of the Combined Group following the Acquisition, if it completes, will be materially different from that which may be implied by a simple arithmetic combination of the separate historical audited financial statements of the Society and Co-op Bank, respectively.

Impairment of goodwill or other intangible assets

Upon completion of the Acquisition, a significant portion of the difference between the purchase price paid by the Society and Co-op Bank's net assets at the date of completion will, when preparing the purchase price allocation in accordance with IFRS 3 "*Business Combinations*", be recorded as intangible assets including negative goodwill. Co-op Bank's net assets at closing will be impacted by fair value adjustments which will determine the quantum of negative goodwill recognised. If the business of the Combined Group following the Acquisition does not develop as expected, impairment charges in respect of the negative goodwill recognised may be incurred in the future, which could be significant and which could have an adverse impact on the Combined Group's business and financial condition.

Co-op Bank may have liabilities that are not known to the Society or are greater than anticipated

While the Society has been granted access to Co-op Bank's senior management for the purposes of due diligence, it has not had access to the full books and records of Co-op Bank. In conducting its due diligence, the Society has relied, and will continue to rely, on resources available to it, including information provided or published by Co-op Bank and, in some circumstances, third-party investigations. The objective of the due diligence process is to identify whether the Acquisition may be an attractive investment opportunity, to identify possible risks associated with the Acquisition and to identify opportunities for achieving operational objectives, cost synergies and value creation and, to the extent possible, areas where there may be risks which will require action by the Society if the Acquisition completes. Since the Society's access to information about Co-op Bank prior to the proposed Acquisition has been limited, the Society may not be adequately protected against possible known or unknown deficiencies and liabilities in the Co-op Bank Group, its financial position, its compliance with its prudential and other obligations or in its business generally, whether or not included in or referred to in Co-op Bank's historical audited financial statements.

The Society cannot be certain that the Society's due diligence investigation has revealed or will reveal all relevant facts and circumstances that may be necessary or helpful in evaluating the merits and risks of the Acquisition, the existence of which could have a material adverse effect on the financial condition, business, results of operations or prospects of the Society. Such facts and circumstances may include (without limitation): any material actual, contingent or prospective liabilities, including legal, regulatory, pensions and tax liabilities; the level and status of Co-op Bank's non-performing assets; regulatory, prudential, conduct or compliance issues (including any present or historic mis-selling practices, failure to maintain appropriate levels of regulatory capital, failure to have in place appropriate procedures and processes, and

reporting failures); any issues relating to violations of sanctions, anti-money laundering laws, anti-bribery and corruption laws, or other fraudulent or illegal activities; or any IT system failures or weaknesses, including data breaches.

Any such events or circumstances which come to light in the future could, individually or in aggregate, result in significant additional costs and liabilities that are not described in this Offering Circular, or affect the feasibility of achieving the Society's anticipated strategic benefits and cost synergies of the Acquisition. If the due diligence conducted by the Society fails to identify material information regarding Co-op Bank, the Society may, amongst other things: be forced to write down or write off certain assets or incur other impairment or other charges; be required to modify the business plan and/or require it to assume increased Acquisition and integration costs; and incur material legal, regulatory, pensions or tax liabilities, including penalties. If the Acquisition completes, the Society may become liable for any legacy or latent liabilities of the Co-op Bank Group, including that it may become the subject of legal proceedings or regulatory investigation, censure or sanction (including possible fines) relating to the legacy Co-op Bank business, notwithstanding that the Society did not exercise any control over such legacy business and operations and was not responsible for the matters giving rise to the subsequent issues. There can be no assurance that the due diligence conducted by the Society will identify any historic conduct or compliance issues within the Co-op Bank Group's business or, if identified, that the Society's assessment of any associated risks for the Society will prove to be accurate.

Any such event or circumstance could have a material adverse effect on the financial condition, business, results of operations or prospects of the Society, and could also result in reputational harm. While the Society expects to secure certain representations, warranties, undertakings and indemnities from certain members of the Co-op Bank Group's senior management and certain selling shareholders in connection with the Acquisition, there can be no assurance that these will compensate the Society in full, or at all, for any losses, or any loss of opportunity, suffered by the Society in connection with the Acquisition or the Society's inability to achieve its planned business and cost synergies as a result of the Acquisition. Any dispute regarding the scope or quantum of any such representations, warranties, undertakings and indemnities may also result in the Society incurring additional costs in associated legal proceedings, which may or may not be recoverable.

The structure, capital, leverage, liquidity, MREL and resolution profile of the Combined Group remains uncertain

While the Society has been granted access to Co-op Bank's senior management for the purposes of confirmatory due diligence, it has not yet had access to sufficiently detailed information to finalise its plans regarding the integration of the Combined Group and, once such plans are made, there can be no assurance that integration of the Combined Group will proceed as planned.

If the Acquisition proceeds, it may affect the capital, leverage, liquidity, MREL and resolution profile of the Society, including as set out in the Acquisition Announcement. Any such effects may increase the likelihood of the occurrence of a Conversion Trigger, a non-payment of interest on the Perpetual Capital Securities or a non-payment of distributions on any CCDS, as further described in "*Factors which are material for the purpose of assessing the market risks associated with the Perpetual Capital Securities*". The information regarding the illustrative capital, liquidity and leverage position of the Combined Group represents unaudited estimates prepared by the Society using relevant information relating to the Society and Co-op Bank on the basis set out in the Acquisition Announcement. These estimates have been prepared by the Society for illustrative purposes only and, by their nature, they do not necessarily represent the actual positions which will exist following completion of the Acquisition. Such estimates are necessarily based on a number of assumptions and dependencies, and the actual capital, liquidity and leverage ratios of the Combined Group, if the Acquisition completes, may be materially different from the Society's estimates. Prospective investors in the Perpetual Capital Securities should treat any such estimates with caution and should have regard to the cautionary notes regarding forward-looking statements contained and incorporated by reference in this Offering Circular.

The Society currently expects that leverage will become the binding capital measure applicable to the Society in due course (though it is not the binding capital measure as at the date of this Offering Circular). If the Acquisition completes, the Combined Group will have retail deposits in excess of £50 billion and leverage will therefore be the binding capital measure. If leverage is the binding capital measure, this will significantly increase the Society's MREL requirements to twice the binding leverage exposure measure, and the Society will need to issue more MREL eligible debt. Based on the Society's balance sheet as at 31 December 2023, the Society would have needed around £0.2 billion in additional MREL funding were leverage to have been the binding capital requirement as at that date. In addition, it is currently uncertain whether or not, and for how long, certain indebtedness of the Co-op Bank Group may count towards the MREL requirements of the Combined Group.

Furthermore, the Combined Group will be subject to consolidated prudential supervision by the Prudential Regulation Authority, and the capital structure and resolution strategy for the Combined Group remains to be determined. The Acquisition may increase the actual or perceived systemic importance of the Society within the UK financial system. If the Prudential Regulation Authority or the Bank of England were to impose additional capital, leverage, liquidity, MREL or resolution requirements or buffers on the Combined Group, or to require the Combined Group to raise additional MREL to replace certain existing indebtedness of the Co-op Bank Group, or any other requirements or constraints on the structure or operations of the Combined Group, this could affect the Society's planned integration of Co-op Bank, increase the cost of capital of the Combined Group, require the Combined Group to raise additional capital or MREL and/or result in the Society incurring additional costs relating to the Acquisition and/or the integration of the Combined Group.

In respect of the impact of any such imposition of requirements or constraints on the Perpetual Capital Securities (and, upon Conversion, any CCDS), see further "*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*", "*Interest payments may be cancelled on a discretionary or mandatory basis*", "*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 Capital Regulations provide for 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 interest payments may be required to be reduced or cancelled*", "*Securityholders will bear the risk of changes in the market price of the Perpetual Capital Securities due to changes in either CET1 Ratio*", "*The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect either CET1 Ratio*", "*The two CET1 Ratios may be affected by different factors*", "*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*", "*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 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*" and "*The trading price of the CCDS may fluctuate which could lead to CCDS holders losing some or all of their investment*". Any such outcomes could have a material adverse effect on the financial condition, business, results of operation or prospects of the Combined Group.

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:

Any actual or anticipated exercise of resolution powers in connection with the Society, the Perpetual Capital Securities and/or any CCDS issued upon conversion of the Perpetual Capital Securities could materially adversely affect the rights of holders of the Perpetual Capital Securities and/or any such CCDS and/or the market price of the Perpetual Capital Securities and/or any such CCDS

As described under "*The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK banks and UK building societies which are considered to be at risk of failing. The exercise of any of these actions in relation to the Society or the Perpetual Capital Securities could materially adversely affect the value of the Perpetual Capital Securities and/or the rights of Securityholders*" above, the UK resolution Authorities have substantial powers under the Banking Act to resolve a failing financial institution.

The exercise of any SRR powers in respect of the Society could impact the Society's financial condition and prospects and its ability to satisfy its obligations in respect of the Perpetual Capital Securities and/or any CCDS issued upon conversion of the Perpetual Capital Securities. For example, such exercise could result in the Society being required, or electing, to reduce or cancel interest payments in respect of the Perpetual Capital Securities and/or Distributions on CCDS for a significant period of time, and may impact the Society's ability or willingness to exercise any right to repay the Perpetual Capital Securities available to it.

In addition, a number of the resolution powers, including under the bail-in tool and/or the capital write-down tool, could be used directly in respect of the Perpetual Capital Securities and/or any CCDS issued upon conversion of the Perpetual Capital Securities, which could materially adversely affect the rights of holders in respect of Perpetual Capital Securities (including, potentially, removing all such rights entirely) and/or affect the liquidity, market price and volatility of any trading in such securities.

Exercise of these powers could involve taking various actions in relation to the Perpetual Capital Securities and/or any CCDS issued upon conversion of the Perpetual Capital Securities, including (among other things):

- transferring the Perpetual Capital Securities and/or any such CCDS out of the hands of the holders;
- de-listing the Perpetual Capital Securities and/or the CCDS;
- writing down (which may be to nil) the Perpetual Capital Securities and/or the CCDS or converting the Perpetual Capital Securities into CCDS or converting the Perpetual Capital Securities and/or any CCDS into another form or class of securities; and/or
- modifying or disapplying certain terms of the Perpetual Capital Securities and/or the CCDS, which could include modifications to (without limitation) the interest provisions (including reducing the amount of interest potentially payable, the manner in which interest is calculated and/or the scheduled interest payment dates, including by suspending payment for a temporary period), and/or any repayment or redemption provisions (including the timing of any repayment or redemption options and/or the amount payable upon repayment or redemption).

The relevant Authorities may exercise the bail-in tool under the Banking Act to recapitalise a relevant entity in resolution by allocating losses to (amongst others) its capital providers and unsecured creditors (which would include holders of the Perpetual Capital Securities and/or any CCDS) in a manner that (i) ought to respect the hierarchy of claims in an ordinary insolvency and (ii) is consistent with shareholders and creditors not receiving a less favourable treatment than they would have received in ordinary insolvency proceedings of the relevant entity (known as the "no creditor worse off" safeguard, although this may not apply in relation to an application of the capital write-down tool in circumstances where a stabilisation power is not also used (i.e. where the capital write-down tool is applied at the point of non-viability of the Society rather than in a resolution); holders of debt instruments which are subject to the power may, however, have ordinary shares transferred to or issued to them by way of compensation). Accordingly, the deeply subordinated ranking of the Perpetual Capital Securities, and the even more deeply subordinated ranking of CCDS, in insolvency, can be expected to have a direct impact on the relative losses imposed on holders in respect of their Perpetual Capital Securities or, as the case may be, CCDS in a resolution. Such holders would be expected to suffer losses before all or most other investors in the Society, and may lose their entire investment before all or most other investors in the Society suffer any losses.

The Society will have no control over how the UK resolution authorities elect to use the powers afforded to them under the Banking Act in respect of the Society, the Perpetual Capital Securities, the CCDS or any other securities or obligations of the Society, and the Special Resolution Regime under the Banking Act could be revised or replaced from time to time. Accordingly, there can be no assurance, in the event of any such action being taken by the UK resolution authorities, that losses will be borne by investors in line with the hierarchy of claims in an ordinary insolvency of the Society, nor that the holders of Perpetual Capital Securities or CCDS will not receive less favourable treatment than they would have received in ordinary insolvency proceedings.

Accordingly, any use of any stabilisation powers may have an adverse effect on the Society's ability to perform its obligations in respect of the Perpetual Capital Securities and/or any CCDS issued upon conversion of the Perpetual Capital Securities, and any actual or anticipated use of any stabilisation powers and/or the capital write-down tool in respect of the Society, the Perpetual Capital Securities and/or the CCDS (if issued) may severely adversely impact the market price of the Perpetual Capital Securities and/or CCDS and/or may materially adversely affect the rights of the holders in respect of the Perpetual Capital Securities and/or CCDS. Furthermore, the threat of resolution powers being used may affect trading behaviour, including prices and volatility, and, as a result, the Perpetual Capital Securities and any CCDS, if issued, are not necessarily expected to follow the trading behaviour associated with other types of securities.

Pursuant to Condition 19 of the Perpetual Capital Securities, investors in the Perpetual Capital Securities will expressly acknowledge and accept that the Amounts Due arising under the Perpetual Capital Securities may be subject to the exercise of the Bail-in Power by the Resolution Authority, and will acknowledge, accept, consent and agree to be bound by the effects and consequences thereof.

Whilst Securityholders adversely affected by the exercise of powers under the SRR may, in certain circumstances, be eligible for compensation determined in accordance with provisions established by or under the Banking Act, there can be no assurance that holders of the Perpetual Capital Securities or any CCDS would be entitled to receive any compensation, or that any such compensation received would be equal to any loss actually incurred.

Although the exercise of the capital write-down or conversion powers and bail-in resolution powers under the Banking Act is subject to certain pre-conditions, there remains uncertainty regarding the specific factors (including, but not limited to, factors outside the control of the Society or not directly related to the Society) which the UK resolution authorities would consider in deciding whether to exercise such power with respect to the Society and securities (including the Perpetual Capital Securities) issued by it. The no creditor worse off principle may not apply in relation to the exercise of capital write-down or conversion powers by the UK resolution authorities in circumstances where resolution powers are not also exercised, and there is therefore no guarantee that the UK resolution authorities would exercise their capital write-down or conversion powers in accordance with the creditor hierarchy, although the Banking Act does require the Bank of England to exercise those powers in a way that results in CET1 capital bearing first losses ahead of Additional Tier 1 Capital, tier 2 capital, other subordinated instruments and senior liabilities. Because of this inherent uncertainty and given that the relevant provisions of the Banking Act remain largely untested in practice, it will be difficult to predict when, if at all, the exercise of a loss absorption power may occur which would result in a principal write-off or conversion to the Perpetual Capital Securities or any other securities. Moreover, as the UK resolution authorities may have considerable discretion in relation to how and when they may exercise such power, holders of the Perpetual Capital Securities may not be able to refer to publicly available criteria in order to anticipate a potential exercise of such power and consequently its potential effect on the Society and the Perpetual Capital Securities. It is also possible that legislators or regulators may seek to amend the scope, extent or conditions to the exercise of, such powers, either generally or on an institution-specific basis (including in a crisis scenario), which may result in the write-down or conversion of securities (including the Perpetual Capital Securities) in a broader range of circumstances. The UK resolution authorities are also not required to provide any advance notice to holders of the Perpetual Capital Securities of its decision to exercise any capital write-down and conversion powers or resolution power. Therefore, Securityholders may not be able to anticipate a potential exercise of any such powers nor the potential effect of any exercise of such powers on the Society and the Perpetual Capital Securities.

Furthermore, Securityholders may have only limited rights to challenge and/or seek a suspension of any decision of the UK resolution authorities to exercise their resolution powers (including the bail-in tool) or to have that decision reviewed by a judicial or administrative process or otherwise. Accordingly, trading behaviour, including market prices and volatility, in respect of the Perpetual Capital Securities is not necessarily expected to follow the trading behaviour associated with other types of securities that are not subject to such resolution powers. Further, the amendment of such recovery and resolution powers, and/or any implication or anticipation that they may be used, may have a significant adverse effect on the market price of the Perpetual Capital Securities, even if such powers are not used.

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 or part 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 any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society) 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 20 of "*Conditions of Issue of the Perpetual Capital Securities*")), as further described in Condition 8. 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) (subject as provided in Condition 8) 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 prevailing Conversion Price.

A Conversion shall be deemed to be 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 prevailing Conversion Price (rounded down to the nearest whole number of CCDS), 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. Any CCDS received upon Conversion may have a market value significantly below the nominal amount of the Perpetual Capital Securities held by a Securityholder. The Conversion Price at the time the CCDS are issued may not reflect the market price (if any) of the CCDS, which could be significantly lower than the Conversion Price. Furthermore, upon Conversion, Securityholders will no longer have a debt claim in relation to principal and any accrued but unpaid interest on the Perpetual Capital Securities shall be cancelled and shall not become due and payable at any time. Securityholders will not be entitled to any form of compensation in the event of the Society's potential recovery or improvement in the 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. Furthermore, a determination that a Conversion Trigger has occurred can be made on any information available to the Society, the Regulator or any agent appointed for such purpose by the Regulator, as the case may be, whether or not published or otherwise publicly disclosed. Accordingly, investors may be unable to 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, charges and duties (or, where the same are payable by the Society under applicable law and regulation, an amount equal thereto) 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 and delivery to them of any CCDS (or any interest therein) upon Conversion. If a Securityholder fails to make payment of (or, as applicable, the amounts in respect of) all such taxes, duties and charges applicable to it by the date falling 12 years after the Conversion Date, the Securityholder shall forfeit its right to receive such CCDS, and shall not be entitled to any compensation or other amounts in respect thereof. In such event, the Society (in its sole discretion) may elect to cancel such CCDS, or to arrange for the sale of such CCDS, and any proceeds thereof shall revert to and be retained by the Society for its sole account (and, for the avoidance of doubt, the Securityholder shall have no subsequent claim against the Society or any other person for delivery of such CCDS to it or for any such proceeds or any other amounts).

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 their powers in respect of the Perpetual Capital Securities under the UK recovery and resolution regime applicable to the Society. See *"The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK banks and UK building societies which are considered to be at risk of failing. The exercise of any of these actions in relation to the Society or the Perpetual Capital Securities could materially adversely affect the value of the Perpetual Capital Securities and/or the rights of Securityholders"* 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. The creditor protections which would apply if the resolution powers were exercised would not apply if a Conversion occurs pursuant to the terms of the Perpetual Capital Securities.

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 occurrence of the Conversion Trigger is inherently unpredictable and depends on a number of factors, many of which are outside of the Society's control. For example, the occurrence of one or more of the risks described under "*Factors that may affect the Society's ability to fulfil its obligations under the Perpetual Capital Securities*", or the deterioration of the financial condition of the Society in the circumstances described therein or otherwise, may substantially increase the likelihood of the occurrence of the Conversion Trigger.

Furthermore, 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 any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society) or a consolidated basis, (and whether as a result of changes in the amount or composition of Society's own funds or risk weighted assets or as a result of changes in the manner in which such metrics are required to be calculated under the prudential rules, with or without the application of transitional, phasing in or similar provisions), 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 (or, even if not in issue, the prospective market price of CCDS issued upon Conversion of the Perpetual Capital Securities), which may be expected to continue after the occurrence of the Conversion Trigger. Therefore, following a Conversion Trigger, the realisable value (if any) of the CCDS is likely to be significantly below the Conversion Price (and could be nil). 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 (and could be nil).

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 (if any) 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 commencing prior to the Conversion Date (and save as otherwise provided in an Excluded Dissolution), will, subject to applicable insolvency law, rank (a) junior to the claims of all creditors (including

all subordinated creditors) and Shareholding Members (as regards the principal of 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) for so long as they remain outstanding, the Existing PCS of the Society, (ii) for so long as they remain outstanding and unless a Ranking Event occurs, the PIBS, (iii) any other Deferred Shares (as defined in the Rules) outstanding of the Society ranking, or expressed by their terms to rank, *pari passu* with or junior to the Perpetual Capital Securities and (iv) any other Parity Obligation or Junior Obligation; (b) *pari passu* among themselves and with any claims ranking, or expressed by their terms to rank, *pari passu* therewith, including (without limitation): (A) unless they are Senior Obligations by virtue of the occurrence of a Ranking Event, all claims in respect of the PIBS (as regards the principal thereof and interest due thereon); and (B) the Existing PCS of the Society; 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 by their terms to rank, junior to the claims in respect of the Perpetual Capital Securities, all as more particularly described in Condition 4.

While, on the Issue Date, the Perpetual Capital Securities will rank *pari passu* with the outstanding PIBS of the Society, if a Ranking Event occurs, the Perpetual Capital Securities will thereafter rank junior to the PIBS. Accordingly, following the occurrence of a Ranking Event, in a winding up or dissolution of the Society (or if the Society is the subject of resolution action by the UK resolution authorities under the Banking Act 2009) the holders of Perpetual Capital Securities should expect to lose their entire investment in the Perpetual Capital Securities ahead of any losses being borne by the holders of the PIBS.

Subject to applicable law, no holder of any Perpetual Capital Security (or any interest therein) will be entitled to exercise, claim or plead any right of set-off (including, without limitation, compensation or retention), counterclaim or netting 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 such holder shall, by virtue of its holding of any Perpetual Capital Security (or any interest therein), be deemed to have waived all such rights of set-off (including, without limitation, compensation or retention), counterclaim or netting.

The claims of the holders of the Perpetual Capital Securities in a winding up or dissolution of the Society (save as otherwise provided in 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) and any damages awarded in respect thereof. However, such claims shall be amongst the most deeply subordinated obligations of the Society 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 (which is almost all other 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 would be the most junior-ranking of all claims. Claims in respect of CCDS would not be for a fixed nominal amount, but rather would be 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, the claims of the Securityholders will rank even more junior than their claims would have ranked in respect of Perpetual Capital Securities had the winding up or dissolution occurred prior to the Conversion Date, and further the Securityholders will not have a claim for a fixed amount in the winding up or dissolution and there is an even greater risk that holders will lose all or some (which may be substantially all) of their investment.

Furthermore, the proportionate (or capped) share of surplus assets (if any) which a CCDS holder 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 of the Society 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 Society'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 "*The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK banks and UK building societies which are considered to be at risk of failing. The exercise of any of these actions in relation to the Society or the Perpetual Capital Securities could materially adversely affect the value of the Perpetual Capital Securities and/or the rights of Securityholders*" above).

Given the possible variables, it is not possible to predict, as at the date of this Offering Circular, the share of surplus assets (if any) 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.

Although the Perpetual Capital Securities may potentially (subject to cancellation of interest as provided herein) pay a higher rate of interest than other securities which are not subordinated and which do not permit or require the issuer thereof to reduce or cancel interest payments, prospective investors should consider that, in the event of an insolvent winding up or dissolution of the Society, it is likely that holders of Perpetual Capital Securities or CCDS at that time would lose their entire investment.

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 may be transferrable for a limited time following the occurrence of a Conversion Trigger and prior to the Conversion Date, there is no guarantee that this will be the case, nor that an active trading market will exist for the Perpetual Capital Securities following the occurrence of a Conversion Trigger. Accordingly, the price received for any sale of beneficial interests in a Perpetual Capital Security, if capable of sale 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. In such a situation it may not be possible to transfer and settle beneficial interests in the Perpetual Capital Securities in such Clearing Systems and trading in the Perpetual Capital Securities may cease. The Society expects that 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. In that case, 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 likely be rejected by such Clearing System.

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

Moreover, no holder will be able to transfer any CCDS until such time as they are finally delivered to such holder, whether in a securities account within a Clearing System or other settlement system, or, as the case may be, delivered to such holder in definitive certificated form.

Upon Conversion, it is the Society's current expectation that the CCDS will be delivered to the Nominee for and on behalf of the Clearing Systems. There can, however, be no assurance that the CCDS will be delivered in this manner or, where relevant, that the CCDS will be accepted for clearing

Upon Conversion, CCDS may, at the election of the Society, be issued and delivered to a nominee for and on behalf of the Clearing Systems, or may be issued and delivered into another clearing or settlement system or in definitive registered form. In the case where the CCDS are issued into one or more Clearing Systems, investors will receive beneficial interests in the CCDS through their securities accounts 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. Registration of book-entry interests in the CCDS would 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 would be registered within any specific time period or that such method of issuance and delivery of CCDS will be adopted upon Conversion of the Perpetual Capital Securities.

Neither the Rules nor the terms of the Perpetual Capital Securities require the Society to issue CCDS into a Clearing System, and the Society may instead, in its discretion, elect to issue the CCDS into an alternative clearance or settlement system (such as, for example, into the CREST system operated by Euroclear UK & International Limited) or in definitive certificated form. Whilst this is not the current intention of the Society, as at the date of this Offering Circular, this may change as a result of various factors, including (but not limited to) as a result of changes in applicable law or regulation (including, without limitation, United Kingdom tax law) prior to the issue by the Society of CCDS.

Further, if the Society does elect to issue CCDS into the Clearing System, there can be no assurance that CCDS will be accepted for clearing in the Clearing Systems, in which case either the Society may issue the CCDS into an alternative clearance or settlement system or definitive certificates representing each holder's entitlement may be delivered directly to the holders or to their order – see "*Risks related to the listing and clearing of the CCDS to be issued upon Conversion*" below. The method of delivering CCDS to holders 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 or other due date for payment is at the sole discretion of the Society. The Society may elect not to pay interest, in whole or in part, on any Interest Payment Date or other due date for payment. The Society may make such election for any reason, and the making of such election and the non-payment of interest shall not constitute an event of default under the Conditions of the Perpetual Capital Securities or otherwise constitute a default by the Society for any purpose.

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 Society'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 Society would take into account the relative ranking of these instruments in its capital structure. However, the Society would be fully entitled at any time to depart from this approach at its sole discretion.

If the Society does not pay any interest payment (or any part thereof) on any Interest Payment Date, such non-payment shall evidence the Society's exercise of discretion to cancel such interest payment (or the relevant part thereof), and such interest payment (or the cancelled part thereof) shall not become due and payable at any time.

Additionally, the Regulator has the power to direct the Society to reduce or cancel payments of interest by the Society to holders of Additional Tier 1 instruments, or may otherwise outline its expectations that the Society will take steps to reduce or cancel payments (with potential regulatory action should the Society operate outside such expectations). It is also possible that such powers may be used in respect of the UK banking sector more generally with a view to encouraging institutions to preserve cash and/or increase or continue lending in the event of significant shocks to the UK economy (such as, for example, the Covid-19 pandemic). 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 on any date 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 and the prevailing Capital Regulations require the Society to reduce or cancel interest payments on the Perpetual Capital Securities as a result, (iii) payment would result in a breach of any Maximum Distributable Amount then applicable to the Society and the Capital Regulations require the Society to reduce or cancel interest payments on the Perpetual Capital Securities as a result, and/or (iv) following the occurrence of a Conversion Trigger, each as further described below. The Society will also exercise its discretion, or otherwise may be required, to cancel interest payments (in whole or in part) on the Perpetual Capital Securities in any other circumstances in which the Capital Regulations or any other applicable laws or regulations in effect from time to time (or where its regulator or an applicable resolution authority acting pursuant to such Capital Regulations or other laws or regulations) require interest payments on securities such as the Perpetual Capital Securities to be so cancelled.

Solvency Test

The Conditions provide that no payment of principal, interest or any other amount 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 dissolution 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

To the extent required under then prevailing Capital Regulations, payments of interest due on any date will be prohibited and will not be paid if and to the extent that the amount of such interest payment (together with any Additional Amounts payable thereon pursuant to Condition 10, if applicable) 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 20) on the Perpetual Capital Securities and on other own funds items (excluding any such interest payments or other 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 6.2(ii)) of the Society as at such 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 Amounts

To the extent required under then prevailing Capital Regulations, the Society shall not be permitted to pay any interest payment otherwise due on any date, and the relevant payment will be cancelled and will not be made, if and to the extent that the payment of such interest payment (together with any Additional Amounts payable thereon pursuant to Condition 10, if applicable), when aggregated together with the amounts of any distributions of the kind referred to in rule 4.3(2) of Chapter 4 (*Capital Conservation Measures*) of the Part of the PRA Rulebook entitled "*Capital Buffers*" (as the same may be amended or replaced) and/or referred to in any other applicable provisions of the Capital Regulations which require a maximum distributable amount to be calculated if the Society is failing to meet any relevant requirement or any buffer relating to any such requirement (in each case to the extent then applicable to the Society), would cause any Maximum Distributable Amount (if any) then applicable to the Society to be exceeded. Any Maximum Distributable Amount

applicable to the Society may be reduced by the proposed Acquisition given that it is anticipated that the CET1 ratio of the Combined Group will be lower than that of the Society immediately prior to completion of the Acquisition.

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 under the Conditions of the Perpetual Capital Securities or a default by the Society for any other 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 or any compensation or other amounts in respect thereof.

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, 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.

In addition, prospective investors in the Perpetual Capital Securities should note that Perpetual Capital Securities may trade, and/or the prices for the Perpetual Capital Securities may appear, on any stock exchange or securities market and in other trading systems, with accrued interest. If this occurs, purchasers of Perpetual Capital Securities in the secondary market will pay a price that reflects such accrued interest upon purchase of the Perpetual Capital Securities. However, if the relevant payment of interest on the Perpetual Capital Securities is subsequently cancelled (in whole or in part) as described herein, purchasers of such Perpetual Capital Securities will not be entitled to that interest payment (or, as the case may be, the cancelled part thereof).

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 affected by the performance of its business in general, factors affecting its financial position (including capital and leverage), acquisitions or disposals of businesses or assets (including, without limitation, if the Society proceeds with the proposed Acquisition), the economic environment in which the Group operates and other factors, many of which are 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.

To the extent required under then prevailing Capital Regulations, the Society shall not make an interest payment on the Perpetual Capital Securities on any 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.

The Capital Regulations provide for 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 interest payments may be required to be reduced or cancelled

As provided above under "*The Society is subject to regulatory capital and liquidity requirements which are subject to change and which could have an impact on its operations*", the Group is subject to regulatory capital requirements comprising a Pillar 1 requirement, a Pillar 2A requirement, and additional buffer requirements.

Under the Pillar 1 minimum capital requirement, the Society must hold a minimum total regulatory capital of 8 per cent of risk weighted assets, a minimum Tier 1 capital of 6 per cent of risk weighted assets and a minimum Common Equity tier 1 capital of 4.5 per cent of risk weighted assets. The Pillar 2A requirement derives from the Society's total capital requirement, is a point in time and confidential assessment made by the PRA, and is designed to cover risks that the PRA believes are not covered or not sufficiently covered by the Pillar 1 requirements. The Pillar 2A requirement must be met with at least 56.25 per cent. Common Equity Tier 1 capital.

The capital buffers comprise the capital conservation buffer ("**CCB**") and an institution-specific countercyclical buffer ("**CCyB**") plus (i) (if applicable to an institution) a global systemically important institution ("**G-SII**") buffer or an other systemically important institution ("**O-SII**") buffer and (ii) a systemic risk buffer ("**SRB**"), which is currently set at zero but which could increase in the future. The Society is not, as at the date of this Offering Circular, a G-SII or an O-SII and accordingly neither the G-SII buffer nor the O-SII buffer applies to the Society but either of these buffers could become applicable to the Society in the future (in particular as a result of the proposed Acquisition).

The "**combined buffer requirement**" is the combination of the CCB, the CCyB, the SRB and the higher of the G-SII buffer and the O-SII buffer. The combined buffer requirement must be met with Common Equity Tier 1 capital, and the Common Equity Tier 1 capital used to satisfy the combined buffer requirement cannot also be used to satisfy the Pillar 1, Pillar 2A requirement or MREL requirement, each of which must be met in full before Common Equity Tier 1 capital can be applied to meeting the combined buffer requirement. Accordingly, to the extent that any increases in the Society's Pillar 2A or MREL requirements are, or are required to be, met with Common Equity Tier 1 capital, the amount of Common Equity Tier 1 capital available to meet the combined buffer requirement may be reduced.

As at the date of this Offering Circular:

- (i) The capital conservation buffer is set at 2.5 per cent. of risk weighted assets.
- (ii) The CCyB requirement is calculated based on the relevant exposures held in jurisdictions in which a buffer rate has been set. The Society's exposures are almost entirely based in the UK, and accordingly its applicable CCyB for all its exposures is set as the UK CCyB rate. As at the date of this Offering Circular, the UK CCyB rate set by the Financial Policy Committee ("**FPC**") is 2.0 per cent. of risk weighted assets. The FPC generally reviews this rate quarterly, and may elect to increase or decrease this rate at any time. Generally, any increase in the

CCyB rate will take effect one year after the decision to increase it, in order to give institutions time to raise the necessary additional capital if required. A decrease may take effect immediately.

- (iii) The Society is not designated as G-SII or an O-SII, and, accordingly, the Society is not subject to a G-SIIs buffer or an O-SII buffer.
- (iv) The SRB is set at zero.

The Society may in the future become subject to other buffers or requirements that affect its ability to make discretionary payments, including (without limitation) restrictions based on the Society's leverage requirements or MREL requirements.

In line with the PRA Rulebook (or any equivalent or similar rule as may be applicable to the Society under the Capital Regulations in the future), the Society will not be permitted to make certain 'discretionary payments' (which are defined broadly as payments relating to Common Equity Tier 1 capital instruments (such as CCDS), Additional Tier 1 instruments (including the Perpetual Capital Securities) and variable remuneration) if it does not meet its combined buffer requirement at that time, and if the Society does not meet its combined buffer requirement, it will be required to calculate a maximum distributable amount which will restrict (potentially to nil) the amount of such 'discretionary payments' it can make while it continues to fail to meet its combined buffer requirement.

These restrictions on making discretionary payments will be scaled according to the extent of the breach of the combined buffer requirement and calculated by reference to the profits of the Society earned in each of the past four calendar quarters (subject to certain deductions). Such calculation will result in a "maximum distributable amount" ("**MDA**") in each relevant period. Scaling will be achieved by applying a scaling factor to the relevant distributable profits (such factor being 0 in the bottom quartile, 0.2 in the second quartile, 0.4 in the third quartile and 0.6 in the fourth quartile). As such, in the bottom quartile, no "discretionary distributions" will be permitted to be paid. As a consequence, in the event of breach by the Society of its combined buffer requirement, it may be necessary to reduce payments on the Perpetual Capital Securities through the cancellation of scheduled interest payments (in whole or in part).

As at 31 December 2023, the Society held Common Equity Tier 1 capital in excess of its combined buffer requirement equal to £1,585.7 million, or 18.7 per cent. of risk weighted assets. 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 "*The Society is subject to regulatory capital and liquidity requirements which are subject to change and which could have an impact on its operations*" and "*Interest Payments may be cancelled on a discretionary or mandatory basis – Maximum Distributable Amount*" and "*The structure, capital, leverage, liquidity, MREL and resolution profile of the Combined Group remains uncertain*" above.

The Common Equity Tier 1 capital used to satisfy the combined buffer requirement cannot also be used to satisfy the Society's Pillar 1 requirement or Pillar 2A requirement, which must be met in full before Common Equity Tier 1 capital can be applied to meeting the combined buffer requirement. Accordingly, to the extent that any increases in the Society's Pillar 2A requirements are, or are required to be, met with Common Equity Tier 1 capital, the amount of Common Equity Tier 1 capital available to meet the combined buffer requirement may be reduced.

As reported in the Society's report and accounts for the year ended 31 December 2023, the Society's combined Pillar 1 requirement and Pillar 2A requirement as at 31 December 2023 was 10.7 per cent. of risk weighted assets, or £905.4 million (31 December 2022: 10.7 per cent., or £846.1 million).

In addition to the Pillar 1 requirement, the Pillar 2A requirement and the combined buffer requirement described above, the PRA also applies a "PRA buffer" (also known as Pillar 2B) which supplements the combined buffer requirement. The PRA buffer must be met fully with Common Equity Tier 1 capital. The PRA buffer is not publicly disclosed and is set for each institution individually. Like Pillar 2A, it is a point in time assessment that, in respect of UK firms, is made by the PRA and is expected to vary over time. A failure to satisfy the PRA buffer could result in the Society being required to prepare a capital restoration plan. This may, but would not automatically, provide for or result in restrictions on

discretionary payments (such as interest payments on the Perpetual Capital Securities, or Distributions on any CCDS) being made by the Society.

The Society's capital requirements and capital resources are subject to change as a result of a wide range of factors, including as a result of the performance of its business in general, changes in the size or mix of the Group's business and assets, major events affecting its earnings, acquisitions or disposals of businesses or assets (including, without limitation, if the Society proceeds with the proposed Acquisition (see further "*The structure, capital, leverage, liquidity, MREL and resolution profile of the Combined Group remains uncertain*" above)), regulatory changes and other factors, many of which are outside of the Society's control. Any such changes could reduce the amount of Common Equity Tier 1 capital available to meet the Society's combined buffer requirements, which could result in the application of a Maximum Distributable Amount which requires the Society to reduce or cancel interest payments on the Perpetual Capital Securities. See further "*The structure, capital, leverage, liquidity, MREL and resolution profile of the Combined Group remains uncertain*" above.

Furthermore, since the Regulator may increase or decrease the Society's Pillar 2A requirement at any time, and the Society must meet any increased requirement in full before it can apply its available Common Equity Tier 1 capital to meeting its combined buffer requirements, 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 application of an MDA restriction under the Capital Regulations.

In addition to any Maximum Distributable Amount imposed as a result of a failure to meet combined buffer requirements calculated on a risk-weighted asset basis, it is possible that Maximum Distributable Amount restrictions on payments of interest on Additional Tier 1 instruments (such as the Perpetual Capital Securities) could in the future be introduced if an institution fails to meet capital requirement on an alternative basis, such as a leverage or MREL basis.

Failure to meet the PRA buffer or leverage ratios or buffers will not automatically trigger restrictions on distributions but the PRA may then impose requirements which could have the effect of imposing such restrictions under its supervisory powers envisaged in the Capital Regulations and FSMA (as applicable). In addition, failure to meet the PRA buffer or leverage ratios or buffers could result in the preparation of a capital restoration plan. Such capital restoration plan may (but will not automatically) impose restrictions on discretionary payments, including under the Perpetual Capital Securities.

If such restrictions were to be introduced and were to apply to the Society, Condition 6.2(iii) would operate to require reduction or cancellation of interest payments on the Perpetual Capital Securities in applicable circumstances.

The Society's capital requirements are, by their nature, determined and 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. As a result of the foregoing, the Society may become subject to an MDA restriction requiring it to reduce or cancel interest payments in respect of the Perpetual Capital Securities at any time, and investors in the Perpetual Capital Securities may not be able easily to observe or predict the circumstances in which such restrictions may arise. Any actual or anticipated restriction on the Society's ability to make interest payments on the Perpetual Capital Securities in full may materially adversely affect the market price (if any) for the Perpetual Capital Securities and/or may increase the volatility of any market price for the Perpetual Capital Securities.

All payments in respect of the Perpetual Capital Securities are conditional upon satisfaction of the Solvency Test

Condition 4.4 provides that no payment of principal, interest or any other amount 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 (as defined in Condition 4.4) immediately thereafter, in each case except in the winding up or dissolution of the Society.

Non-payment of any interest or principal as a result of the operation of the Solvency Test shall not constitute a default on the part of the Society for any purpose under the terms of the Perpetual Capital Securities, and holders of the Perpetual Capital Securities will not be entitled to accelerate the principal of the Perpetual Capital Securities or take any other enforcement as a result of any such non-payment.

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 will 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 any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society) 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 in accordance with the then-prevailing Capital Regulations (but without applying any transitional, phasing in or similar provisions (if any) if and to the extent the Regulator then requires them to be disregarded for the purpose of determining whether a Conversion Trigger has occurred) and such calculations shall be binding on the holders of the Perpetual Capital Securities). 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.

Where a CET1 Ratio is calculated without applying available transitional measures (known as a 'fully-loaded' or 'end-point' capital ratio), the CET1 Ratio will be lower than would otherwise be the case were transitional measures applied.

In addition, it is possible that transitional provisions applied (or disregarded) in calculating the Society's reported common equity tier 1 ratios from time to time are applied (or disregarded) differently when calculating each CET1 Ratio under the Conditions (the latter being the relevant ratios for determining whether or not a Conversion Trigger has occurred).

Whilst the Society currently intends to publicly report its CET1 Ratio (calculated both on a consolidated basis and on an individual consolidated basis) on at least a half-yearly basis, for so long as any Perpetual Capital Security remains outstanding, there can be no assurance that this will continue to be the case. The determination of whether a Conversion Trigger has occurred can be made at any time, and on the basis of any financial information (whether or not published or otherwise publicly disclosed) available to the Society, the Regulator or any agent appointed for such purpose by the Regulator, as the case may be. Therefore, 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, many of which are outside the control of the Society. A Conversion Trigger could occur at any time, and on the basis of any information available to the Society, the Regulator or any agent appointed for such purpose by the Regulator, as the case may be, whether or not published.

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 size or mix of the Group's business and assets, major events affecting its earnings, acquisitions or disposals of businesses or assets (including, without limitation, if the Society proceeds with the proposed Acquisition), distribution 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 any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society) 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 may from time to time have capital resources and 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 capital resources and risk weighted assets. As a result, the CET1 Ratios may be 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. Even if changes in applicable accounting rules, or changes to regulatory adjustments which modify accounting rules, are not yet in force as at the relevant calculation date, the PRA could require the Society to reflect such changes in any particular calculation of either of its CET1 Ratios.

In November 2022, the PRA published a consultation paper (CP16/22) on its implementation of the outstanding Basel III measures, referred to in the consultation paper as the "Basel 3.1 standards". The PRA consultation initially proposed that these changes would be effective from 1 January 2025, however on 27 September 2023 the PRA released a statement confirming that the implementation would be pushed back six months to 1 July 2025. The Basel 3.1 standards primarily relate to the measurement of risk weighted assets. The proposed changes affect existing approaches to calculation of risk weights and introduce new limits around the use of internal models ("IMs") to calculate risk weights, including an "output floor" limiting the benefit that IMs can provide in calculating risk weighted assets. The Basel 3.1 proposals, which are expected to be implemented on a gradual phase-in basis, with full implementation by 1 January 2030, may therefore lead to an increase in the amount of regulatory capital the Society is required to hold, and/or a reduction in its capital ratios (including the CET1 Ratio), as a result of changes to risk weighted asset calculations. The PRA indicated in December 2023 an intention to publish a near-final policy statement in the second quarter of 2024, covering, amongst other things, the output floor.

Further, the Society has no obligation to increase its Common Equity Tier 1 capital, reduce its Risk Weighted Assets or otherwise operate its business in such a way or take mitigating actions in order to prevent the Society's CET1 Ratio from falling below 7.00 per cent. or to maintain or increase the Society's CET1 Ratio. See also *"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"* below.

The trading behaviour of the Perpetual Capital Securities is not necessarily expected to follow the trading behaviour of other types of securities and it will be difficult to predict when, if at all, a Conversion Trigger and subsequent Conversion may occur. 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

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 is required to consider the interests of its stakeholders as a whole when taking decisions, including strategic decisions, and the interests of other stakeholders may not aligned with the interests of the holders of the Perpetual Capital Securities in all circumstances. Such strategic 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.

For the purpose of determining whether a Conversion Trigger has occurred, the CET1 Ratios may be calculated without applying any relevant transitional, phasing in or similar provisions, which will result in lower calculated CET1 Ratios than if applying any applicable transitional, phasing in or other similar provisions

For the purpose of determining whether a Conversion Trigger has occurred under the terms of the Perpetual Capital Securities, the CET1 Ratios will be calculated without applying any transitional, phasing in or similar provisions (if any) if and to the extent the Regulator then requires such provisions to be disregarded for such purpose. Where those provisions are disregarded, the CET1 Ratios will be calculated on a so-called "fully loaded" or "end-point" basis, and will be lower than would be the case if those provisions were applied. Accordingly, where such transitional or similar provisions are disregarded for determining the CET1 Ratios under the terms of the Perpetual Capital Securities but applied in calculating the Society's publicly reported common equity tier 1 ratios, it is possible that a Conversion Trigger could occur notwithstanding the Society's publicly reported common equity tier 1 ratios remain above 7.00 per cent. due to the application of such transitional provisions.

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 prevailing 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 8.5 for the complete provisions regarding the Conversion Price.

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 market price of 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.

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, could increase the risk of interest payments on the Perpetual Capital Securities being reduced or cancelled, and could have an adverse effect on the market price of the Perpetual Capital Securities.

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 and/or (iii) written down or converted to CCDS in part only. 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 material 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 any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society) 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 the provisions of the PRA Rulebook (including, without limitation, relating to capital buffers and the calculation of maximum distributable amounts) or Pillar 2A requirements (or any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society) 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.

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 repay 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 repay 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 repay the Perpetual Capital Securities at any time and Securityholders do not have any right to require the Society to repay or purchase the Perpetual Capital Securities (but this is without prejudice to their rights to claim in a winding up or dissolution of the Society pursuant to, and in accordance with, Condition 4.3). The terms of the Perpetual Capital Securities do not provide for any events of default. The Society will have the option to repay the Perpetual Capital Securities in certain circumstances, as further described below, but any such repayment would be solely in the discretion of the Society, and subject to regulatory approval and compliance with applicable law and regulation 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 or, if it wishes to exit its investment, may be required to sell its Perpetual Capital Securities in the secondary market. There can be no assurance that an investor will be able to sell its Perpetual Capital Securities in the market, or, if so, that the price of such sale will be equal to or above its initial investment, and the price could be substantially less.

The Society has, subject to obtaining necessary consents and to compliance with the Capital Regulations (all as more particularly described in Condition 7.6):

- (a) the option to purchase the Perpetual Capital Securities in the open market or otherwise at any price;
- (b) the option, in its sole discretion, to repay 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 any date during a Par Call Period; or
 - (ii) on any date if 75 per cent. or more of the aggregate nominal amount of the Perpetual Capital Securities originally issued (and, for this purpose, any Further Perpetual Capital Securities issued pursuant to Condition 16(a) shall be deemed to have been originally issued) has been repaid or purchased and cancelled; and
- (c) the option, in its sole discretion, 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).

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, or if there is a perception in the market that any such right has arisen or may arise, 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.

The Society may in certain circumstances, without the consent of the Securityholders, substitute the Perpetual Capital Securities for, or vary the terms of the Perpetual Capital Securities so that they remain or become, Compliant Securities

If a Regulatory Event or a Tax Event has occurred and is continuing, the Society may, in its sole discretion, subject to obtaining any relevant regulator consents and to compliance with the prevailing Capital Regulations, elect to substitute

all (but not some only) of the Perpetual Capital Securities for, or to vary the terms of the Perpetual Capital Securities so that they remain or, as appropriate, become, Compliant Securities, without any need for consent or approval by the Securityholders.

While Compliant Securities should have terms that are not materially less favourable to an investor than the terms of the Perpetual Capital Securities (as reasonably determined by the Society in consultation with an Independent Adviser), there can be no assurance that the terms of the Compliant Securities will be as favourable to Securityholders in all respects as the terms of the Perpetual Capital Securities, nor that there will be no tax or other implications for holders of the Perpetual Capital Securities arising out of or in connection with such substitution or variation or the holding of Compliant Securities.

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 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 (save as otherwise provided in 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) and (if applicable) any damages awarded in respect thereof. 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 first 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 Conditions provide that references therein to "winding up or dissolution" shall, to the extent consistent with the classification of the Perpetual Capital Securities as deferred shares pursuant to section 119 of the Act and the Deferred Shares Order, include any similar procedure (including building society insolvency, or a building society administration involving a distribution to creditors, pursuant to the Banking Act 2009) which has the effect of a winding up or dissolution. For the avoidance of doubt, should any such similar procedure not be consistent with the classification of the Perpetual Capital Securities as deferred shares pursuant to section 119 of the Act and the Deferred Shares Order, the holders of the Perpetual Capital Securities would not have a claim in such procedure.

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 (or, in the case of CCDS, an alternative clearance or settlement system) will not be members of the Society and must rely on that system's procedures

The Perpetual Capital Securities will, upon issue, be represented by a Global Certificate that will be registered in the name of the Nominee for the common depository for the Clearing Systems. Investors will hold beneficial interests in such Perpetual Capital Securities through an account with a Clearing System. The Nominee shall be the sole holder for those Perpetual Capital Securities for the purposes of the Rules and the Conditions.

Accordingly, investors holding beneficial interests in the Perpetual Capital Securities through an account in a Clearing System and the persons shown in the records of the Clearing Systems will not be members of the Society by virtue of their investment in the Perpetual Capital Securities and will not directly benefit from the Rules, the Memorandum or the Act. Such investors shall be entitled to rights in respect of their 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. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in

the Global Certificate. While the Perpetual Capital Securities are in global form, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg, as the case may be.

Upon Conversion, if the CCDS are delivered to a Clearing System or an alternative clearing or settlement system such investors would receive only beneficial interests in the CCDS through their account in the relevant system and will not, through their holding of CCDS, be members of the Society by virtue of their 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, and such single vote will be insignificant in the context of all the votes which may be cast by members of the Society.

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 (or, in the case of CCDS, an alternative clearance or settlement system) will not be members of the Society and must rely on that 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 the Charity Assignee 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) the Charity Assignee.

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. Although the Perpetual Capital Securities are intended to be admitted to trading on the ISM upon issue, there can be no assurance that a trading market in the Perpetual Capital Securities will develop. Following admission to trading of the Perpetual Capital Securities on the ISM, 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, including in circumstances where a significant proportion of the securities are held by one or a limited number of initial investors. 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, 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):

- completion (or non-completion) of the proposed Acquisition;
- material decreases in the Society's CET1 Ratios or other capital ratios and/or any application of any Maximum Distributable Amount restrictions under the Capital Regulations, which could arise as a result of a number of factors including changes in regulation or losses incurred by the Society;
- material decreases in the amount of available Distributable Items of the Society;
- variations in operating results in the Group's reporting periods;
- any announcement or anticipation that the UK resolution authorities have elected or may elect to exercise their recovery and resolution powers under the Banking Act 2009 in respect of the Society, the Perpetual Capital Securities or any of the Society's other securities;
- any shortfall in revenue or net profit or any increase in losses from levels expected by the market;
- increases in capital expenditure compared with market 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, or any changes in any credit ratings assigned to the Society or any of its securities, or any such credit ratings being put on review for possible downgrade;
- changes in market valuations of similar entities;
- announcements by the Group of significant mergers, acquisitions, asset or business disposals, strategic alliances, joint ventures, new initiatives, new services or new service ranges, and any updates on the progress of any such transactions;

- regulatory matters, such as changes in regulatory regulations or PRA, UK Financial Policy Committee, FCA, HM Revenue & Customs or HM Treasury requirements;
- additions or departures of key personnel;
- future issues or sales of Perpetual Capital Securities or other securities; and
- events such as natural catastrophes, pandemic (such as the Covid-19 outbreak), man-made disasters, acts of terrorism or acts of war and any pre-emptive or reactive measures designed to prevent or contain such events.

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.

Moreover, although the Society and any subsidiary of the Society can (subject to regulatory approval and compliance with prevailing prudential requirements) purchase Perpetual Capital Securities, they have no obligation to do so and in any event will generally not be permitted to do so before the fifth anniversary of the Issue Date (or, if any Further Perpetual Capital Securities are issued pursuant to Condition 16(a), the fifth anniversary of the issue date of the last such issue of Further Perpetual Capital Securities). Purchases made by the Society or any member of the Group could affect the liquidity of the secondary market of the Perpetual Capital Securities and thus the price and the conditions under which investors can negotiate these Perpetual Capital Securities on the secondary market.

In addition, holders should be aware that there may be a lack of liquidity in the secondary market which could result in investors suffering losses on the Perpetual Capital Securities in secondary re-sales even if there were no decline in the performance or the assets of the Society.

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 (including, where relevant, as amended pursuant to an order made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (as amended, the "**Mutual Societies Transfers Act**") to a company (a "**Successor Entity**", which expression includes a subsidiary of a mutual society as referred to in the Mutual Societies Transfers Act).

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, or for the Perpetual Capital Securities to be replaced with Bonds issued by the Successor Entity or, in certain circumstances, Qualifying Parent Securities issued by a Qualifying Parent of the Successor Entity, in each case without the consent of the Securityholders. Any such amendments to, or replacement of, the Perpetual Capital Securities could be adverse to the interests of Securityholders.

Such provisions could also potentially result in amendments to the Conversion provisions of the Perpetual Capital Securities (or the replacement instruments), 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 Successor Entity or, where relevant, its parent does not have a viable instrument which could be delivered upon Conversion, the Conversion feature of the Perpetual Capital Securities (or the replacement Bonds or Qualifying Parent 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 Society (or the resulting society), the Successor Entity or, as the case may be, the Qualifying Parent 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.

Upon a demutualisation, the Society (or the Successor Entity) will, in certain circumstances, be able to elect whether Securityholders will receive, in place of their Perpetual Capital Securities, Bonds issued by the Successor Entity itself, or Qualifying Parent Securities issued by a Qualifying Parent of the Successor Entity. Whilst the provisions of Condition 13 provide that a Qualifying Parent must be incorporated in the United Kingdom or, in the case of a mutual society only, a Crown Dependency mutual society (as such term is defined in the Mutual Societies Transfers Act) and be a credit institution, a financial holding company or a mixed financial holding company within the meaning of the applicable prudential rules, and that such Bonds or Qualifying Parent Securities should, subject to Condition 13, be designed to qualify as tier 1 instruments and seek to preserve substantially the economic effect of the Securities, there can be no assurance that they will do so. If Securityholders receive Qualifying Parent Securities, they may (in addition to being deeply subordinated within the creditor hierarchy of the Qualifying Parent) be structurally subordinated to all creditors (if any) of the Successor Entity, and the Qualifying Parent may be reliant upon receiving dividends or other cashflows from the Successor Entity in order to be able to make payments on the Qualifying Parent Securities.

Furthermore, in the event of a demutualisation of the Society, there can be no assurance that the business model, risk approach or strategic ambition of the Successor Entity or, as the case may be, its Qualifying Parent will be similar to that of the Society, and there can be no assurance that the holding of capital securities in a Successor Entity or a Qualifying Parent of the Successor Entity will offer a similar risk profile or return on investment when compared with the Perpetual Capital Securities. Building societies are organised under the provisions of the Act. The Act imposes a number of restrictions on the operation of a building society as compared to a bank, including (i) defining the principal purpose of a building society as "that of making loans which are secured on residential property and funded substantially by its members"; (ii) restricting the ability of building societies to engage in certain wholesale banking activities (for example, acting as a market maker in securities, commodities or currencies, trading in commodities or currencies, entering into certain transactions involving derivatives and limiting the risks for which derivatives hedging may be used); (iii) specifying certain limitations on the amount of non-mortgage lending that a building society is able to write (a minimum of 75 per cent. of loan assets, excluding liquid assets and fixed assets, must be secured on residential property); and (iv) limiting the volume of wholesale funding a building society may raise (currently at least 50 per cent. of funding (calculated in accordance with the Act) is required to be raised from retail depositors). A Successor Entity or, as the case may be, a Qualifying Parent of the Successor Entity may not be constrained in these or similar respects under its governing legislation, and accordingly its business strategy could involve a greater degree of risk than that of the Society due to factors such as (but not limited to) increased risk appetite, a more aggressive approach to risk management, increased leverage, greater reliance on wholesale funding and/or unsecured lending and increased use of derivative investments or proprietary trading.

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:

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.

Furthermore, 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.

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 would not be able to sell the remainder of such holding without first purchasing a principal amount of Perpetual Capital Securities at or in excess of £200,000 such that its holding amounts to at least £200,000. Further, a holder who, as a result of trading such amounts, holds an amount which is less than £200,000 in his 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.

Limitation on gross-up obligation under the Perpetual Capital Securities

The Society's obligation, if any, to pay Additional Amounts (as defined in Condition 10) in respect of any withholding or deduction in respect of taxes imposed by or on behalf of any Relevant Tax Jurisdiction under the terms of the Perpetual Capital Securities applies only to payments of interest due and payable under the Securities and not to payments of principal or any other amounts.

As such, the Society would not be required to pay any Additional Amounts under the terms of the Perpetual Capital Securities to the extent any withholding or deduction applied to payments of principal or other amounts which are not interest. Accordingly, if any such withholding or deduction were to apply to any payments of principal or other amounts which are not interest under the Perpetual Capital Securities, Securityholders will receive less than the full amount which would otherwise be due to them under the Perpetual Capital Securities, and the market value of the Perpetual Capital Securities may be adversely affected as a result.

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 of the Perpetual Capital Securities and the Agency Agreement contain provisions for calling meetings of holders of the Perpetual Capital Securities (which meetings need not be held at a physical place and instead may be by way of conference call, including by use of a videoconference platform) to consider matters affecting their interests generally. Resolutions may also be passed in writing or by way of electronic consents. 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 or otherwise vote on the relevant resolution, as applicable, and holders who voted in a manner contrary to the majority. Such resolutions may include, amongst other things, the approval of variations to the Conditions, which could result in modifications to or the abrogation of Securityholders' rights in respect of their Perpetual Capital Securities.

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.

A Restructuring Plan implemented pursuant to Part 26A of the Companies Act 2006 may modify or disapply certain terms of the Perpetual Capital Securities without the consent of the Securityholders

Where the Society encounters, or is likely to encounter, financial difficulties that are affecting, or will or may affect, its ability to carry on business as a going concern, it may propose a Restructuring Plan (a "**Plan**") with its creditors under Part 26A of the Companies Act 2006 (introduced by the Corporate Insolvency and Governance Act 2020) to eliminate, reduce, prevent or mitigate the effect of any of those financial difficulties. Should this happen, creditors whose rights are affected are organised into creditor classes and can vote on any such Plan (subject to being excluded from the vote by the English courts for having no genuine economic interest in the Society and certain exclusions where the Plan is proposed within the 12 week period following the end of a moratorium). Providing that one class of creditors (who would receive a payment, or have a genuine economic interest in the Society) has approved the Plan, and in the view of the English courts any dissenting class(es) who did not approve the Plan are no worse off under the Plan than they would be in the event of the "relevant alternative" (such as, broadly, winding up or dissolution), then the English court can sanction the

Plan where it would be a proper exercise of its discretion. A sanctioned Plan is binding on all creditors and members, regardless of whether they approved it. Any such sanctioned Plan in relation to the Society may, therefore, adversely affect the rights of Securityholders and the price or value of their investment in the Perpetual Capital Securities, as it may have the effect of modifying or disapplying certain terms of the Perpetual Capital Securities (by, for example, writing down the principal amount of the Perpetual Capital Securities, modifying the interest payable on the Perpetual Capital Securities, the duration of the Perpetual Capital Securities or the dates on which any payments are due or substituting the Society as principal debtor).

Dealings in the Perpetual Capital Securities could in certain circumstances become liable to UK stamp taxes

The Perpetual Capital Securities constitute "chargeable securities" for United Kingdom stamp duty reserve tax ("**SDRT**") purposes. The issue of the Perpetual Capital Securities into the Clearing Systems should not be subject to a 1.5 per cent. SDRT charge. Transfers of Perpetual Capital Securities 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 Perpetual Capital Securities. It is currently expected that the Perpetual Capital Securities will be held within the Clearing Systems without a 97A election applying. If a 97A election were to apply to the Perpetual Capital Securities, transfers of the Perpetual Capital Securities 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 Perpetual Capital Securities. Any such SDRT cost would not be borne by the Society and would generally be borne by the purchaser.

If definitive certificates in respect of the Perpetual Capital Securities were to be issued (in the limited circumstances provided in the Global Certificate), transfers of the Perpetual Capital Securities 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.

The SDRT and stamp duty charges referred to above that may arise on transfers of the Perpetual Capital Securities whether within or outside the Clearing Systems should not apply if the Perpetual Capital Securities are "hybrid capital instruments" taxable under the hybrid capital instruments tax regime in Chapter 12, Part 5 of the Corporation Tax Act 2009 (the "**HCI Rules**"). The Perpetual Capital Securities will be taxable under the HCI Rules if at the time of the transfer or agreement to transfer the Perpetual Capital Securities: (a) the Society has made an election within six months of the date on which the Perpetual Capital Securities are issued for the HCI Rules to apply to them (an "**Election**"), and (b) the Society has not issued the Perpetual Capital Securities in connection with any arrangements which have as their main purpose or one of their main purposes securing a tax advantage for the Society or for any other person (a "**Tax Advantage Scheme**"). The Society intends to make an Election on or before the date of issue of the Perpetual Capital Securities and the Society does not consider that the Perpetual Capital Securities are being issued as part of a Tax Advantage Scheme.

The Perpetual Capital Securities are complex financial instruments that involve a high degree of risk and may not be a suitable investment for all investors

The Perpetual Capital Securities are complex financial instruments that involve a high degree of risk. As a result, an investment in the Perpetual Capital Securities and the CCDS that may be issued upon a Conversion will involve certain increased risks. Each potential investor in the Perpetual Capital Securities must determine the suitability (either alone or with the help of such financial and other advisers it considers appropriate) of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Perpetual Capital Securities (including but not limited to, the effect or likelihood of cancellation of interest payments (in whole or in part) and of the occurrence of a Conversion Trigger for the Perpetual Capital Securities which results in loss absorption by investors), the merits and risks of investing in the Perpetual Capital Securities and any CCDS into which they may convert, and the information contained or incorporated by reference in this Offering Circular;

- (ii) have 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 any CCDS into which they may convert, and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Perpetual Capital Securities and any CCDS into which they may convert, including where such potential investor's financial activities are principally denominated in a currency other than pounds sterling, and the possibility that interest payments (in whole or in part) could be cancelled, no distributions may be paid on any CCDS, and the entire amount of an investment in the Perpetual Capital Securities or any CCDS could be lost, including following the exercise by the UK resolution authorities of any recovery and resolution powers under the Banking Act 2009;
- (iv) understand thoroughly the terms of the Perpetual Capital Securities and any CCDS into which they may convert, such as the provisions governing interest cancellation or non-payment of distributions, repayment and purchase rights, and Conversion (including, in particular, calculation of the CET1 Ratios, as well as under what circumstances a Conversion Trigger will occur), and be familiar with the behaviour of any relevant indices and financial markets, including the possibility that the Perpetual Capital Securities or any CCDS into which they may convert may become subject to write down or conversion by the UK resolution authorities in certain circumstances; and
- (v) be 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.

Sophisticated investors generally do not purchase complex financial instruments that bear a high degree of risk as stand-alone investments. They purchase such financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A prospective investor should not invest in the Perpetual Capital Securities unless they have the knowledge and expertise (either alone or with such financial and other advisers as it considers appropriate) to evaluate how the Perpetual Capital Securities and any CCDS into which they may convert will perform under changing conditions, the resulting effects on the likelihood of interest cancellation, non-payment of distributions, or Conversion of Perpetual Capital Securities into CCDS and the value of the Perpetual Capital Securities and any CCDS, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, prospective investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Offering Circular or incorporated by reference herein.

Legality of purchase

Neither the Society nor any of its affiliates has or assumes responsibility for the lawfulness of the acquisition of the Perpetual Capital Securities (or any CCDS into which they may convert) by a prospective investor in the Perpetual Capital Securities, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective investor with any law, regulation or regulatory policy applicable to it. The investment activities of certain investors are subject to 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 (i) Perpetual Capital Securities (and any CCDS into which they may convert) are legal investments for it, (ii) Perpetual Capital Securities (and any CCDS into which they may convert) can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Perpetual Capital Securities or CCDS. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Perpetual Capital Securities and CCDS under any applicable risk-based capital or similar rules.

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 pounds 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 pounds 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 pounds 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.

Credit ratings may not reflect all risks

Each of Fitch and Moody's is expected to assign a credit rating to the Perpetual Capital Securities. Other rating agencies may also from time to time assign credit ratings to the Society and/or the Perpetual Capital Securities, whether on a solicited or unsolicited basis. 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, and ratings do not address the likelihood that the interest or principal on the Perpetual Capital Securities will be paid on any particular date. Ratings also do 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 Society (including changes in any unsolicited credit ratings) 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 ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Perpetual Capital Securities.

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

Investors regulated in the UK are subject to similar restrictions under the UK CRA Regulation. As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note this is subject, in each case, to (a) the relevant UK registration, certification or endorsement, as the case may be, not having been withdrawn or suspended, and (b) transitional provisions that apply in certain circumstances.

If the status of a rating agency rating the Society or the Perpetual Capital Securities changes for the purposes of the CRA Regulation or the UK CRA Regulation, relevant regulated investors may no longer be able to use the rating for regulatory purposes in the EEA or the UK, as applicable, and the Perpetual Capital Securities may have a different regulatory treatment, which may impact the value of the Perpetual Capital Securities and their liquidity in the secondary market.

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 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 in those sections 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.

Issue prior to Conversion

Upon Conversion of the Perpetual Capital Securities, Securityholders are expected (subject as set out in the Conditions of the Perpetual Capital Securities) 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): (i) if required in order to ensure that such CCDS qualify as common equity tier 1 (or equivalent) capital of the Society at that time; (ii) to ensure that such CCDS are capable of being consolidated into a single class with other Core Capital Deferred Shares of the Society issued simultaneously or then outstanding at that time (if any); (iii) where 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 the Annex to this Offering Circular, or at all); or (iv) where the issue or transfer of the CCDS into or within the Clearing Systems may or would result in the Society suffering adverse tax consequences (including incurring any tax liabilities) which would not arise, or which would be reduced, if the CCDS were to be issued and held outside the Clearing Systems (including, for example, if the CCDS were issued into an alternative settlement system or in definitive certificated form). 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 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, the Act and any other applicable laws and 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 would be made for the CCDS to be admitted to the standard listing segment of the Official List or, if the FCA's proposals contained in its Consultation Paper CP23/31 (*Primary Markets Effectiveness Review: Feedback to CP23/10 and detailed proposals for listing rules reforms*) are implemented as set out therein, for the CCDS to be admitted into the non-equity shares and non-voting equity shares category (which CP23/31 expressly provides would include deferred shares). However, there can be no assurance that any such application would be granted, including if the Society would be unable to demonstrate compliance with any applicable listing requirements, including free-float requirements. Such a listing, if obtained, would afford investors a lower level of regulatory protection than that afforded to investors in an entity with a premium listing (or, if the FCA's proposals mentioned above are implemented in the form currently proposed, an entity with equity shares listed in the commercial companies (equity shares) category), which would also be subject to additional continuing obligations under the FCA's Listing Rules. Furthermore, there may be reasons why it is not practicable to admit the CCDS to the regulated market of the London Stock Exchange, and the Society shall be entitled to seek a listing on any Relevant Stock Exchange in its discretion. There can be no assurance that any such listing would afford holders with similar rights or protections as a listing on the London Stock Exchange.

Whilst the Society has indicated its current expectation that application may be made for the CCDS to be issued upon Conversion to be accepted for clearance through the Clearing Systems, there is no assurance that such an application will be made, nor that the CCDS will be so accepted if an application is made. 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. Neither the Rules nor the terms of the Perpetual Capital Securities require the Society to issue CCDS into a Clearing System, and the Society may instead, in its discretion, elect to issue the CCDS into an alternative clearance or settlement system (such as, for example, into the CREST system operated by Euroclear UK & International Limited) or in definitive certificated form. Whilst this is not the current intention of the Society, as at the date of this Offering Circular, this may change as a result of various factors, including (but not limited to) as a result of changes in applicable law or regulation (including, without limitation, United Kingdom tax law) prior to the issue by the Society of CCDS. Accordingly, any settlement of the CCDS may be in the Clearing Systems currently envisaged, or in an alternative clearance or settlement system or may need to be in definitive form. See also "*Dealings in the CCDS may in certain circumstances be liable to UK stamp taxes*" below.

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 or an alternative clearance or settlement system, 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*" below.

Core capital deferred shares are a financial instrument with complex features

Core capital deferred shares have been designed for building societies (which do not have ordinary share capital) to enable them to raise Common Equity Tier 1 capital on the capital markets (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). They are not protected liabilities for the purposes of the FSCS.

Certain key features of the CCDS, if issued, are expected to be as follows:

- the CCDS are expected to 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 are expected not to have any right to Distributions (as defined in the Indicative CCDS Conditions) 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 are expected to 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 any clearance or settlement system, 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. Statutory pre-emption rights do not apply to CCDS, and the Society does not expect to afford holders any contractual pre-emption rights in respect of the CCDS. Even if any contractual pre-emption rights were to be granted, the Society expects them to be very limited and subject to significant exceptions.

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 market price (if any) of the CCDS falls;
- if CCDS or other regulatory capital instruments are issued by the Society which dilute (either initially or upon conversion into CCDS) the holdings of CCDS investors; and
- if the United Kingdom resolution authorities exercise their recovery and resolution powers under the Banking Act (or similar future legislation) in respect of the Society, the CCDS or any of the Society's other securities, or if the Society or another company in the Group enters into an insolvent winding up or dissolution.

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 should expect

to 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, and behind all other Shareholding Member claims as regards the principal of, and interest on, their shares (including in respect of other Deferred Shares which rank in priority to the CCDS). Accordingly, CCDS holders will not be entitled to receive any amounts in the winding up or dissolution of the Society unless all depositors, creditors (including subordinated creditors) and Shareholding Members (as regards the principal of, and interest on, their shares) 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 depositors, creditors (including subordinated creditors) and Shareholding Members (as regards the principal of, and interest on, their shares) 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 principal amount of their initial investment in CCDS or for any other fixed 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, creditors (including subordinated creditors) and Shareholding Members (as regards the principal of, and interest on, their shares) 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 will be 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, etc.:** By acceptance of any CCDS, each CCDS holder (and each holder of any interest in the CCDS) will be deemed to have waived any right of set-off (including, without limitation, compensation or retention), counterclaim or netting that such 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.

The above factors mean that a CCDS holder should expect to 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 Indicative CCDS Conditions provide that references therein to "winding up or dissolution" shall, to the extent consistent with the classification of the CCDS as deferred shares pursuant to section 119 of the Act and the Deferred Shares Order, include any similar procedure (including building society insolvency, or a building society administration involving a distribution to creditors, pursuant to the Banking Act 2009) which has the effect of a winding up or dissolution. For the avoidance of doubt, should any such similar procedure not be consistent with the classification of the CCDS as deferred shares pursuant to section 119 of the Act and the Deferred Shares Order, the holders of the CCDS would not have a claim in such procedure.

Furthermore, the ranking of CCDS in a winding up can also be expected to have a direct impact on the relative losses imposed on holders of CCDS in a resolution of the Society or a capital write-down under the Banking Act, as such resolution and capital write-down powers ought to be used in a manner that respects the hierarchy of claims in an ordinary insolvency - see *"The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK banks and UK building societies which are considered to be at risk of failing. The exercise of any of these actions in relation to the Society or the Perpetual Capital Securities could materially adversely affect the value of the Perpetual Capital Securities and/or the rights of Securityholders"* and *"Any actual or anticipated exercise of resolution powers in connection with the Society, the Perpetual Capital Securities and/or any CCDS issued upon conversion of the Perpetual Capital Securities could materially adversely affect the rights of holders of the Perpetual Capital Securities and/or any such CCDS and/or the market price of the Perpetual Capital Securities and/or any such CCDS"* above.

Any actual or anticipated exercise of resolution powers in connection with the Society and/or any CCDS could materially adversely affect the rights of holders of CCDS and/or the market price of CCDS

As described under *"The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK banks and UK building societies which are considered to be at risk of failing. The exercise of any of these actions in relation to the Society or the Perpetual Capital Securities could materially adversely affect the value of the Perpetual Capital Securities and/or the rights of Securityholders"* above, the UK resolution Authorities have substantial powers under the Banking Act to resolve a failing financial institution.

The exercise of any SRR powers in respect of the Society could impact the Society's financial condition and prospects and its ability to satisfy its obligations in respect of the CCDS. For example, such exercise could result in the Society being required, or electing, not to declare any Distribution in respect of the CCDS for a significant period of time.

In addition, a number of the recovery and resolution powers, including under the bail-in tool and/or the capital write-down tool, could be used directly in respect of the CCDS, which could materially adversely affect the rights of holders in respect of CCDS (including, potentially, removing all such rights entirely) and/or affect the liquidity, market price and volatility of any trading in such securities. In addition, the bail-in tool and/or capital write-down tool could be used in respect of other obligations of the Society which could result in the conversion of such other obligations into, or their exchange for, CCDS, and/or such obligations could be written down and compensation delivered to the holders thereof in the form of CCDS, which in each case could dilute the holdings of existing CCDS holders and reduce the amounts (if any) which such CCDS holders may receive, whether by way of Distributions, or in a winding up or dissolution of the Society or otherwise.

Condition 17 of the Indicative CCDS Conditions provides that investors in the CCDS will expressly acknowledge and accept that the CCDS may be subject to the exercise of the Bail-in Power by the Resolution Authority, and will acknowledge, accept, consent and agree to be bound by the effects and consequences thereof.

See *"The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK banks and UK building societies which are considered to be at risk of failing. The exercise of any of these actions in relation to the Society or the Perpetual Capital Securities could materially adversely affect the value of the Perpetual Capital Securities and/or the rights of Securityholders"* and *"Any actual or anticipated exercise of resolution powers in connection with the Society, the Perpetual Capital Securities and/or any CCDS issued upon conversion of the Perpetual Capital Securities could materially adversely affect the rights of holders of the Perpetual Capital Securities and/or any such CCDS and/or the market price of the Perpetual Capital Securities and/or any such CCDS"* above for further information.

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, repay and 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.

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 can 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 to depart from this approach 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 paid in respect of that Financial Year, exceed the Cap referred to below). If at any time the Board elects to declare any 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 may publish a distribution policy in respect of the CCDS which 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, and an election by the Board not to declare a Distribution (whether an Interim Distribution or a Final Distribution) in line with any stated expectation (or at all) shall not constitute a default under the CCDS or for any purpose. 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 expects 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 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. 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. The Society's Distributable Items, and therefore its ability to make Distributions on the CCDS, may be affected by the performance of its business in general, factors affecting its financial position (including capital and leverage), acquisitions or disposals of businesses or assets (including, without limitation, if the Society proceeds with the proposed Acquisition), the economic environment in which the Group operates and other factors, many of which are 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.

Changes to applicable law and regulation, including changes to the Act, could potentially have an impact on what resources the Society may use for the purpose of paying Distributions. For example, the Capital Regulations require the Society to maintain additional capital buffers which may be varied by the PRA or the FPC from time to time comprising Common Equity Tier 1 capital on top of the minimum capital requirements. Pursuant to provisions of the Capital Regulations, the Society will not be permitted to declare Distributions or certain other discretionary payments (such as discretionary employee bonuses), to the extent that such payments would decrease its Common Equity Tier 1 capital to a level where the combined buffer requirement is not met in full 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 such provisions of the Capital Regulations. The Common Equity Tier 1 capital used to satisfy the combined buffer requirement cannot also be used to satisfy the Society's minimum capital requirement, Pillar 2A additional individual capital requirement or MREL requirement, each of which must be met in full before Common Equity Tier 1 capital can be applied to meeting the combined buffer requirement. Accordingly, to the extent that any increases in the Society's Pillar 2A or MREL requirements are, or are required to be, met with Common Equity Tier 1 capital, the amount of Common Equity Tier 1 capital available to meet the combined buffer requirement will be reduced.

The Society's capital requirements and capital resources are subject to change as a result of a wide range of factors, including as a result of the performance of its business in general, changes in the size or mix of the Group's business and assets, major events affecting its earnings, acquisitions or disposals of businesses or assets (including, without limitation, if the Society proceeds with the proposed Acquisition (see further "*The structure, capital, leverage, liquidity, MREL and resolution profile of the Combined Group remains uncertain*" above)), regulatory changes and other factors, many of which are outside of the Society's control. Any such changes could reduce the amount of Common Equity Tier 1 capital available to meet the Society's combined buffer requirements, which could result in the application of a Maximum Distributable Amount which requires the Society to reduce or cancel Distributions on the CCDS.

The Society's capital requirements (including Pillar 2A 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. See also "*The Capital Regulations provide for 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 interest payments may be required to be reduced or*

cancelled" above for further information on potential Maximum Distributable Amount restrictions, which could apply both to interest payments on Additional Tier 1 securities (such as the Perpetual Capital Securities) and distributions on Common Equity Tier 1 securities (such as CCDS).

CCDS holders may not be able to predict accurately the proximity of the risk of Distributions on CCDS being prohibited from time to time as a result of the application of a Maximum Distributable Amount. The Board would also elect not to declare any Distributions on the CCDS in any other circumstances in which the Capital Regulations or any other applicable laws or regulations in effect from time to time (or where its regulator or an applicable resolution authority acting pursuant to such Capital Regulations or other laws or regulations) require distributions on securities such as the CCDS not to be paid (including, but not limited to, if the Society becomes subject to any additional Maximum Distributable Amount restrictions). See further "*Interest Payments may be cancelled on a discretionary or mandatory basis – Maximum Distributable Amount*" above.

In addition, the total Distribution declared 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, or replacement of, 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. As at the date of this Offering Circular, the prevailing Cap in respect of the Financial Year to 31 December 2023 is £19.92. The next 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 2024 to the prevailing Cap of £19.92. 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.

The Cap represents the maximum permitted Distribution in respect of a Financial Year which the Board could elect to declare, and is designed to protect the reserves of the Society. It is not a target or any other indication of the Board's intentions as regards the declaration of Distributions.

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.

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 PRA, to declare Distributions on the CCDS until its capital and MREL resources had been restored to an acceptable level. There can be no guarantee that the Society's capital and MREL resources would be restored to such levels promptly, or at all.

No gross-up obligation

On the basis of UK tax law and practice prevailing as at the date of this Offering Circular, all payments of Distributions in respect of the CCDS are 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 UK or any political subdivision or any authority thereof or therein having power to tax.

However, if any payments under or in respect of the CCDS were to become subject to any withholding or deduction for or on account of any taxes, the Society has no obligation to pay any additional amounts in respect thereof. Accordingly, the CCDS holders would only be entitled to receive the net amount of the relevant payment following such deduction or withholding, the payment of such net amount would discharge the Society's obligations in respect of the relevant payment in full, and the market price of the CCDS (if any) may be adversely affected.

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 do not apply to CCDS, and the Society does not expect to afford holders any contractual pre-emption rights in respect of the CCDS. Even if any contractual pre-emption rights were to be granted, the Society expects them to be very limited and subject to significant exceptions. Accordingly, holders of CCDS will likely be unable to avoid or mitigate the 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 will not be 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 (including, where relevant, as amended pursuant to an order made under section 3 of the Mutual Societies Transfers Act) to 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.

Furthermore, in the event of a demutualisation of the Society, there can be no assurance that the business model, risk approach or strategic ambition of the Successor Entity will be similar to that of the Society, and there can be no assurance that the holding of ordinary shares in a Successor Entity will offer a similar risk profile or return on investment when compared with CCDS. For example, any dividend policy of the Successor Entity may be significantly different from any distribution policy in respect of the CCDS existing immediately prior to such demutualisation. Furthermore, building societies are organised under the provisions of the Act. The Act imposes a number of restrictions on the operation of a building society as compared to a bank, including (i) defining the principal purpose of a building society as "that of making loans which are secured on residential property and funded substantially by its members"; (ii) restricting the ability of building societies to engage in certain wholesale banking activities (for example, acting as a market maker in securities, commodities or currencies, trading in commodities or currencies, entering into certain transactions involving derivatives and limiting the risks for which derivatives hedging may be used); (iii) specifying certain limitations on the amount of non-mortgage lending that a building society is able to write (a minimum of 75 per cent. of loan assets, excluding liquid assets and fixed assets, must be secured on residential property); and (iv) limiting the volume of wholesale funding a building society may raise (currently at least 50 per cent. of funding (calculated in accordance with the Act) is required to be raised from retail depositors). A Successor Entity may not be constrained in these or similar respects under its governing legislation, and accordingly its business strategy could involve a greater degree of risk than that of the Society due to factors such as (but not limited to) increased risk appetite, a more aggressive approach to risk management, increased leverage, greater reliance on wholesale funding and/or unsecured lending and increased use of derivative investments or proprietary trading.

Holders representing specified thresholds of outstanding CCDS may be able to authorise the Society to vary the Conditions and, following a Regulatory Event, the Society is expected to be permitted to make certain amendments in its sole discretion without any requirement for the consent of the holders. Any such amendments would be binding on all holders. Furthermore, 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. Any variations approved by CCDS holders representing the requisite number of CCDS could have a significant adverse effect on the rights of holders and/or the value and/or market price of CCDS, and would be expected to be binding on all holders, and the holders acting through the specified majorities would have extensive powers to bind all CCDS holders.

In addition, it is expected that the conditions of issue of the CCDS will allow the Society, following the occurrence of a Regulatory Event, to vary such conditions in its sole discretion without the need for any consent or approval of holders, so that they remain or become capable of qualifying in full as Common Equity Tier 1 capital of the Society. Whilst such variations would not be materially less favourable to the CCDS holders than the terms immediately prior to such variations (as reasonably determined by the Society in good faith in consultation with an independent adviser of recognised standing), there can be no assurance that the CCDS, as varied, would be as favourable in all respects to the CCDS holders.

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 relevant clearance or settlement systems (if they have accepted the CCDS for clearing and settlement) 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 any stock exchange, investors and potential investors in CCDS who are members of such stock exchange should have regard to any settlement obligations under the rules of such stock exchange (such as, if applicable, rule G5000 (obligation to settle) of the London Stock Exchange).

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 (or an alternative clearance or settlement system), will not be members of the Society by virtue of their investment in CCDS and will have to rely on the relevant 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, holders holding beneficial interests in the CCDS through an account with a Clearing System and the persons shown in the records of the Clearing Systems would not become members of the Society by virtue of their 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 holders would be entitled to rights in respect of their 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 their 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 are 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) or where the Society has or will become subject to adverse tax consequences which would not be suffered were the CCDS represented by certificates in definitive form.

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 or 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.

In certain circumstances, the Society may elect to issue the CCDS into an alternative clearance or settlement system (such as, for example, into the CREST system operated by Euroclear UK & International Limited). Such an arrangement may have a broadly equivalent effect to the CCDS being held through the Clearing Systems and, accordingly, insofar as the context permits, the paragraphs above may apply *mutatis mutandis* to holders of CCDS held through an alternative clearance or settlement system, including that holders may not become members of the Society by virtue of their 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. Such holders would similarly be entitled to rights in respect of their beneficial interest in the CCDS as prescribed by the rules of the relevant clearance or settlement system and would need to rely on the procedures of such system to enforce their rights.

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 or an alternative clearance or settlement 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. The same or a similar outcome may apply in the event that the CCDS are held through an alternative clearance or settlement system.

Further, even if definitive CCDS were to be issued and delivered outside any clearance or settlement system 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 a member at general meetings of the Society. The Indicative CCDS Conditions contain, and any agency agreement entered into by the Society in connection with any issue of CCDS would be expected to contain, provisions which enable separate meetings (which meetings need not be held at a physical place and instead may be by way of conference call, including by use of a videoconference platform) 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.

If and for so long as 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

If holders hold their CCDS through accounts with the Clearing Systems or another clearance or settlement system in circumstances in which they do not thereby become members of the Society, they will 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 envisaged 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 would belong instead to the Nominee (or other nominee or custodian), as the registered holder of the CCDS. The Society expects that any Nominee (or other nominee or custodian) would, on or prior to the date of issue of the CCDS, irrevocably agree to assign to the Charity Assignee 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 (or an alternative clearance or settlement system), will not be members of the Society by virtue of their investment in CCDS and will have to rely on the relevant 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 the Charity Assignee.

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

There can be no assurance that a secondary market for the CCDS will develop or of the liquidity of such a market if one develops. 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, including in circumstances where a significant proportion of the securities are held by one or a limited number of investors. Accordingly, 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):

- the completion (or non-completion) of the proposed Acquisition;
- material decreases in the Society's CET1 Ratios or other capital ratios and/or any application of any Maximum Distributable Amount restrictions under the Capital Regulations, which could arise as a result of a number of factors including changes in regulation or losses incurred by the Society;

- material decreases in the amount of available Distributable Items of the Society;
- variations in operating results in the Group's reporting periods;
- any announcement or anticipation that the UK resolution authorities have elected or may elect to exercise their recovery and resolution powers under the Banking Act 2009 in respect of the Society, the CCDS or any of the Society's other securities;
- any shortfall in revenue or net profit or any increase in losses from levels expected by the market;
- increases in capital expenditure compared with market 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, or any changes in any credit ratings assigned to the Society or any of its securities, or any such credit ratings being put on review for possible downgrade;
- changes in market valuations of similar entities;
- announcements by the Group of significant mergers, acquisitions, asset or business disposals, strategic alliances, joint ventures, new initiatives, new services or new service ranges, and any updates on the progress of any such transactions;
- regulatory matters, such as changes in regulatory regulations or PRA, UK Financial Policy Committee, FCA, HM Revenue & Customs or HM Treasury requirements;
- additions or departures of key personnel;
- future issues or sales of CCDS, Perpetual Capital Securities or other securities;
- 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, or any amendments to any distribution policy maintained by the Society in respect of its CCDS; and
- events such as natural catastrophes, pandemic (such as the Covid-19 outbreak), man-made disasters, acts of terrorism or acts of war and any pre-emptive or reactive measures designed to prevent or contain such events.

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 and investors may not be able to resell their CCDS at or above the price at which they purchased CCDS or at all.

A holding in CCDS by a holder whose principal currency is not pounds 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 pounds sterling. A holding in CCDS by a holder whose principal currency is not pounds sterling will expose the holder to foreign currency exchange rate risk. Any depreciation of pounds 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 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 97A election is or has been made 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.

Furthermore, HMRC are currently consulting on modernising the UK stamp duty and stamp duty reserve tax rules as they apply to shares and securities. It is expected that they will be replaced by a single tax on the transfer of securities. Any such tax may be charged on a different basis to that which is described above.

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 annual financial statements of the Society for the financial year ended 31 December 2022, together with the notes thereto and the audit report thereon, as set out on the following pages of the Annual Report & Accounts of the Society for the year ended 31 December 2022 (available at <https://www.coventrybuildingsociety.co.uk/content/dam/cbs/member/pdfs/financial-results/2022/annual-report-and-accounts-2022.pdf>) (the "**Annual Report & Accounts 2022**");

*For the financial year ended
31 December 2022*

Independent auditors' report	Pages 128 to 137
Audited consolidated financial statements	Pages 138 to 141
Notes to the audited consolidated financial statements	Pages 142 to 192;

- (iii) the audited consolidated annual financial statements of the Society for the financial year ended 31 December 2023, together with the notes thereto and the audit report thereon, as set out on the following pages of the Annual Report & Accounts of the Society for the year ended 31 December 2023 (available at <https://www.coventrybuildingsociety.co.uk/content/dam/cbs/member/pdfs/financial-results/2023/annual-report-and-accounts-2023.pdf>) (the "**Annual Report & Accounts 2023**");

*For the financial year ended
31 December 2023*

Independent auditors' report	Pages 107 to 115
Audited consolidated financial statements	Pages 116 to 119
Notes to the audited consolidated financial statements	Pages 120 to 170;

- (iv) the Pillar 3 Disclosures of the Society for the financial year ended 31 December 2022 (available at <https://www.coventrybuildingsociety.co.uk/content/dam/cbs/member/pdfs/financial-results/2022/pillar-3-disclosures-2022.pdf>);
- (v) the Pillar 3 Disclosures of the Society for the financial year ended 31 December 2023 (available at <https://www.coventrybuildingsociety.co.uk/content/dam/cbs/member/pdfs/financial-results/2023/pillar-3-disclosures-q4.pdf>); and
- (vi) the joint statement regarding the cash acquisition of The Co-operative Bank Holdings p.l.c. by the Society published by the Society through the Regulatory News Service of the London Stock Exchange on 24 May 2024 (available at <https://www.londonstockexchange.com/news-article/BG64/joint-statement-regarding-cash-acquisition/16486385>) (the "**Acquisition Announcement**").

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 non-incorporated parts of the Annual Report & Accounts 2022 and Annual Report & Accounts 2023 are not relevant for investors.

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 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 material 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 admission to trading on the ISM, 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"; "Financial Year"; "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 for the purposes of the Rules. 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 a nominee for the common depository for the Clearing Systems (the "**Nominee**") who shall be the Securityholder for those Perpetual Capital Securities for the purposes of the Rules and the Conditions (and, therefore, the Shareholding Member for the purposes of the Rules). In such case, 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 (i) all relevant 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 and no successor Clearing System is available; or (ii) the Society has or will become subject to adverse tax consequences which would not be suffered were the Perpetual Capital Securities held in definitive form. 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 holders of 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 Directors of the Society thinks fit.

The Society will appoint Citibank, N.A., London Branch at 6th 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 commenced in that 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 any Perpetual Capital Security held through a Clearing System 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 officer 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 (save as otherwise provided in an Excluded Dissolution (as defined in Condition 20)) 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 (as defined in Condition 20) having first been paid in full.

The provisions under (a) to (c) above reflect Rule 47 of the Society's Rules. Rule 47 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 per cent. 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 the date of this Offering Circular, 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, 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

Subject to any overriding power under statute for the High Court to transfer particular proceedings to the County Court, section 85 of and Schedule 14 to the Act provide that, for a building society whose principal office is in England and Wales, 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 (save for narrow exceptions where the rules may require arbitration for certain disputes relating to election addresses, requisitioned resolutions and requisitioned meetings) or the Act or any statutory instrument under the Act.

CONDITIONS OF ISSUE OF THE PERPETUAL CAPITAL SECURITIES

The following (save for paragraphs in italics, which are for information only and 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 £665,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the "**Perpetual Capital Securities**", which term shall, unless the context otherwise requires, include any Further Perpetual Capital Securities issued pursuant to Condition 16(a)) 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 11 June 2024 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 a nominee for the common depository for the Clearing Systems (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 or the persons shown in the records of the Clearing Systems. The persons shown in the records of the Clearing Systems (other than a Clearing System) 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 20.

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 Coventry Building Society Charitable Foundation (or such other charity nominated by the Society from time to time pursuant to any scheme for charitable assignment established by the Society for the time being) (the "**Charity Assignee**").

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 issued by the Successor Entity or, as the case may be, Qualifying Parent Securities issued by a Qualifying Parent (following the assumption of the Subordinated Deposit) as provided in 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 the Charity Assignee and until such time as payment is made, will hold a sum equal to such amount on trust for the Charity Assignee.

As neither investors holding beneficial interests in Perpetual Capital Securities through Clearing System accounts nor the persons shown in the records of the Clearing Systems will 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 the Charity Assignee 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 Security 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 transfer of Perpetual Capital Securities shall be valid unless made in the form endorsed on the Certificate or in such other form as the Society may agree, which form shall be duly completed and signed (as appropriate) and presented to the Registrar. 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 in "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 Conditions 4.2 and 4.3, and are subject to Conversion of the Perpetual Capital Securities as provided in Condition 8. No security or guarantee has been, or will at any time be, provided by the Society or any other person to the Securityholders in respect of their rights under the Perpetual Capital Securities.

4.2 *Subordination*

On a winding up or dissolution of the Society which commences prior to the Conversion Date (save as otherwise provided in an Excluded Dissolution), the rights and claims of Securityholders in respect of their Perpetual Capital Securities (including claims for any damages awarded in respect thereof) shall, subject to applicable insolvency law, rank:

- (i) junior to the claims of all creditors (including all subordinated creditors) and Shareholding Members (as regards the principal of 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 (a) for so long as they remain outstanding, the Existing PCS of the Society, (b) for so long as they remain outstanding and unless a Ranking Event occurs, the PIBS, (c) any other Deferred Shares (as defined in the Rules) outstanding of the Society ranking, or expressed by their terms to rank, *pari passu* with or junior to the Perpetual Capital Securities and (d) any other Parity Obligation or Junior Obligation ("**Senior Obligations**");
- (ii) *pari passu* among themselves and with any claims ranking, or expressed by their terms to rank, *pari passu* therewith, including (without limitation and for so long as any of the same remain outstanding):
 - (a) unless they are Senior Obligations by virtue of the occurrence of a Ranking Event, all claims in respect of the PIBS (as regards the principal thereof and interest due thereon); and
 - (b) the Existing PCS 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 by their terms to rank, junior to the claims in respect of the Perpetual Capital Securities ("**Junior Obligations**").

Upon the occurrence of a Ranking Event, the ranking of the Perpetual Capital Securities shall immediately and automatically, without the need for any action by the Society or any other person, and without the need for any consent or approval by the Securityholders, adjust such that the PIBS shall no longer be Parity Obligations and will instead become Senior Obligations. As soon as reasonably practicable after the occurrence of a Ranking Event, the Society shall give notice of the same to the Securityholders in accordance with Condition 17 and to the Principal Paying Agent, but any delay in giving or failure to give such notice shall not affect the adjustment of the ranking of the Perpetual Capital Securities as described in this paragraph nor constitute a default by the Society for any purpose.

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 (save as otherwise provided in 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) and any damages awarded in respect thereof, *provided that* 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 first 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, interest or any other amount 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 dissolution of the Society (the "Solvency Test").

For this purpose, 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 or dissolution, its liquidator 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.

Any payment of interest not due on a scheduled payment date by virtue of the Solvency Test shall not be or become due and payable at any time and shall be cancelled, as further described in Condition 6.3.

4.5 Set-off, etc.

Subject to applicable law, no holder of any Perpetual Capital Security (or any interest therein) may exercise, claim or plead any right of set-off (including, without limitation, compensation or retention), counterclaim or netting 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 such holder shall, by virtue of its holding of any Perpetual Capital Security (or any interest therein), be deemed to have waived all such rights of set-off (including, without limitation, compensation or retention), counterclaim or netting. Notwithstanding the preceding sentence, if any of the amounts owing to any holder of any Perpetual Capital Security (or any interest therein) by the Society in respect of, or arising under or in connection with, the Perpetual Capital Securities is discharged by set-off (including, without limitation, compensation or retention), counterclaim or netting, such holder 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, 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, 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.

Condition 4.5 shall not be construed as indicating or acknowledging that any rights of set-off (including compensation or retention), counterclaim or netting would, but for this Condition 4.5, otherwise be available to any Securityholder with respect to any Perpetual Capital Security.

4.6 Enforcement

A holder of any Perpetual Capital Securities may institute such steps, actions or proceedings against the Society as it may think fit to enforce any term or condition binding on the Society under the Perpetual Capital Securities (other than any payment obligation of the Society under or arising from the Perpetual Capital Securities, including, without limitation, payment of any principal or interest in respect of the Perpetual Capital Securities, and payment of any damages awarded for breach of any obligations or, as the case may be, for any Assumed Breach, by the Society in respect of the Perpetual Capital Securities), *provided that* (except in a winding up or dissolution of the Society, in which event the provisions of Condition 4.3 shall apply) in no event shall the Society, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been due and payable by it pursuant to these Conditions.

Nothing in this Condition 4.6 shall prevent a holder of any Perpetual Capital Securities from exercising its rights to claim in respect of its Perpetual Capital Securities in a winding up or dissolution of the Society pursuant to, and in accordance with, Condition 4.3.

5 Interest

5.1 *Interest Rate*

The Perpetual Capital Securities bear interest on their outstanding 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 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 this Condition 5.

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, subject as provided in these Conditions, up to (but excluding) the Relevant Date;
- (ii) in the case of substitution of the Perpetual Capital Securities for Compliant Securities under Condition 7.5, the date of such substitution (without prejudice to the accrual of interest under the Compliant Securities from (and including) such date); and
- (iii) 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 Conditions 4.4, 6 and 8) 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 Reset Date, the Interest Rate shall be 8.750 per cent. per annum (the "**Initial Interest Rate**").

Provided the Perpetual Capital Securities are not Converted, and subject to Condition 4.4 and 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, each semi-annual interest payment for each Interest Period which commences prior to the First Reset Date will (if paid in full) amount to £43.75 per Calculation Amount.

5.5 *Reset Interest Rate*

For each Interest Period which commences on or after the First Reset 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. 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 its sole discretion but subject at all times to the requirements for mandatory cancellation of interest payments pursuant to Condition 4.4 or Condition 6.2, at any time elect to cancel any interest payment, in whole or in part, which is scheduled to be paid on any date.

Upon a decision by the Society 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 scheduled date for payment, *provided that* any delay in giving or 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 and shall not constitute a default under the Perpetual Capital Securities or 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 payment date.

If the Society does not pay any interest payment (or any part thereof) on any scheduled payment date, such non-payment shall evidence the Society's exercise of discretion to cancel such interest payment (or the relevant part thereof) in accordance with this Condition 6.1 or (if applicable) the obligation of the Society to cancel such interest payment (or the relevant part thereof) in accordance with Condition 4.4, Condition 6.2 or Condition 8) and such interest payment (or the cancelled part thereof) shall not become due and payable at any time.

6.2 *Mandatory cancellation of interest*

(i) Cancellation at the direction of the Regulator

The Society shall cancel any interest payment, in whole or in part, if so directed by the Regulator.

(ii) Cancellation due to insufficient Distributable Items

To the extent required under then prevailing Capital Regulations, the Society shall not pay any interest payment otherwise due on any date if and to the extent that the amount of such interest payment otherwise due (together with any Additional Amounts payable thereon pursuant to Condition 10, if applicable), 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 the Perpetual Capital Securities and on other own funds items (excluding any such interest payments or other 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 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 the payment of such interest payment (on the basis that the Perpetual Capital Securities are intended to qualify as Additional Tier 1 Capital).

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, any profits which are non-distributable pursuant to national law or the institution's by-laws and any sums placed in non-distributable reserves in accordance with the law of the United Kingdom, or any part of it, or of a third country or the statutes of the institution, in each case with respect to the specific category of own funds instruments to which the law of the United Kingdom, or any part of it, or of a third country, institutions' by-laws, or statutes relate; such profits, losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts'.

(iii) *Cancellation due to a Maximum Distributable Amount*

To the extent required under then prevailing Capital Regulations, the Society shall not pay any interest payment otherwise due on any date, and the relevant payment will be cancelled and will not be made, if and to the extent that payment of such interest payment (together with any Additional Amounts payable thereon pursuant to Condition 10, if applicable), when aggregated together with the amounts of any distributions of the kind referred to in rule 4.3(2) of Chapter 4 (*Capital Conservation Measures*) of the Part of the PRA Rulebook entitled "*Capital Buffers*" (as the same may be amended or replaced) and/or referred to in any other applicable provisions of the Capital Regulations which require a maximum distributable amount to be calculated if the Society is failing to meet any relevant requirement or any buffer relating to any such requirement (in each case to the extent then applicable to the Society), would cause any 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 Chapter 4 (*Capital Conservation Measures*) of the Part of the PRA Rulebook entitled "*Capital Buffers*" (as the same may be amended or replaced) and/or in accordance with any other applicable provisions of the Capital Regulations which require a maximum distributable amount to be calculated if the Society is failing to meet any relevant requirement or any buffer relating to any such requirement.

(iv) *Effect of cancellation*

Upon the Society being prohibited from making any interest payment (in whole or in part) by virtue of the Solvency Test in Condition 4.4 or under this Condition 6.2, the Society shall as soon as reasonably practicable on or prior to the relevant scheduled payment date give notice of such non-payment and the reason therefor to the Securityholders in accordance with Condition 17, *provided that* any delay in giving or 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 or for any purpose.

6.3 *Interest non-cumulative; no default*

Any interest payment (or part thereof) not paid on any relevant payment date by reason of Condition 4.4, 6.1, 6.2 or 8 shall be cancelled and shall not accumulate and will not become due or 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. The Society may use such cancelled amounts of interest without restriction and the cancellation of such interest amounts will neither impose any restrictions on the Society nor prevent or restrict the Society from declaring or making any distributions or interest payments on any of its shares or other instruments or obligations.

7 Repayment, substitution, variation 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. Securityholders do not have any right to require the Society to repay the Perpetual Capital Securities (but this is without prejudice to their rights to claim in a winding up or dissolution of the Society pursuant to, and in accordance with, Condition 4.3). The Perpetual Capital Securities will become repayable only as provided in this Condition 7 and in Condition 4.3.

7.2 *Society's option to repay (including clean-up call)*

The Society may in its sole discretion, subject to Condition 7.6 and having given not less than 10 nor more than 30 days' notice to the Securityholders in accordance with Condition 17 (which notice shall specify the intended date of repayment and shall, subject to Condition 7.6, be irrevocable), elect to repay all, but not some only, of the Perpetual Capital Securities then outstanding:

- (i) *Optional repayment*: on any date during a Par Call Period; or
- (ii) *Clean-up call*: on any date if 75 per cent. or more of the aggregate nominal amount of the Perpetual Capital Securities originally issued (and, for this purpose, any Further Perpetual Capital Securities issued pursuant to Condition 16(a) shall be deemed to have been originally issued) has been repaid or purchased and cancelled,

in each case at their nominal amount together with accrued but unpaid interest thereon up to (but excluding) the date of repayment (excluding interest which has been cancelled in accordance with these Conditions).

Upon the expiry of such notice, the Society shall, subject to Condition 7.6, repay the Perpetual Capital Securities accordingly.

7.3 *Repayment for tax reasons*

If a Tax Event occurs and is continuing, the Society may in its sole discretion, at any time but subject to Condition 7.6 and having given not less than 10 nor more than 60 days' notice to the Securityholders in accordance with Condition 17 (which notice shall specify the intended date of repayment and shall, subject to Condition 7.6, 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 up to (but excluding) the date of repayment (excluding interest which has been cancelled in accordance with these Conditions).

Upon the expiry of such notice, the Society shall, subject to Condition 7.6, 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 Relevant Tax Jurisdiction (as defined in Condition 10), including any treaty to which the Relevant Tax Jurisdiction is a party, or a change in the official application or interpretation of those laws or regulations, on or after the Reference Date, including a decision of any court or tribunal which becomes effective on or after the Reference 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 (or, in the circumstances contemplated in Condition 13.3, a permanent write-down) of the Perpetual Capital Securities; or
- (iv) the Perpetual Capital Securities are or would be prevented from being treated as loan relationships for tax purposes in the Relevant Tax Jurisdiction; or
- (v) the Perpetual Capital Securities or any part thereof are or would be treated as a derivative or an embedded derivative for tax purposes in the Relevant Tax Jurisdiction; or
- (vi) the Society incurs or 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 Principal Paying Agent, for inspection by Securityholders at its specified office, 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 in one or more of limbs (i) to (vi) of the definition of Tax Event have occurred and are continuing (but such opinion need not comment on whether the consequences of such event can be avoided by the Society taking reasonable measures available to it).

7.4 *Repayment for regulatory reasons*

If a Regulatory Event occurs and is continuing, the Society may in its sole discretion, at any time but subject to Condition 7.6 and having given not less than 10 nor more than 60 days' notice to the Securityholders in accordance with Condition 17 (which notice shall specify the intended date of repayment and shall, subject to Condition 7.6, 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 up to (but excluding) the date of repayment (excluding interest which has been cancelled in accordance with these Conditions).

Upon the expiry of such notice, the Society shall, subject to Condition 7.6, 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 or any part thereof ceases (or would cease) to be part of the Society's Tier 1 Capital (whether on an individual consolidated or a consolidated basis).

7.5 Substitution or variation

If a Regulatory Event or a Tax Event has occurred and is continuing, then the Society may, in its sole discretion but subject to Condition 7.6, having given not less than 10 nor more than 60 days' notice to Securityholders in accordance with Condition 17 (which notice shall specify the date for substitution or variation, as the case may be, of the Perpetual Capital Securities and shall, subject to Condition 7.6 and as set out in this Condition 7.5, be irrevocable) and the Principal Paying Agent, at its option and without any requirement for the consent or approval of the Securityholders, at any time either substitute all (but not some only) of the Perpetual Capital Securities for, or vary the terms of the Perpetual Capital Securities so that they remain or, as appropriate, become, Compliant Securities.

Upon the expiry of such notice, the Society shall, subject to Condition 7.6, either vary the terms of or substitute the Perpetual Capital Securities, as the case may be, in accordance with this Condition 7.5, *provided that* if, for any reason, the Society is unable to effect such substitution or variation, it may elect instead to repay the Perpetual Capital Securities pursuant to, and as provided in, Condition 7.3 or 7.4 (as appropriate).

The Principal Paying Agent has, in the Agency Agreement, undertaken to use its reasonable endeavours to assist the Society in the substitution or variation of the Perpetual Capital Securities pursuant to this Condition 7.5, subject to certain protections for the Principal Paying Agent.

Prior to the publication of any notice of substitution or variation pursuant to this Condition 7.5, the Society shall deliver to the Principal Paying Agent a certificate signed by two appropriately authorised signatories of the Society stating that the conditions precedent for substituting or, as the case may be, varying the terms of the Perpetual Capital Securities pursuant to this Condition 7.5 have been met and that the terms of the relevant Compliant Securities comply with the definition thereof in Condition 20. By its acquisition of any Perpetual Capital Security (or any interest therein) each Securityholder accepts and acknowledges that such certificate shall (in the absence of manifest error) be sufficient evidence of the satisfaction of such conditions precedent and will be conclusive and binding on the Society, the Principal Paying Agent, the Securityholders and any other interested persons.

In respect of any notice of substitution or variation pursuant to this Condition 7.5 given on the basis that a Tax Event has occurred and is continuing, the Society shall make available to the Principal Paying Agent, for inspection by Securityholders at its specified office, at the same time as giving such notice, 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 in one or more of limbs (i) to (vi) of the definition of Tax Event have occurred and are continuing (but such opinion need not comment on whether the consequences of such event can be avoided by the Society taking reasonable measures available to it).

In connection with any substitution or variation in accordance with this Condition 7.5, the Society shall comply with the rules of any stock exchange on which the Perpetual Capital Securities are for the time being listed or admitted to trading.

7.6 Conditions to repayment, substitution, variation and purchase

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

- (i) (A) the Society providing such notice to the Regulator and obtaining such approval, permission or consent from the Regulator as is required under the then prevailing Capital Regulations and (B) the Society obtaining such other approval, permission or consent (if any) as is then required under the laws and regulations applicable to deferred shares of the Society;
- (ii) in the case of any repayment or purchase, the Society having demonstrated to the satisfaction of the Regulator that either: (A) the Society has (or by no later than the time of settlement of such

repayment or purchase will have) 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 own funds and eligible liabilities of the Society would, following such repayment or purchase, exceed the minimum requirements (including any buffer requirements) applicable to the Society, as laid down under the Capital Regulations, by a margin that the Regulator considers necessary at such time; and

- (iii) in respect of a repayment or purchase prior to the fifth anniversary of the Reference Date:
 - (A) in the case of repayment upon the occurrence of a Tax Event, the Society having 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 Reference Date; or
 - (B) in the case of repayment upon the occurrence of a Regulatory Event, the Society having 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 Reference Date; or
 - (C) otherwise, either (1) in the case of any repayment or purchase, the Society having demonstrated to the satisfaction of the Regulator that the Society has (or by no later than the time of settlement of such repayment or purchase will have) 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, and the Regulator having permitted such action on the basis of the determination that it would be beneficial from a prudential point of view and justified by exceptional circumstances or (2) in respect of any purchase only (and subject to the Society or the relevant Subsidiary then being permitted to conduct market-making activity under the Act), the Society (or the relevant Subsidiary) having purchased the Perpetual Capital Securities for market-making purposes,

provided that if, at the time of such repayment, substitution, variation or purchase, the prevailing Capital Regulations and/or any other laws or regulations applicable to deferred shares of the Society permit the repayment, substitution, variation or purchase only after compliance with one or more alternative or additional pre-conditions to those set out in paragraphs (i), (ii) and (iii) above (as applicable), the Society shall, in the alternative or in addition to the foregoing (as required by the Capital Regulations and/or, as the case may be, any other laws or regulations applicable to deferred shares of the Society), comply with such alternative and/or additional pre-condition(s).

Any refusal by the Regulator (or, as the case may be, any other person from whom any approval, permission or consent is sought) to give its approval, permission or consent for any repayment, substitution, variation or purchase of Perpetual Capital Securities pursuant to this Condition 7 shall not constitute a default under the Perpetual Capital Securities or for any other purpose.

In addition, notwithstanding any other provision of these Conditions:

- (x) 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; and
- (y) if the Society or any of its Subsidiaries has entered into an agreement to purchase any Perpetual Capital Securities but the Solvency Test is not satisfied in respect of the relevant payment on the date scheduled for purchase, the Securityholder (by virtue of its holding of any Perpetual Capital Security)

acknowledges and agrees that the relevant purchase agreement shall be automatically rescinded and shall be of no force and effect and, accordingly, no purchase of the relevant Perpetual Capital Securities will be made by the Society or any of its Subsidiaries on the scheduled purchase date, and the relevant Securityholder will continue to hold such Perpetual Capital Securities.

Further, if the Society has elected to repay, substitute or vary the terms of the Perpetual Capital Securities or if the Society or any of its Subsidiaries has entered into an agreement to purchase any Perpetual Capital Securities but, prior to (as the case may be) the repayment of the nominal amount, the substitution of the Perpetual Capital Securities, the variation of the terms of the Perpetual Capital Securities or the settlement of the purchase of the Perpetual Capital Securities, a Conversion Trigger occurs, the relevant repayment, substitution or variation notice or, as the case may be (and as acknowledged and agreed by the relevant Securityholder by virtue of its holding of any Perpetual Capital Security), the relevant purchase agreement 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, no substitution or variation will be effected and no purchase shall be made, as applicable, and, instead, a Conversion shall occur in respect of the Perpetual Capital Securities as described under Condition 8. The Society shall not be entitled to give notice of any repayment, substitution or variation under this Condition 7 following the occurrence of a Conversion Trigger.

7.7 Purchases

Subject to Condition 7.6 and the Capital Regulations, the Society or any of its Subsidiaries may 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.

7.8 Cancellation

All Perpetual Capital Securities repaid, all Perpetual Capital Securities substituted pursuant to Condition 7.5, 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, at any time, the Society, the Regulator or any agent appointed for such purpose by the Regulator determines that either CET1 Ratio has fallen below 7.00 per cent. (the "**Conversion Trigger**"), the Society shall immediately notify the Regulator (unless the relevant determination was made by the Regulator or its agent), promptly 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 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) (subject as provided in this Condition 8) 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 prevailing 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).

For the purposes of determining whether a Conversion Trigger has occurred, each CET1 Ratio may be calculated by the Society, the Regulator or any agent appointed for such purpose by the Regulator, as the case may be, at any time based on information (whether or not published) available to the management of the Society (and/or to the Regulator or its agent), including information internally reported within the Society pursuant to its procedures for monitoring each CET1 Ratio.

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 (or following it being notified by the Regulator that the Regulator or its agent has determined) that a Conversion Trigger has occurred, and in any event not less than 5 days prior to the Conversion Date (provided that any delay in giving or failure to give such notice shall not constitute a default under the Perpetual Capital Securities or for any other 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) (including whether or not the CCDS will be delivered into a clearing system and/or a settlement system (and, if so, which clearing system(s) and/or settlement system(s)) and, if applicable, what will happen to any CCDS until any payment due pursuant to Condition 8.9 has been made).

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 timing of 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 or for any other 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), subject to and in accordance with this Condition 8).

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 as a class 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) Notwithstanding paragraphs (a) and (b) 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 (except an increase pursuant to paragraph (a) above); 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.

(d) 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 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 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 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, and following consultation between the Society and an Independent Adviser, a written determination of such Independent Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

In the absence of bad faith or fraud, the Independent Adviser shall not be liable to the Principal Paying Agent, the Registrar, the Securityholders or any other person for any determination made by it pursuant to these Conditions.

Notwithstanding any other provision of these Conditions, if, in circumstances requiring any determination to be made by an Independent Adviser under this Condition 8, the Society is unable, having used reasonable endeavours, to appoint an Independent Adviser for such purpose, the Society itself, acting in a commercially reasonable manner, shall be entitled (but not obliged) to make the relevant determination. Such determination will be treated under these Conditions as if it were a determination made by an Independent Adviser, and the Society shall not be liable to the Principal Paying Agent, the Registrar, the Securityholders or any other person for any such determination made by it in good faith.

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, charges 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, charges 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 and delivery to it of any CCDS (or any interest therein). Notwithstanding anything to the contrary in this Condition 8, if any taxes, charges or duties were to be payable by the Society (or by a clearance service or any other person entitled to reimbursement by the Society) as a consequence of delivery of the CCDS issued upon Conversion, then delivery shall, unless the Society in its sole discretion elects otherwise, be conditional upon either:

- (i) the prior payment of any such taxes, charges or duties (or an amount equal thereto) by (or on behalf of) the relevant Securityholder either to the relevant tax authority, the relevant clearance service or to (or to the order of) the Society (as appropriate and as further set out in the Conversion Notice, if applicable); or
- (ii) where such taxes, charges or duties do not arise until the issue and/or delivery of CCDS into clearing or to a Securityholder, payment of an amount equal thereto by (or on behalf of) the relevant Securityholder to the relevant clearance service or to (or to the order of) the Society (as appropriate and as further set out in the Conversion Notice, if applicable) to use for the sole purpose of paying (directly or indirectly) such taxes, charges or duties in full upon issue and delivery of the CCDS and incurrence of such taxes, charges or duties (all as further set out in the Conversion Notice).

Unless the Society in its sole discretion elects otherwise, no CCDS shall be delivered into clearing or to any Securityholder until such payment has been made in full by (or on behalf of) such Securityholder in accordance with applicable laws and regulations and this Condition 8 to the satisfaction of the Society, and the Society shall be entitled to require reasonable proof of payment from the relevant Securityholder to satisfy itself that such payment has been made.

The Society shall, pending the making of any such payment by or on behalf of a relevant Securityholder, be entitled to make such arrangements with respect to the CCDS issued upon Conversion and provisionally to be delivered to such Securityholder as it may consider appropriate. Such arrangements may (but need not necessarily) include arranging for such CCDS to be issued to and/or held by a reputable financial institution, trust company or similar entity (which is independent of the Society) appointed by the Society as a conversion shares depository to hold such CCDS for the Securityholder (on terms providing that delivery of such CCDS to such Securityholder, and the exercise by the Securityholder of any rights thereunder, shall be conditional upon such Securityholder making the relevant payments contemplated by this Condition 8.9, and that the Securityholder shall forfeit its rights thereunder in the circumstances described in the immediately following paragraph). By virtue of its holding of any Perpetual Capital Securities (or any interest therein), each holder of a Perpetual Capital Securities (or any interest therein) irrevocably authorises and directs the Society to make any such arrangements as are contemplated in this paragraph and the immediately following paragraph.

If a Securityholder fails to make payment of (or, as applicable, the amounts in respect of) all such taxes, duties and charges applicable to it by the date falling 12 years after the Conversion Date, the Securityholder shall forfeit its right to receive such CCDS, and shall not be entitled to any compensation or other amounts in respect thereof. In such event, the Society (in its sole discretion) may elect to cancel such CCDS, or to arrange for the sale of such CCDS, and any proceeds thereof shall revert to and be retained by the Society for its sole account (and, for the avoidance of doubt, the Securityholder shall have no subsequent claim against the Society or any other person for delivery of such CCDS to it or for any such proceeds or any other amounts).

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.

It is expected that 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 in 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 any other relevant term of the CCDS once issued (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 expected to 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, the Act, any other applicable laws and 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 Adviser promptly in the circumstances where these Conditions require or provide for a determination by such Independent 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 Perpetual Capital Securities 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 transfer to a Sterling account specified by the payee.

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 or other laws and regulations to which any of the Society, the Registrar or the Principal Paying Agent is subject, 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 any law implementing an intergovernmental approach thereto.

9.3 *Payment initiation*

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 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 or if the Securityholder is late in surrendering or cannot surrender its Certificate (if required to do so).

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 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 any Relevant Tax Jurisdiction, 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, in respect of payments of interest (but not of principal or any other amount), 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) held 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 Relevant Tax Jurisdiction other than the mere holding of the Perpetual Capital Securities;
- (b) where (in the case of a payment of 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; or
- (c) 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.

Notwithstanding any other provision of these Conditions, in no event will Additional Amounts be payable by (or on behalf of) the Society under this Condition 10 or otherwise in respect of any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471

through 1474 of the Code or any regulations or agreements thereunder or any official interpretations thereof or any law implementing an intergovernmental approach thereto.

As used in these Conditions, "**Relevant Tax Jurisdiction**" means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Society becomes subject in respect of payments made by it of principal of and interest on the Perpetual Capital Securities.

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 payment has been 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 Society 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 of engagements 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**", and references in these Conditions to the "Society" shall thereafter be construed accordingly), without any alteration in their terms except as follows.

If the Society, in its sole discretion, considers that, as a result of such amalgamation or transfer of engagements, it is necessary to amend the provisions of these Conditions either (i) in order to give effect to or preserve substantially the economic effect of Conversion under these Conditions or (ii) to enable the Perpetual Capital Securities to qualify as Additional Tier 1 Capital of the Resulting Society, it may (subject to having obtained any necessary consent of the Regulator if then required by the Regulator or under the Capital Regulations), 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 these Conditions which, as determined by the Society (in the case of (a) and (c) below, in consultation with an Independent Adviser appointed by the Society for such purpose):

- (a) give effect to and preserve substantially the economic effect of Conversion under these Conditions (subject to Condition 13.3); and/or
- (b) enable the Perpetual Capital Securities to qualify as Additional Tier 1 Capital of the Resulting Society; and
- (c) (in any case) do not result in the terms of the Perpetual Capital Securities becoming materially less favourable to the Securityholders (but without prejudice to the provisions of Condition 13.3),

and provided (without prejudice to (c) above) that the following shall be preserved in all material respects:

- (1) the ranking of the Perpetual Capital Securities;
- (2) the nominal amount of the Perpetual Capital Securities, 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 (but subject always to the right of the Society subsequently to cancel such accrued interest in accordance with the terms of the Perpetual Capital Securities);
- (4) the repayment rights and obligations of the Society;
- (5) compliance with the prevailing Capital Regulations and requirements of the Regulator in relation to Additional Tier 1 Capital; and
- (6) the Perpetual Capital Securities will continue to be "hybrid capital instruments" for the purposes of Part 5 of the Corporation Tax Act 2009 (or benefit from equivalent treatment under any replacement tax rules (if any) relevant to the entitlement of the Society to claim a deduction in computing its tax liabilities in respect of any payments made under, or funding costs recognised in its accounts in respect of, the Perpetual Capital Securities),

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 Principal Paying Agent 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 (or if no such resolutions will be proposed, as soon as reasonably practicable following the time at which notice is given to members of the proposed 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 to be amended in certain respects. One example may be with respect to Conversion, for example if any CCDS then outstanding cease to exist or are themselves amended, or 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.

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 (including, where relevant, as amended pursuant to an order made under section 3 of the Mutual Societies Transfers Act) to a company (a "**Successor Entity**", which expression includes a subsidiary of a mutual society as referred to in 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 liability to each holder of Perpetual Capital Securities and each Securityholder will be deemed automatically, by virtue of its holding of any Perpetual Capital Securities, to have irrevocably authorised and instructed that such liability shall be subordinated (a "**Subordinated Deposit**") and shall be applied on the vesting date (or as soon as reasonably practicable thereafter) in paying up 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, and such Bonds

shall, at the option of the Society (or the Successor Entity) in its sole discretion, be issued or transferred either:

- (a) to (or to the order of) the relevant Securityholder; or
- (b) (if the Successor Entity is part of a prudentially regulated group and is not the ultimate holding entity for the purposes of prudential consolidation of such group) to a Qualifying Parent in consideration for such Qualifying Parent issuing or transferring to (or to the order of) the relevant Securityholder a principal amount of Qualifying Parent Securities equivalent to the nominal amount of the Perpetual Capital Securities held by such Securityholder immediately prior to the business transfer.

If the Society (or the Successor Entity) elects option (b) above, each Securityholder will be deemed automatically, by virtue of its holding of any Perpetual Capital Security, to have (i) irrevocably authorised and instructed that the Bonds paid up out of the Subordinated Deposit assumed by the Successor Entity to such Securityholder shall be issued or transferred to the Qualifying Parent in consideration for the issue or transfer to (or to the order of) such Securityholder of the relevant principal amount of Qualifying Parent Securities, and (ii) waived and released all rights and claims against the Society and the Successor Entity it would otherwise have in respect of such Subordinated Deposit and the relevant Bonds paid up therefrom (but without prejudice to its right to have the relevant principal amount of Qualifying Parent Securities issued or delivered to (or to the order of) such Securityholder).

A brief summary of the key terms and conditions of (i) if the Society (or the Successor Entity) elects option (a) above, the Bonds or (ii) if the Society (or the Successor Entity) elects option (b) above, the Qualifying Parent Securities, will, not later than the time at which notice is given to members of resolutions to be proposed to approve such transfer (or if no such resolutions will be proposed, as soon as reasonably practicable following the time at which notice is given to members of the proposed 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 Society in its absolute discretion.

The Bonds

If the Society (or the Successor Entity) elects option (b) above (such that Securityholders will be entitled to receive Qualifying Parent Securities), the terms of the Bonds shall be agreed between the Society (or the Successor Entity) and the Qualifying Parent.

If the Society or the Successor Entity elects option (a) above (such that Securityholders will be entitled to receive Bonds), 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 have the same principal amount as the nominal amount of the Perpetual Capital Securities, 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;
- (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 (but subject always to the right of the

Successor Entity subsequently to cancel such accrued interest in accordance with the terms of the Bonds); and

- (6) shall be "hybrid capital instruments" for the purposes of Part 5 of the Corporation Tax Act 2009 (or benefit from equivalent treatment under any equivalent or replacement tax rules (if any) relevant to the entitlement of the Successor Entity to claim a deduction in computing its tax liabilities in respect of any payments made under, or funding costs recognised in its accounts in respect of, the Bonds).

Furthermore, if the Society or the Successor Entity elects option (a) above (such that Securityholders will be entitled to receive Bonds), 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 and requirements of the Regulator (or, if different, the prevailing prudential and capital adequacy requirements and rules applicable to the Successor Entity) in relation to Additional Tier 1 Capital; and
- (b) (subject to Condition 13.3) include such changes and additional provisions as are deemed necessary by the Society (or the Successor Entity) to give effect to and preserve substantially the economic effect of Conversion of the Perpetual Capital Securities,

provided that the terms of the Bonds shall be not materially less favourable to the Securityholders than the Conditions of the Perpetual Capital Securities (but without prejudice to the provisions of Condition 13.3), all as determined by the Society (or the Successor Entity) in consultation with an Independent Adviser appointed by the Society (or the Successor Entity) for such purpose. A certificate to the effect of the foregoing shall be signed by two appropriately authorised signatories of the Society (or the Successor Entity) and given to the Registrar on behalf of the Securityholders.

Qualifying Parent and Qualifying Parent Securities

As used herein:

"Qualifying Parent" means a company, mutual society or other entity incorporated in the United Kingdom or, in the case of a mutual society only, a Crown Dependency mutual society (as such term is defined in the Mutual Societies Transfers Act) which (a) holds, directly or indirectly, all or substantially all of the ordinary voting shares of the Successor Entity, (b) is a credit institution, a financial holding company or a mixed financial holding company (in each case, within the meaning of the Capital Regulations) and (c) is the ultimate holding entity (or an intermediate holding entity) representing the point of prudential consolidation for the prudential group (or a prudential sub-group) of which the Successor Entity forms part; and

"Qualifying Parent Securities" means securities which:

- (1) are issued directly or indirectly by a Qualifying Parent and rank *pari passu* with other Additional Tier 1 Capital instruments (if any) of the Qualifying Parent then in issue;
- (2) have the same principal amount as the nominal amount of the Perpetual Capital Securities, bear the same Interest Rate from time to time and Interest Payment Dates as the Perpetual Capital Securities and shall have the same (or substantially the same) provisions regarding discretionary and mandatory cancellation of interest;
- (3) have the same (or substantially the same) repayment rights and obligations as the Perpetual Capital Securities;
- (4) shall be issued upon terms which have the economic effect of preserving any existing rights under the Conditions to any accrued interest which has not been satisfied or cancelled in accordance with the

Conditions (but subject always to the right of the Qualifying Parent subsequently to cancel such accrued interest in accordance with the terms of the Qualifying Parent Securities); and

- (5) shall be "hybrid capital instruments" for the purposes of Part 5 of the Corporation Tax Act 2009 (or benefit from equivalent treatment under any equivalent or replacement tax rules (if any) relevant to the entitlement of the Qualifying Parent to claim a deduction in computing its tax liabilities in respect of any payments made under, or funding costs recognised in its accounts in respect of, the Qualifying Parent Securities).

Furthermore, the terms of the Qualifying Parent Securities will, to the fullest extent permitted by applicable law and regulation:

- (a) be such as to comply with the prevailing Capital Regulations and requirements of the Regulator (or, if different, the prevailing prudential and capital adequacy requirements and rules applicable to the Qualifying Parent) in relation to Additional Tier 1 Capital; and
- (b) (subject to Condition 13.3) include such changes and additional provisions as are deemed necessary by the Society (or the Successor Entity or the Qualifying Parent, as the case may be) to give effect to and preserve substantially the economic effect of Conversion of the Perpetual Capital Securities,

provided that the terms of the Qualifying Parent Securities shall be not materially less favourable to the Securityholders than the Conditions of the Perpetual Capital Securities (but without prejudice to the provisions of Condition 13.3), all as determined by the Society (or the Successor Entity or the Qualifying Parent, as the case may be) in consultation with an Independent Adviser appointed by the Society (or the Successor Entity or the Qualifying Parent) for such purpose. A certificate to the effect of the foregoing shall be signed by two appropriately authorised signatories of the Society (or the Successor Entity or the Qualifying Parent, as the case may be) and given to the Registrar on behalf of the Securityholders.

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

Upon an amalgamation, transfer of engagements or transfer in accordance with Condition 13.1 or 13.2, the Society shall use reasonable commercial endeavours to procure that the Perpetual Capital Securities (or any instrument issued to Securityholders in replacement thereof as a result of a transfer in accordance with Condition 13.2) would, in the event of a Conversion Trigger (or a similar conversion trigger in any such replacement instrument, which, for the avoidance of doubt, may relate to the common equity tier 1 ratio of the Successor Entity or the Qualifying Parent or their respective group or sub-group, as the case may be, and references in this Condition 13.3 to the Conversion Trigger shall be construed accordingly) occurring immediately following such amalgamation or transfer, convert into a common equity tier 1 capital instrument (whether or not carrying voting rights at general meetings of the issuing entity) of the Resulting Society or, as the case may be, the Successor Entity or Qualifying Parent (or any parent thereof). If, immediately prior to such amalgamation or transfer, there are in issue any CCDS of the Society that are (with the consent or approval of the Society) listed or admitted to trading on any stock exchange or market, the Society (or, as the case may be, the Resulting Society, the Successor Entity or the Qualifying Parent) will use reasonable endeavours to procure that, as soon as is reasonably practicable in the circumstances, the class of common equity tier 1 capital instruments into which the Perpetual Capital Securities (or, as the case may be, the instruments issued to Securityholders in replacement thereof as a result of a transfer in accordance with Condition 13.2) will, upon the occurrence of a Conversion Trigger, convert (the "**Conversion Instrument**") is listed or admitted to trading on a regularly operating, regulated stock exchange or other market; *provided that* there shall be no obligation on the Society, the Resulting Society, the Successor Entity or the Qualifying Parent (as the case may be) to obtain any such listing or admission to trading if the applicable Conversion Instrument is not issued by the ultimate holding entity of the group resulting from the amalgamation or transfer, as the case may be.

If, however, notwithstanding such reasonable commercial endeavours, the Society is unable to procure that the Perpetual Capital Securities (or any instrument issued to Securityholders in replacement thereof as a result

of a transfer in accordance with Condition 13.2) would, following a Conversion Trigger, convert into a Conversion Instrument, 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 replacement instrument as aforesaid) 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 Society, the Resulting Society, the Successor Entity or the Qualifying Parent (as applicable) 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 use all reasonable endeavours to procure that any amalgamation, transfer of engagements 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 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 with the consent or approval of the Society; and
 - (ii) shall pay, or shall use all reasonable endeavours to ensure that the 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 (including, where relevant, as amended pursuant to an order made under section 3 of the Mutual Societies Transfers 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 and/or the Qualifying Parent (as applicable) 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 with the consent or approval of the Society;
 - (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 or the Qualifying Parent (as applicable) 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 or

Qualifying Parent Securities (as applicable), 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 or Qualifying Parent Securities (as applicable) 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 or Qualifying Parent to procure that the Bonds or, as the case may be, the Qualifying Parent Securities 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 securities market chosen by the Successor Entity or Qualifying Parent) 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(s) or settlement system(s) determined by the Successor Entity or Qualifying Parent, provided that this does not materially prejudice the holders of the Bonds or, as the case may be, the Qualifying Parent Securities.

14 Variations of the Conditions and the Rules

14.1 Variation of the Conditions

Subject as provided in Condition 7.5 and 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 as further described in the Agency Agreement 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 (an "**Assumed Breach**"); 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 (which need not be a physical place and instead may be by way of conference call, including by use of a videoconference platform, and all references to "place" and "present" in this Condition 15 shall be construed accordingly, so far as the context admits) 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 chair.

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 chair) shall be transacted at any meeting unless the requisite quorum shall be present at the commencement of business.

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 chair 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 chair 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*

Every resolution put to the meeting (other than the choosing of a chair which will be decided by a simple majority on a show of hands) shall be decided by a poll. On a poll, 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 represented by him. Any such resolution shall be duly passed if not less than three-quarters of the votes cast thereon are cast in favour.

A poll shall be taken in such manner as the chair 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.

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 in favour 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 chair 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 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 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, and the passing of any resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution.

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 the Perpetual Capital Securities ("**Further Perpetual Capital Securities**") or with any other series of outstanding deferred shares of the Society; 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 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, but this does not affect any right or remedy of any person which exists or is available apart from that act.

Subject to any overriding power under statute for the High Court to transfer particular proceedings to the County Court, section 85 of and Schedule 14 to the Act provide that, for a building society whose principal office is in England and Wales, 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 (save for narrow exceptions where the rules may require arbitration for certain disputes relating to election addresses, requisitioned resolutions and requisitioned meetings) or the Act or any statutory instrument under the Act.

19 Agreement and acknowledgement with respect to the exercise of Bail-in Power

19.1 Recognition of Bail-in

Notwithstanding and to the exclusion of any other term of the Perpetual Capital Securities or any other agreements, arrangements, or understandings between the Society and any Securityholder (or any person holding any interest in any Perpetual Capital Security), by its acquisition of any Perpetual Capital Security (or any interest therein), each Securityholder, and each holder of a beneficial interest in any Perpetual Capital Security, acknowledges and accepts that the Amounts Due arising under the Perpetual Capital Securities may be subject to the exercise of the Bail-in Power by the Resolution Authority, and acknowledges, accepts, consents and agrees to be bound by:

- (a) the effect of the exercise of the Bail-in Power by the Resolution Authority, that may include and result in (without limitation) any of the following, or some combination thereof:
 - (i) the reduction of all, or a portion, of the Amounts Due;
 - (ii) the conversion of all, or a portion, of the Amounts Due on the Perpetual Capital Securities into shares, deferred shares (including core capital deferred shares), other securities or other obligations of the Society or another person (and the issue to or conferral on the Securityholder of such shares, deferred shares (including core capital deferred shares), securities or

- obligations), including by means of an amendment, modification or variation of the terms of the Perpetual Capital Securities;
- (iii) the cancellation of the Perpetual Capital Securities; and
 - (iv) the amendment or alteration of the term of the Perpetual Capital Securities or amendment of the amount of interest payable on the Perpetual Capital Securities and/or the date on which interest becomes payable, including by suspending payment for a temporary period; and
- (b) the variation of the terms of the Perpetual Capital Securities, as deemed necessary by the Resolution Authority, to give effect to the exercise of the Bail-in Power by the Resolution Authority.

19.2 *Payment of interest and other outstanding Amounts Due*

No repayment or payment of Amounts Due on the Perpetual Capital Securities will become due and payable or be paid after the exercise of any Bail-in Power by the Resolution Authority, if and to the extent such amounts have been reduced, converted, cancelled, suspended (for so long as such suspension or moratorium is outstanding), amended or altered as a result of such exercise.

19.3 *No default*

Neither a reduction or cancellation, in part or in full, of the Amounts Due, the conversion thereof into another security or obligation of the Society or another person, as a result of the exercise of the Bail-in Power by the Resolution Authority with respect to the Society, nor the exercise of the Bail-in Power by the Resolution Authority with respect to the Perpetual Capital Securities will be an event of default under these Conditions or otherwise or constitute a default for any purpose.

19.4 *Notice to Securityholders*

Upon the exercise of the Bail-in Power by the Resolution Authority with respect to the Perpetual Capital Securities, the Society shall notify the Principal Paying Agent in writing of such exercise and give notice of the same to Securityholders in accordance with Condition 17. Any delay or failure by the Society in delivering any notice referred to in this Condition 19.4 shall not constitute a default or event of default for any purpose, nor shall it affect the validity and enforceability of the Bail-in Power or the consequences thereof.

19.5 *Definitions*

For the purposes of this Condition 19:

"Amounts Due" means the outstanding principal amount of, together with any accrued and unpaid interest (to the extent not already cancelled in accordance with these Conditions), due, or which may become due or payable, on the Perpetual Capital Securities. References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of Bail-in Power by the Resolution Authority;

"Bail-In Legislation" means Part I of the Banking Act 2009 and any other law or regulation applicable in the United Kingdom relating to the resolution of unsound or failing banks, building societies, investment firms or other financial institutions or their affiliates (otherwise than through liquidation, administration or other insolvency proceedings);

"Bail-in Power" means the powers under the Bail-In Legislation to cancel, transfer or dilute shares issued by a person that is a bank, building society or investment firm or affiliate of a bank, building society or investment firm, to cancel, reduce, transfer, modify or change the form of a liability of such a person or any contract or instrument under which that liability arises, to convert all or part of that liability into shares, securities or obligations of that person or any other person, to provide that any such contract or instrument is to have effect as if a right had been exercised under it or to suspend any obligation in respect of that liability; and

"Resolution Authority" means the Bank of England or any successor thereto or replacement thereof and/or such other and/or additional authority or authorities in the United Kingdom with the ability to exercise the Bail-in Power in relation to the Society and/or the Perpetual Capital Securities.

20 Definitions and Interpretation

Interpretation

All references in these Conditions to any statute or any provision of any statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under any such modification or re-enactment.

For the purpose of these Conditions, references to "**winding up or dissolution**" shall, to the extent consistent with the classification of the Perpetual Capital Securities as deferred shares pursuant to section 119 of the Act and the Deferred Shares Order, include any similar procedure (including building society insolvency, or a building society administration involving a distribution to creditors, pursuant to the Banking Act 2009) which has the effect of a winding up or dissolution.

Definitions

For the purpose of these Conditions:

"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;

"Additional Amounts" has the meaning ascribed thereto in Condition 10;

"Additional Tier 1 Capital" has the meaning given to it (or any successor term) in the Capital Regulations from time to time;

"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 directors of the Society may determine;

"Assumed Breach" has the meaning ascribed thereto in Condition 14.2;

"Benchmark Gilt Reset Reference Rate" means, in relation to a Reset Period, the percentage rate (rounded up (if necessary) to four decimal places) determined on the basis of the bid and offered yields of the Benchmark Gilt quoted by the Reset Reference Banks at 11.00 a.m. (London time) on the Reset Determination Date in relation to such Reset Period on a dealing basis for settlement on the next following Benchmark Gilt Dealing Day. Such quotations shall be obtained by or on behalf of the Society and provided to the Principal Paying Agent. If at least four quotations are provided, the Benchmark Gilt Reset Reference Rate will be determined by reference to the rounded 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 or three quotations are provided, the Benchmark Gilt Reset Reference Rate will be determined by reference to the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Benchmark Gilt Reset Reference Rate will be determined by reference to the rounded quotation provided. If no quotations are provided, the Benchmark Gilt Reset Reference Rate will be deemed to be equal to the Benchmark Gilt Reset Reference Rate determined for the immediately preceding Reset Period or, in the case of the first Reset Period, 4.090 per cent. For these purposes:

"**Benchmark Gilt**" means, in respect of a Reset Period, such United Kingdom government security customarily used in the pricing of new issues with a similar tenor having a maturity date on or about the last day of such Reset Period as the Society, with the advice of an investment bank or independent financial adviser of international repute, may determine to be appropriate (following any then-current guidance published by the International Capital Market Association at the relevant time, if applicable); and

"**Benchmark Gilt Dealing Day**" means a day on which the London Stock Exchange plc (or such other stock exchange on which the Benchmark Gilt is at the relevant time listed) is ordinarily open for the trading of securities;

"**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, at any time, any requirement or provision contained in the laws and regulations of the United Kingdom or the requirements, guidelines and policies of the Regulator (whether or not having the force of law) then in effect in the United Kingdom relating to capital adequacy (whether on a risk-weighted, leverage or other basis) and prudential supervision (including as regards the requisite features of own funds instruments) and/or to the resolution of credit institutions (including as regards any minimum requirement for own funds and eligible liabilities) and, in each case, applicable to the Society (or, where the context admits in Condition 13, any rules, requirements, guidelines and policies relating to capital adequacy and prudential supervision and applicable to the Successor Entity or the Qualifying Parent, as the case may be, in its jurisdiction of incorporation);

"**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 it forms part of the laws of the United Kingdom by virtue of the EUWA;

"**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, at any time, each of (a) the ratio of Common Equity Tier 1 of the Society as at such time to the Risk Weighted Assets of the Society as at the same time, in each case calculated by the Society (or by the Regulator or an agent appointed by it for such purpose) on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation or any equivalent or similar law, rule or provision of the Capital Regulations then applicable to the Society) and expressed as a percentage; and (b) the ratio of Common Equity Tier 1 of the Society as at such time to the Risk Weighted Assets of the Society as at the same time, in each case calculated by the Society (or by the Regulator or an agent appointed by it for such purpose) on a consolidated basis and expressed as a percentage, in each case as calculated in accordance with the then-prevailing Capital Regulations but without applying any transitional, phasing in or similar provisions if and to the extent the Regulator then requires them to be disregarded for the purpose of determining whether a Conversion Trigger has occurred;

"**Charity Assignee**" has the meaning ascribed thereto in Condition 1.3;

"**Common Equity Tier 1**" means, as at any time, the sum, expressed in the Accounting Currency, of all amounts that constitute common equity tier 1 capital of the Society as at such time, less any deductions from common equity tier 1 capital required to be made as at such time, in each case as calculated by the Society (or by the Regulator or an agent appointed by it for such purpose) on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation or any equivalent or similar law, rule or provision of the Capital Regulations then

applicable to the Society) or, as the context requires, a consolidated basis, in each case as calculated in accordance with the then-prevailing Capital Regulations but without applying any transitional, phasing in or similar provisions (if any) if and to the extent the Regulator then requires them to be disregarded for the purpose of determining whether a Conversion Trigger has occurred;

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

"**Compliant Securities**" means deferred shares (within the meaning of section 119 of the Act) or other securities issued by the Society that:

- (i) have terms not materially less favourable to an investor than the terms of the Perpetual Capital Securities (as reasonably determined by the Society in consultation with an Independent Adviser, and provided that a certificate to such effect (including as to such consultation) of two appropriately authorised signatories of the Society shall have been delivered to the Principal Paying Agent prior to the relevant variation or substitution of the Perpetual Capital Securities taking effect);
- (ii) subject to (i) above, (1) are eligible as Additional Tier 1 Capital; (2) have the same principal amount as the nominal amount of the Perpetual Capital Securities and provide for the same Interest Rate and Interest Payment Dates from time to time applying to the Perpetual Capital Securities; (3) rank at least *pari passu* with the ranking of the Perpetual Capital Securities; (4) preserve the obligations (including the obligations arising from the exercise of any right) of the Society as to repayment of the Perpetual Capital Securities, including (without limitation) as to timing of, and amounts payable upon, such repayment; (5) contain terms providing for the conversion or write-down of the principal amount of such securities only if such terms are not materially less favourable to holders of the securities than the corresponding provisions of the Perpetual Capital Securities; (6) are "hybrid capital instruments" for the purposes of Part 5 of the Corporation Tax Act 2009 (or benefit from equivalent treatment under any equivalent or replacement tax rules (if any) relevant to the entitlement of the Society to claim a deduction in computing its tax liabilities in respect of any payments made under, or funding costs recognised in its accounts in respect of, such securities; and (7) preserve any existing rights under these Conditions to any accrued and unpaid interest or other amounts which have not been paid or cancelled in accordance with these Conditions (but without prejudice to the ability of the Society to cancel such amounts under terms thereof substantially the same as the cancellation rights under these Conditions);
- (iii) are listed and/or admitted to trading on the same stock exchange as that on which the Perpetual Capital Securities are, immediately prior to the relevant substitution or variation, listed and/or admitted to trading, or are listed and/or admitted to trading on such other internationally recognised stock exchange as selected by the Society; and
- (iv) where the Perpetual Capital Securities had a published rating solicited by the Society from one or more Rating Agencies immediately prior to their substitution or variation, benefit from (or will, as announced, or otherwise confirmed in writing, by each such relevant Rating Agency, benefit from) an equal or higher published rating from each such Rating Agency as that which applied to the Perpetual Capital Securities immediately prior to their substitution or variation.

"**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;

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

"**Deferred Shares Order**" means The Building Societies (Deferred Shares) Order 1991;

"**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);

"**EUWA**" means the European Union (Withdrawal) Act 2018;

"**Excluded Dissolution**" means each of (i) a winding up or dissolution of the Society for the purpose of a reconstruction, union, transfer, merger or amalgamation or the substitution in place of the Society of a successor in business, the terms of which reconstruction, union, transfer, merger or amalgamation or the substitution (x) have previously been approved by the Securityholders in accordance with Condition 15 and (y) do not provide that the Perpetual Capital Securities shall thereby become repayable in accordance with these Conditions, and (ii) 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 Mutual Societies Transfers Act;

"**Existing PCS**" means the outstanding Perpetual Contingent Convertible Additional Tier 1 Capital Securities (ISIN: XS1961836712) 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 Reset Date**" means 11 December 2029;

"**FSMA**" means the Financial Services and Markets Act 2000;

"**Further Perpetual Capital Securities**" has the meaning ascribed thereto in Condition 16(a);

"**Independent Adviser**" means an independent financial institution or independent 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 Date**" means 11 June and 11 December in each year, starting on (and including) 11 December 2024;

"**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 11 June 2024;

"**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 directors of the Society may determine;

"**Margin**" means 4.727 per cent. per annum;

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

"**Mutual Societies Transfers Act**" means the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007;

"**Par Call Period**" means, with respect to a Reset Date, the period of six calendar months ending on (and including) such Reset Date;

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

"**Perpetual Capital Securities**" has the meaning given in the preamble to these Conditions, 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 the £40,000,000 12¹/₈ per cent. Permanent Interest Bearing Shares (ISIN: GB0002290764) of the Society;

"**PRA Rulebook**" means the PRA Rulebook as it applies to CRR firms (as defined therein) maintained by the Regulator, as amended or replaced from time to time;

"**Principal Office**" means, with respect to the Society, its principal office from time to time, being as at the Issue Date at Coventry House, Harry Weston Road, Binley, Coventry CV3 2TQ, 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;

"**Qualifying Parent**" has the meaning given in Condition 13.2;

"**Qualifying Parent Securities**" has the meaning given in Condition 13.2;

a "**Ranking Event**" shall occur if none of the Existing PCS remain outstanding;

"**Rating Agency**" means any of Moody's Investors Service Limited, Fitch Ratings Limited and each of their respective affiliates or successors;

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

"**Reference Date**" means the later of the Issue Date and the latest date (if any) on which any Further Perpetual Capital Securities have been issued pursuant to Condition 16(a);

"**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, the Bank of England and/or any successor or replacement thereto or such other authority or authorities in the United Kingdom or elsewhere having primary responsibility for the prudential oversight and supervision of, or resolution matters in relation to, the Society, as applicable;

"**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 a United Kingdom stock exchange or securities market or another regularly operating, internationally recognised stock exchange or securities market;

"Relevant Tax Jurisdiction" has the meaning ascribed thereto in Condition 10;

"Reset Date" means the First Reset Date and each date that falls five, or a whole multiple of five, years following the First Reset 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 Benchmark Gilt Reset Reference 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 Banks" means five leading gilt dealers in the principal interbank market relating to pounds sterling selected by the Society and notified in writing to the Principal Paying Agent;

"Risk Weighted Assets" means, as at any time, the aggregate amount, expressed in the Accounting Currency, of the risk weighted assets of the Society as at such time, as calculated by the Society (or by the Regulator or an agent appointed by it for such purpose) on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation or any equivalent or similar law, rule or provision of the Capital Regulations then applicable to the Society) or, as the context requires, a consolidated basis, in each case in accordance with the then-prevailing Capital Regulations but without applying any transitional, phasing in or similar provisions (if any) if and to the extent the Regulator then requires them to be disregarded for the purpose of determining whether a Conversion Trigger has occurred;

"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:

- (i) 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 and no successor Clearing System is available; or
- (ii) the Society has or will become subject to adverse tax consequences which would not be suffered were the Perpetual Capital Securities represented by definitive Certificates.

If the circumstances in paragraph (i) above occur, the Nominee (acting on the instructions of one or more of the Accountholders (as defined below)) may give notice to the Society and the Registrar of its intention to exchange the Global Certificate for definitive Certificates on or after the Exchange Date (as defined below).

If the circumstances in paragraph (ii) above occur, the Society may give notice to the Nominee and the Registrar requiring exchange of the Global Certificate for definitive Certificates on or after the Exchange Date.

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 nominal amount of Perpetual Capital Securities (in which regard any certificate or other document issued by that Clearing System as to the nominal amount of Perpetual Capital Securities standing to the account of any person shall, save in the case of manifest error, be conclusive and binding for all purposes).

On the Exchange Date, the Nominee shall surrender the Global Certificate to, or to the order of, the Registrar for exchange for definitive Certificates. Upon exchange of the Global Certificate, the Registrar will make appropriate entries in the Perpetual Capital Securities Register and will, as soon as reasonably practicable and in any event within 14 days following the Exchange Date, deliver, or procure the delivery of, definitive Certificates to (or to the order of) the Nominee 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 the relevant definitive Certificates.

For these purposes, "**Exchange Date**" means a day specified in the relevant 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 or to be entered as a Securityholder on the Perpetual Capital Securities Register 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 (or otherwise by or on behalf of the Society) 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 (or otherwise by or on behalf of the Society) 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.

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.

The Society shall have no responsibility or liability for any aspect of the records of any Clearing System or for maintaining, supervising or reviewing any such records.

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 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 provided in paragraph 1 above, investors will hold their interests in the 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 Accountholders' holdings of interests in such Perpetual Capital Securities will be recorded in the internal records of the relevant Clearing Systems.

This means that Accountholders (and persons holding interests in the Perpetual Capital Securities via an Accountholder) 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 solely 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 Accountholders 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 outstanding and will act on the instructions of one or more 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 an Accountholder (or a person holding interests in Perpetual Capital Securities via an Accountholder) 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 aggregate nominal amount of Perpetual Capital Securities for the time being outstanding.

As Accountholders (and persons holding interests in Perpetual Capital Securities via an Accountholder) 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 such other charity nominated by the Society from time to time pursuant to any scheme for charitable assignment established by the Society for the time being) any Society Conversion Benefits.

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. SUBSTITUTION OF THE PERPETUAL CAPITAL SECURITIES FOR COMPLIANT SECURITIES

Any substitution of the Perpetual Capital Securities for Compliant Securities under Condition 7.5 will be effected in accordance with the procedures set out in the notice of substitution given by the Society to the Securityholders under that Condition and otherwise in accordance with the relevant procedures of the Clearing Systems.

8. 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.

9. 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 and upon the Registrar making appropriate entries in the Perpetual Capital Securities Register.

10. 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).

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 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 Accountholder at the time of such breach or (as the case may be) at commencement of such winding up or dissolution (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 commencement

of such winding up or dissolution, 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 Perpetual Capital Securities which are credited to such Relevant Person's securities account with the relevant Clearing System 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. Such Direct Rights will be acquired in lieu and to the exclusion of the corresponding rights of the Nominee in respect of the relevant Perpetual Capital Securities. Direct Rights will be acquired automatically at the time of the relevant breach of contract or (as the case may be) at commencement of the winding up or dissolution, without the need for any further action on behalf of any person. The Global Certificate will be executed by the Society as a deed, which shall take effect as a deed poll for the benefit of the Relevant Persons to enable them to exercise their Direct Rights as described herein. The Society's obligations to Relevant Persons as described herein shall be a separate and independent obligation to each Relevant Person by reference to each Underlying Perpetual Capital Security 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 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. For these purposes, a statement issued by the relevant Clearing System 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 or (as the case may be) at commencement of the winding up or dissolution, shall be conclusive evidence of the records of the relevant Clearing System at the time of the relevant breach of contract or (as the case may be) at commencement of the winding up or dissolution.

12. 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 Bonds or, as the case may be, Qualifying Parent Securities to be delivered to it shall instead be delivered directly to (or to the order of) the Accountholders as if those Accountholders had, at the vesting date, held in definitive form the nominal amount of Perpetual Capital Securities corresponding to their book-entry interests in the Clearing Systems 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 (as defined in "*Conditions of Issue of the Core Capital Deferred Shares*"). 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 or societies, the Perpetual Capital Securities would, pursuant to their terms, become deferred shares in the successor building society without any alteration of their terms, except as set out in Condition 13.1 and 13.3.

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 Supervisory Authority may also direct the transfer by a resolution of the Board of the transferee society only in certain circumstances. 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 substantially all of the Society's engagements (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. In addition, the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (the "**Mutual Societies Transfers Act**") permits a building society to transfer the whole of its business to a company that is a subsidiary of a mutual society (as defined in the Mutual Societies Transfers Act) and in such cases sections 97 to 102D of the Act are amended pursuant to orders made under section 3 of the Mutual Societies Transfers Act to reflect that the relevant company is a subsidiary of a mutual society.

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, unless in certain circumstances the Supervisory Authority directs the transfer to proceed by a resolution of the transferor society's Board only. 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 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 (if any) 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.

In the case of a transfer to a subsidiary of a mutual society, then pursuant to sections 97 to 102D of the Act as amended pursuant to orders made under section 3 of the Mutual Societies Transfers Act, qualifying members and persons who after the transfer become customers of the relevant successor company are entitled to receive membership in the mutual society (or if relevant a parent undertaking) which must be on no less favourable terms than those enjoyed by existing members of that mutual society (or if relevant that parent undertaking). There is no requirement for qualifying members to have at least two years standing to receive such membership. Qualifying members may also be granted rights in relation to shares in the relevant successor company and/or a distribution of funds and there is no requirement for qualifying members to have at least two years standing to receive such a distribution of funds.

4. DIRECTED TRANSFERS

The Act confers power on the Supervisory Authority, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, to direct a building society to transfer all of its engagements to one or more other building societies or to transfer its business to an existing company. The Financial Services Act 2012 also amended the Act to extend this power of direction to a transfer of a building society's business to an existing or specially formed company that is a subsidiary of another mutual society (as defined in section 3 of the Mutual Societies Transfers Act). Where any such direction is made, the Supervisory Authority may also, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, direct that such transfer may proceed on the basis of a resolution of the Board of the building society, without the need for member approval. In the case of a directed transfer, the Perpetual Capital Securities would be treated in the same way as on a transfer of engagements, transfer of business to a company or transfer to the subsidiary of another mutual as applicable for the purposes of Conditions 13.1 and 13.2.

5. 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 will be used by the Society to strengthen its regulatory capital base (including in the context of the proposed Acquisition) and for general business purposes consistent with the Society's principal purpose as a UK building society, including financing the tender offer with respect to the outstanding Perpetual Contingent Convertible Additional Tier 1 Capital Securities issued in 2019 (ISIN: XS1961836712) announced by the Society on 3 June 2024.

DESCRIPTION OF THE SOCIETY

Introduction

Coventry Building Society is the second largest building society in the UK based on asset size. Total assets of the Group as at 31 December 2023 stood at £62,462.7 million. Except as otherwise stated, all figures in this section are extracted from the audited consolidated annual financial statements of the Society for the year ended 31 December 2023. The Society now operates a network of 64 branches, 15 agencies and has over two 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 on 1 September 2010. The Society's principal office is Coventry House, Binley Business Park, Harry Weston Road, Coventry, CV3 2TQ, UK – telephone number +44 24 7655 5255.

The Society operates exclusively in the UK and has a branch network focused on Coventry, Warwickshire and the South West. Mortgage and savings products are offered via branches, the internet, by telephone and through the post to customers both inside and outside the branch operating area. Mortgage products are distributed primarily through intermediary channels.

The Society is incorporated under the Building Societies Act 1986 (the **Act**) and operates in accordance with the Act, regulations made thereunder and its Rules and Memorandum. The Society is an incorporated 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.

For the avoidance of doubt all figures quoted are the consolidated numbers for the Coventry Group (i.e. the Society, and its subsidiaries).

Following the Society's announcement on 21 December 2023 that it had entered into an exclusivity agreement in relation to a possible offer for the Co-operative Bank Holdings Limited and its announcement on 18 April 2024 that non-binding heads of terms have been agreed for this acquisition, the Society made the Acquisition Announcement (which is incorporated by reference in this Offering Circular) on 24 May 2024.

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 its equivalent in Scotland) and leasehold property.

The Society concentrates on its core business of personal savings and residential mortgage lending. As at 31 December 2023, 99 per cent. of loans were fully secured on residential property.

Mortgage lending activities

During 2023 the Society made mortgage and other loan advances of £7.9 billion gross, with a net increase in lending (total gross loans and advances to customers (contractual amounts)) of £2.3 billion. The corresponding figures for 2022 were advances of £8.7 billion and a net increase in lending (total gross loans and advances to customers (contractual amounts)) of £1.4 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 £47,582.3 million as at 31 December 2023, representing 76.0 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 2023 was 0.51 per cent. The corresponding figure for 2022 was 0.52 per cent.

The ratio of management expenses to mean total assets is a measurement of the efficiency of the business.

The ratio of management expenses to mean total assets is derived as follows:

	(£m)	(£m)
Total assets 2023	62,462.7	
Total assets 2022	<u>58,867.1</u>	
Mean total assets		<u>60,665</u>
Administrative expenses	285.8	
Amortisation of intangible assets	12.9	
Depreciation of property, plant and equipment	<u>13.2</u>	
Management expenses		<u>311.9</u>
Ratio of management expenses to mean assets		0.51

Financial position and liability management

MREL position

As at 31 December 2023, the Society met an MREL requirement of twice the binding capital requirement (i.e. two times Pillar 1 plus Pillar 2A), which as at that date equated to 21.3 per cent. of risk weighted assets. The Society is further required to meet capital buffers from common equity tier 1 capital, generating a total loss-absorbing requirement of 25.8 per cent. of risk weighted assets.

The Society currently expects that leverage will become the binding capital measure applicable to the Society in due course (though it is not the binding capital measure as at the date of this Offering Circular). If the Acquisition completes, the Combined Group will have retail deposits in excess of £50 billion and leverage will therefore be the binding capital measure. If leverage is the binding capital measure, this will significantly increase the Society's MREL requirements to twice the binding leverage exposure measure, and the Society will need to issue more MREL eligible debt. Based on the Society's balance sheet as at 31 December 2023, the Society would have needed around £0.2 billion in additional MREL funding were leverage to have been the binding capital requirement as at that date.

	End-point 31 December 2023 (%)	End-point 31 December 2022 (%)
MREL (as a percentage of risk weighted assets)	43.4	35.8
MREL requirement (as a percentage of risk weighted assets)	21.4	18

In March 2024, the Society issued £500 million of senior non-preferred debt, further increasing its MREL eligible debt.

Capital base

The Society is well capitalised and had a common equity tier 1 capital ratio of 29.1 per cent. at the end of 2023, and of 30.4 per cent. as at 30 June 2023. As at 31 December 2023, the Society held Common Equity Tier 1 capital in excess of its combined buffer requirement equal to £1,585.7 million, or 18.7 per cent. of risk weighted assets.

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 applicable regulatory capital requirements. The Society's leverage ratio is comfortably above the 3.25 per cent. minimum level (3.95 per cent. including buffer requirements) that would apply should the Society become subject to binding leverage ratio requirements.

	End-point 31 December 2023 (%)	End-point 31 December 2022 (%)
Common equity tier 1 (as a percentage of risk weighted assets) ¹	29.1	27.4
UK Leverage Ratio	5.4	5.2

¹ The common equity tier 1 capital ratio is the sum of general reserves less various prescribed deductions, divided by risk weighted assets.

Subscribed Capital and Other Equity Instruments

The Society has further subscribed Tier 1 capital in the form of £40 million Permanent Interest-Bearing Shares ("PIBS") and £415 million Perpetual Contingent Convertible Additional Tier 1 Capital Securities ("PCS") issued in 2019:

	As at 31 December		
	First Call Date	2023 £m	2022 £m
£40 million Permanent Interest-Bearing Shares	n/a	41.6	41.6
£415 million Perpetual Contingent Convertible Additional Tier 1 Capital Securities	18 September 2024	415.0	415.0

PIBS

Interest is payable in arrear on the PIBS at the rate of 12.125 per cent. per annum in half-yearly instalments, subject to the conditions of issue of the PIBS. The PIBS 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 in respect of PIBS would rank *pari passu* with claims in respect of PCS issued by the Society and behind all other creditors of the Society, including creditors in respect of subordinated liabilities, and the claims of members holding shares (other than deferred shares) as to principal and interest on those shares. The holders of the PIBS are not entitled to any share in any final surplus upon a winding-up or final dissolution of the Society.

The PIBS do not meet CRD IV recognition criteria and, accordingly, are not included in the Society's capital calculations.

PCS

Interest is payable, subject to the conditions of issue of the PCS, semi-annually in arrear on the PCS, at a rate of 6.875 per cent. per annum up to, and including, the first call date on 18 September 2024 (the "**First Call Date**"). If the PCS in issue remain outstanding following the First Call Date, they will bear interest at a rate which is reset on the First Call Date and each fifth anniversary of the First Call Date, as the sum of the prevailing rate on a benchmark Gilt at that time and a margin of 6.111 per cent.

In a winding-up or dissolution of the Society, the claims in respect of the PCS would rank *pari passu* with claims in respect of the PIBS and behind all other creditors of the Society including creditors in respect of subordinated liabilities and the claims of members holding shares (other than deferred shares) as to principal and interest on those shares. The holders of the PCS are not entitled to any share in any final surplus upon a winding-up or final dissolution of the Society.

The PCS are the subject of the tender offer announced by the Society on 3 June 2024. Depending on the outcome of the tender offer, the outstanding principal amount of the PCS may be reduced.

Subordinated Liabilities

	<u>As at 31 December</u>	
	2023	2022
	£m	£m
Fixed rate subordinated notes 2032 - 7.54%	15.4	15.4
Total.....	15.4	15.4

All of the subordinated notes are denominated in Sterling. The subordinated 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 2023 the Society obtained 18.7 per cent. of its funding from sources other than shares held by individuals, compared to 23.9 per cent. as at 31 December 2022.

Wholesale funding

	<u>As at 31 December</u>	
	2023	2022
	£m	£m
Deposits from banks	5,230.7	7,542.9
Debt securities in issue	5,377.5	5,243.2

	As at 31 December	
	2023	2022
	£m	£m
Other deposits.....	0	5.0
Amounts owed to other customers.....	237.3	416.1
Total wholesale funding	10,845.5	13,207.2

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. As at the 31 December 2023, the Society held Treasury assets (comprising cash and balances with the Bank of England, loans and advances to credit institutions and debt securities) of £10.9 billion (31 December 2022 £10.0 billion) and reported a Liquidity Coverage Ratio (LCR) of 227 per cent. (195 per cent. as at 31 December 2022).

General reserve

As at 31 December 2023, the Group's general reserve amounted to £2,573.2 million.

Business Developments

The Society is committed to retaining its building society status, which it believes provides better outcomes for its members. Initiatives for savers and borrowers include the following:

- Competitive traditional residential sector mortgage products as well as a wide range of other competitive products including offset mortgages and buy-to-let mortgages.
- Existing borrowers have access to mortgage products at the same rates as new business.
- Competitive savings product set which offers traditional fixed rate bonds, instant access accounts, ISAs and 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.
- 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 29 February 2024, the Society issued its final results for the year ending 31 December 2023. Selected financial highlights are as follows:

- Profit before tax of £473.5 million compared to £370.5 million for the year ended 31 December 2022.
- Loans and advances to customers increased to £50,276.1 million.
- New mortgage lending of £7.9 billion.

- Shares balances increased by £5.3 billion to £47,582.3 million.
- Rated A-/F1 by Fitch and A2/P1 by Moody's.
- Common Equity Tier 1 ratio of 29.1 per cent.
- Cost to mean assets ratio of only 0.51 per cent.
- 0.26 per cent. of mortgage balances were three months or more in arrears.
- Impairment charge for Expected Credit Losses on loans and advances to customers of £6.9 million.

Management

The Board is responsible for the Society's strategy and direction. The execution of that strategy and day-to-day management is vested with the Executive Directors. The members of the Board, 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	Position within the Society	Other Directorships and positions
D Thorburn	Chair of the Board	EY UK LLP Chartered Banker Institute 2025 Foundation
M Stewart	Independent Non-Executive Director	Clayton Stewart Ltd Clayton Stewart Properties Ltd Paragon Bank PLC Holds an advisory role to the Chief Risk Officers of OakNorth Bank plc and Northern Bank Ltd, through Clayton Stewart Ltd
I Amiri	Independent Non-Executive Director	Development Bank of Wales plc AON UK Limited Eurocell plc
J Kenrick	Deputy Chair and Senior Independent Director	Dwr Cymru Cyfyngedig Glas Cymru Holdings Cyfyngedig Rhapsody Court Freehold Ltd Sirius Real Estate Vitality Health Limited
S Mohammed	Independent Non-Executive Director	Pezula Limited Athora Italia S.p.A.
B O'Connor	Independent Non-Executive Director	FCE Bank Plc
L Raybould	Chief Financial Officer and Executive Director	ITL Mortgages Limited Godiva Mortgages Limited Arkose Funding Limited Coventry Property Services Limited

Coventry Financial Services Limited
Godiva Financial Services Limited
Godiva Housing Developments Limited
Godiva Securities and Investments Limited
Godiva Savings Limited

S Hughes

Chief Executive Officer and Executive
Director

Godiva Mortgages Limited
ITL Mortgages Limited
Member of the BSA Council
The Pennies Foundation
The Money and Pension Service

On 31 May 2024 the Society announced that Ewa Kerin had been appointed as an Independent Non-Executive Director of the Society with effect from 1 July 2024.

The business address of the Directors and Executive Directors is Coventry House, Binley Business Park, Harry Weston Road, Coventry CV3 2TQ.

The Executive Directors have entered into service contracts which enable the Society to give not less than six-months' 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:

- 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 Godiva Covered Bonds LLP, which gives rise to risks and rewards that are in substance no different than if it was a subsidiary undertaking, and which is therefore consolidated under the IFRS in the Coventry Group accounts.

The following entities are consolidated under the IFRS as if they were wholly owned subsidiaries of the Society:

- Coventry Building Society Covered Bonds LLP

- Coventry Godiva Covered Bonds LLP
- Economic Master Issuer plc

See note 15 (Loans and advances to customers) and note 16 (Investment in group undertakings) of the Society's audited consolidated financial statements for the financial year ended 31 December 2023 for further information.

Independent Auditors

PricewaterhouseCoopers LLP of One Chamberlain Square, Birmingham, B3 3AX have audited without qualification the financial statements of the Society as at and for each of the years ending 31 December 2023 and 31 December 2022. PricewaterhouseCoopers LLP is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

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

Payments of interest on the Perpetual Capital Securities may be made without deduction of or withholding on account of United Kingdom income tax provided that the Perpetual Capital Securities are and continue to be Quoted Eurobonds within the meaning of section 987 of the Income Tax Act 2007 (the "**ITA 2007**"). The Perpetual Capital Securities will be Quoted Eurobonds as long as they are and continue to be admitted to trading on a multilateral trading facility operated by a recognised stock exchange that is regulated in the United Kingdom within the meaning of section 987 of the ITA 2007. The ISM is a "multilateral trading facility" for this purpose. It is operated by the London Stock Exchange which is recognised stock exchange regulated in the United Kingdom. In all other cases, interest on securities which are listed or capable of being listed on a recognised stock exchange at the time the interest or other distribution became payable will generally be paid by the Society under deduction of United Kingdom income tax at the basic rate, subject to the availability of other reliefs or to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation 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.

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 ("**SDRT**") should be payable in the UK on the issue of the Perpetual Capital Securities into the Clearing Systems or on the write down of the Perpetual Capital Securities on a Conversion. Provided no election that applies to the Perpetual Capital Securities is or has been made under section 97A of the Finance Act 1986 (a "**97A election**") by a Clearing System, no stamp duty or SDRT should be payable on their transfer within that Clearing System, without an instrument of transfer. However, if a 97A election were to apply to the Perpetual Capital Securities in the future, transfers of the Perpetual Capital Securities within the Clearing Systems could, unless an exemption applies, be subject to SDRT, generally at the rate of 0.5 per cent. of the consideration given under the agreement to transfer the Perpetual Capital Securities. If definitive certificates are issued in respect of the Perpetual

Capital Securities, stamp duty and/or SDRT may be payable on a transfer of, or an agreement to transfer Perpetual Capital Securities, generally at the rate of 0.5 per cent. of the consideration given under the agreement to transfer Perpetual Capital Securities (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 SDRT would be discharged if stamp duty is duly paid on the instrument transferring Perpetual Capital Securities in definitive form, within six years of the date of the agreement.

The SDRT and stamp duty charges referred to above that may arise on transfers of the Perpetual Capital Securities whether within or outside the Clearing Systems should not apply if the Perpetual Capital Securities are "hybrid capital instruments" taxable under the hybrid capital instruments tax regime in Chapter 12, Part 5 of the Corporation Tax Act 2009 (the "**HCI Rules**"). The Perpetual Capital Securities will be taxable under the HCI Rules if at the time of the transfer of or agreement to transfer the Perpetual Capital Securities: (a) the Society has made an election within six months of the date on which the Perpetual Capital Securities are issued for the HCI Rules to apply to them (an "**Election**"), and (b) the Society has not issued the Perpetual Capital Securities in connection with any arrangements which have as their main purpose or one of their main purposes securing a tax advantage for the Society or for any other person (a "**Tax Advantage Scheme**"). The Society intends to make an Election on or before the date of issue of the Perpetual Capital Securities and the Society does not consider that the Perpetual Capital Securities are being issued as part of a Tax Advantage Scheme.

No stamp duty or SDRT should be payable in the UK on the issue of CCDS into the Clearing Systems on a Conversion. Provided no 97A election is or has been made by a Clearing System that applies to CCDS, no stamp duty or SDRT should be payable in the UK on the transfer of CCDS within 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 SDRT 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 SDRT 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 SDRT 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.

ACCOUNT TAX COMPLIANCE ACT ("FATCA")

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Society is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Perpetual Capital Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Perpetual Capital Securities, are uncertain and may be subject to change. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Perpetual Capital Securities.

SUBSCRIPTION AND SALE

BNP PARIBAS, J.P. Morgan Securities plc (the "**Structuring Agent to the Society**"), Lloyds Bank Corporate Markets plc, NatWest Markets Plc and UBS AG London Branch (together, the "**Joint Lead Managers**") have agreed with the Society, subject to the satisfaction of certain conditions, 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 their engagement 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 including in respect of the tender offer for the outstanding Perpetual Contingent Convertible Additional Tier 1 Capital Securities issued in 2019 (ISIN: XS1961836712) announced by the Society on 3 June 2024.

The Joint Lead Managers and their affiliates may have positions, deal or make markets in the Perpetual Capital Securities, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Society, other members of the Group and their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities the Joint Lead Managers and/or 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 or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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 completion of the distribution of all of the Perpetual Capital Securities, within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act, 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 under the Securities Act.

The Perpetual Capital Securities are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S under the Securities Act.

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 if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Prohibition of sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available, and will not offer, sell or otherwise make available, any Perpetual Capital Securities to any retail investor in the European Economic Area. For the purposes of this provision the expression "**retail investor**" means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); or
- (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

Prohibition of sales to UK Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Perpetual Capital Securities which are the subject of the offering contemplated by this Offering Circular to any retail investor in the United Kingdom. For the purposes of this provision the expression "**retail investor**" means a person who is one (or more) of the following:

- (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or
- (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of UK MiFIR.

Each Joint Lead Manager has further 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.

Italy

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available, and will not offer, sell or otherwise make available, any Perpetual Capital Securities to any investor in Italy.

Hong Kong

Each Joint Lead Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Perpetual Capital Securities other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (b) in other circumstances which

do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "C(WUMP)O") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Perpetual Capital Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Perpetual Capital Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Perpetual Capital Securities or caused the Perpetual Capital Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell any Perpetual Capital Securities or cause the Perpetual Capital Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell any of the Perpetual Capital Securities or cause the Perpetual Capital Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Perpetual Capital Securities, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA, or (ii) to an accredited investor (as defined in Section 4(A) of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

Canada

The Perpetual Capital Securities may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Perpetual Capital Securities must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Circular (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

General

No representation has been made that any action has been or will be taken by the Society or any of the Joint Lead Managers that would permit a public offer of the Perpetual Capital Securities, or possession or distribution of this Offering Circular (in preliminary, proof or final form) or any other offering or publicity material relating to the Perpetual Capital Securities (including roadshow materials and investor presentations), 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 resolutions of the Board of Directors of the Society passed on 24 April 2024 and resolutions of a duly appointed sub-committee of the Board of Directors of the Society passed on 24 May 2024.

2. Approval, listing and admission to trading

It is expected that admission of the Perpetual Capital Securities to trading on the ISM will be granted on or around 11 June 2024, subject only to the issue of the Global Certificate and that such admission will become effective, and that dealings in the Perpetual Capital Securities on the ISM will commence, on or about 12 June 2024.

Perpetual Capital Securities so admitted to trading on the ISM are not admitted to the Official List of the FCA. The London Stock Exchange has not approved or verified the contents of this Offering Circular.

3. Clearing Systems

The Global Certificate has been accepted for clearance through the Clearing Systems. The ISIN for the Perpetual Capital Securities is XS2826591740 and the Common Code is 282659174.

The CFI and FISN for the Perpetual Capital Securities will be set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN for the Perpetual Capital Securities.

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

4. No significant or material adverse change

Since 31 December 2023, there has been no significant change in the financial or trading position of the Society or the Group and there has been no material adverse change in the prospects of the Society or the Group as a whole since 31 December 2023.

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, a significant effect on the financial position or profitability of the Society or the Group.

6. Auditors

PricewaterhouseCoopers LLP ("PwC"), Independent Auditors (authorised and regulated by the FCA for designated investment business), have audited, and rendered unqualified audit reports on, the consolidated annual financial statements of the Society for the years ended 31 December 2022 and 31 December 2023. PwC have no material interest in the Society or 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.

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 annual financial statements of the Society for the financial years ended 31 December 2022 and 31 December 2023;
- (iii) the Pillar 3 Disclosures of the Society for the financial years ended 31 December 2022 and 31 December 2023; and
- (iv) the Agency Agreement, which includes the form of the Global Certificate.

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 Capital (or equivalent) 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 simultaneously with, or 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 such other Core Capital Deferred Shares;
- (iv) the Society or its business is the subject of a succession or transfer of a type envisaged by Condition 13 of the Conditions of the Perpetual Capital Securities or 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), or the issue or transfer of the CCDS into or within the Clearing Systems may or would result in the Society suffering adverse tax consequences (including incurring any tax liabilities) which would not arise, or which would be reduced, if the CCDS were to be issued and held outside the Clearing Systems (including, for example, if the CCDS were issued into an alternative settlement system or in definitive certificated form).

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"; "Financial Year"; "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 for the purposes of the Rules. 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 the Society's current expectation, as at the date of this Offering Circular, taking into account applicable law and regulation (including, without limitation, United Kingdom tax law) as at such date, that beneficial interests in the CCDS will be held by investors through accounts with a Clearing System (although there is no assurance that this will be the case). If the CCDS are issued into one or more Clearing Systems, the Society expects that title to all such CCDS will be registered in the name of a nominee of a depository for the relevant Clearing System(s) (the "**Nominee**") who shall be the CCDS holder for the purposes of the Rules and the Conditions (and, therefore, the Shareholding Member for the purposes of the Rules). In such case, 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.*

If the CCDS are issued into one or more Clearing Systems, the Society expects that registration of title to CCDS in a name other than that of the Nominee would be permitted only if (i) all relevant 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 and no successor Clearing System is available; or (ii) the Society has or will become subject to adverse tax consequences which would not be suffered were the CCDS held in definitive form. 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 holders of 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 (the "**Board**") of the Society thinks fit.

While no charge will be made by the Society in respect of any entry in the CCDS Register, as provided in the Conditions of Issue of the Core Capital Deferred Shares, registration of transfers of CCDS will be made upon payment (or the giving of such indemnity as the Society or its appointed Registrar may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

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, or replacement of, 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. As at the date of this Offering Circular, the prevailing Cap in respect of the Financial Year to 31 December 2023 is £19.92. The next 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 2024 to the prevailing Cap of £19.92.

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, which may include an expectation of future Distributions having 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. The policy must provide that any such expectation (if given) is indicative only and not legally binding on the Society and that Distributions may be paid at the absolute discretion of the Board.

The Cap represents the maximum permitted Distribution in respect of a Financial Year which the Board could elect to declare, and is designed to protect the reserves of the Society. It is not a target or any other indication of the Board's intentions as regards the declaration of Distributions.

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 commenced in that 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 any CCDS held through a Clearing System 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 officer 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, CCDS holders will have no right to repayment of any principal amount in respect of their CCDS; rather, 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 47 of the Society's Rules. Rule 47 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 the date of this Offering Circular, 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 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

Subject to any overriding power under statute for the High Court to transfer particular proceedings to the County Court, section 85 of and Schedule 14 to the Act provide that, for a building society whose principal office is in England and Wales, 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 (save for narrow exceptions where the rules may require arbitration for certain disputes relating to election addresses, requisitioned resolutions and requisitioned meetings) or the Act or any statutory instrument under the Act.

PART II

CONDITIONS OF ISSUE OF THE CORE CAPITAL DEFERRED SHARES

The following (save for paragraphs in italics, which are for information only and 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, unless the context otherwise requires, include any Additional CCDS (as defined below) issued pursuant to Condition 13) 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.

*It is the Society's current expectation, as at the date of this Offering Circular, taking into account applicable law and regulation (including, without limitation, United Kingdom tax law) as at such date, that beneficial interests in the CCDS will be held by investors through accounts with a Clearing System (although there is no assurance that this will be the case). If the CCDS are issued into one or more Clearing Systems, the Society expects that title to all such CCDS will be registered in the name of a nominee of a depository for the relevant Clearing System(s) (the "**Nominee**") who shall be the CCDS holder for the purposes of the Rules and the Conditions (and, therefore, the Shareholding Member for the purposes of the Rules). In such case, the Society expects that registration of title to CCDS in a name other than that of the Nominee, and the issue of definitive Certificates in respect of CCDS, would occur 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 and registered in the name of the Nominee, the Nominee shall be the CCDS holder for all such CCDS for the purposes of the Conditions, and not the investors holding beneficial interests in the CCDS through the Clearing Systems or the persons shown in the records of the Clearing Systems. The persons shown in the records of the Clearing Systems (other than a Clearing System) shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of the relevant Clearing System.

Neither the Rules nor the terms of the Perpetual Capital Securities require the Society to issue CCDS into a Clearing System, and the Society may instead, in its discretion, elect to issue the CCDS into an alternative clearance or settlement system (such as, for example, into the CREST system operated by Euroclear UK & International Limited) or in definitive certificated form. While this is not the current intention of the Society as at the date of this Offering Circular, this may change as a result of various factors, including (but not limited to) as a result of changes in applicable law or regulation (including, without limitation, United Kingdom tax law) prior to issue by the Society of CCDS.

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 18.

- 1.2 The CCDS:
- (a) are deferred shares for the purposes of section 119 of the Building Societies Act 1986 (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 (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 such other charity nominated by the Society from time to time pursuant to any scheme for charitable assignment established by the Society for the time being) (the "**Charity Assignee**"). 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 the Charity Assignee (or to the Society for payment and delivery to the Charity Assignee) and until such time as payment is made, will hold a sum equal to such amount on trust for the Charity Assignee.

If the CCDS are issued into one or more Clearing Systems and registered in the name of a Nominee in the manner described above, then as neither investors holding the beneficial interests in CCDS through Clearing System accounts nor the persons shown in the records of the Clearing Systems will, 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 the Charity Assignee 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 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. 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 would not be possible for investors holding interests in CCDS through a Clearing System to transfer CCDS in amounts less than the Minimum Transfer Amount prevailing as at the time of transfer. The Society expects that 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 any stock exchange, investors and potential investors in CCDS who are members of such stock exchange should have regard to any settlement obligations under the rules of such stock exchange (such as, if applicable, rule G5000 (obligation to settle) of the London Stock Exchange).

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 one month 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 OR DISSOLUTION

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) (including, where relevant, as amended pursuant to an order made under section 3 of the Mutual Societies Transfers Act) 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 or dissolution 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 or dissolved 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), (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_{DT}**" 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_{DT-1}**" 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_{DT-1}** shall be zero);

"**Core Capital_{DT}**" 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_{DT}** as a result of any new CCDS being issued at time DT, (ii) any **Cancellation Adjustment Amount_{DT}** 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_{DT}**" 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_{DT}**" 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_{DT}**" 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_{DT}** by (y) **CCCP_{DT-1}** 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_{DT}**", "**CCCP_{DT-1}**" and "**Cancellation Adjustment Amount_{DT}**" have the meanings given above.

The "Cancellation Adjustment Share_{DT}" 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_{DT}" 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):

$$\frac{\text{Aggregate Nominal} + \text{Aggregate Premium}}{\text{Total CCDS Issued}}$$

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 the Society and its subsidiaries, 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, etc.

By acceptance of the CCDS, each CCDS holder (and each holder of any interest in the CCDS) will be deemed to have waived any right of set-off (including, without limitation, compensation or retention), counterclaim or netting that such 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 (or holder of any interest in the CCDS) in respect of, or arising under, the CCDS are discharged by set-off (including, without limitation, compensation or retention), counterclaim or netting, such 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.

Condition 4.9 shall not be construed as indicating or acknowledging that any rights of set-off (including compensation or retention), counterclaim or netting would, but for Condition 4.9, otherwise be available to any CCDS holder with respect to any CCDS.

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 *[date, month]* 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 *[date, month]* 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, or replacement of, 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. As at the date of this Offering Circular, the prevailing Cap in respect of the Financial Year to 31 December 2023 is £19.92. The next 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 2024 to the prevailing Cap of £19.92.

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 nor impose any restrictions on the Society or prevent the Society from declaring any distributions or interest payments on any of its other shares or other instruments or obligations.

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 on the due date for payment or, if such date is not a Business Day, on the immediately following Business Day to a 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**") by transfer to such CCDS holder's Designated Account (or, failing which, by sterling cheque drawn on a bank or building society in the United Kingdom, posted on or about the due date for payment and made payable to such CCDS holder).

As used herein, "**Designated Account**" means, with respect to a CCDS holder, the sterling account maintained by such CCDS holder with a bank or building society in the United Kingdom, as appearing in the CCDS Register.

Notwithstanding this Condition 6.1, all payments in respect of CCDS held through Clearing System accounts (if any) will be made by or on behalf of the Society to or to the order of the Nominee, which payment shall discharge the obligations of the Society in respect thereof. The relevant Clearing System will be responsible for ensuring that the relevant shares of such payment are credited to the cash accounts of Accountholders in such Clearing System in accordance with its rules and procedures. Each Accountholder must look solely to the relevant Clearing System for its share of any payment made by or on behalf of the Society to or to the order of the Nominee, and each investor holding beneficial interests in the CCDS through an Accountholder must look solely to such Accountholder (or such other intermediary through which it holds its interests in CCDS) for its share of each payment so made. For so long as all CCDS are held in the Clearing Systems, the Record Date shall be determined in accordance with this Condition 6.1, save that the words "fifteenth day" shall be deemed to be replaced with "ICSD Business Day", which shall mean a day on which the Clearing Systems are open for business.

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 or other laws and regulations to which any of the Society, the Registrar or the Principal Paying Agent is or becomes subject 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 the date of this Offering Circular, 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 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 and, subject to the immediately following paragraph, its subsidiaries may, in their sole discretion but subject to Condition 8.3 and to compliance with the Capital Rules then prevailing, at any time purchase or otherwise acquire CCDS in the open market or otherwise at any price. CCDS so purchased may, at the option of the Society (but, in the case of a purchase by a subsidiary of the Society, subject to the immediately following paragraph), 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 or any of its subsidiaries 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 and/or any other relevant authority of its intention to purchase the CCDS and the Supervisory Authority and/or such other relevant authority (as applicable) having permitted, approved or consented 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**", and references in these Conditions to "Society" shall thereafter be construed accordingly), 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 (including, where relevant, as amended pursuant to an order made under section 3 of the Mutual Societies Transfers Act) to a company (a "**Successor Entity**", which expression includes a subsidiary of a mutual society as referred to in 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 use all reasonable endeavours 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 the 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 (including, where relevant, as amended pursuant to an order made under section 3 of the Mutual Societies Transfers 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 Save as provided in Condition 11.5, 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 (all as more fully described in Schedule 3 to the Agency Agreement).
- 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.

11.5 If, at any time, a Regulatory Event occurs, the Society may in its sole discretion, without the need for the consent of the holders of the CCDS, upon not less than 30 nor more than 90 days' notice to holders of the CCDS in accordance with Condition 14, vary the terms of the CCDS so that they remain or (as the case may be) become capable of qualifying in full as Common Equity Tier 1 Capital of the Society, provided that:

- (a) the terms of the CCDS, as so varied, are not materially less favourable to the CCDS holders (in their capacity as such) than the terms of the CCDS immediately prior to such variation (as reasonably determined by the Society in good faith in consultation with an independent adviser of recognised standing, in which regard a certification to such effect shall be signed by two directors of the Society and made available to holders for inspection); and
- (b) if the CCDS were admitted to listing and/or trading on any stock exchange immediately prior to such variation, the CCDS continue to be admitted to listing and/or trading on the same stock exchange or on another stock exchange selected by the Society.

Any such variation, which will be binding on all CCDS holders, will be subject to compliance with prevailing Capital Rules at such time and, if then required by the Supervisory Authority or the Capital Rules or by any laws or regulations applicable to deferred shares of the Society, be conditional upon the Society having duly notified the Supervisory Authority and/or (if applicable) any other relevant authority of its intention to vary the terms of the CCDS and the Supervisory Authority and/or such other relevant authority (as applicable) having permitted such variation.

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 (which need not be a physical place and instead may be by way of conference call, including use of a videoconference platform, and all references to "place" or "present" in this Condition 12 shall be construed accordingly, so far as the context admits) 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 chair.

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 chair) shall be transacted at any meeting unless the requisite quorum shall be present at the commencement of business.

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 chair 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 chair 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

Every resolution put to the meeting (other than the choosing of a chair which will be decided by a simple majority on a show of hands) shall be decided by a poll. On a poll, every CCDS holder or proxy who is present shall have one vote for each CCDS held or represented by that person. Any such resolution shall be duly passed if not less than three-quarters of the votes cast thereon are cast in favour.

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 chair directs and the result of the poll shall be deemed to be the resolution of the meeting.

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 in favour 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 chair 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, and the passing of any resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution.

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

The Society shall 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.

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, but this does not affect any right or remedy of any person which exists or is available apart from that act.

16. GOVERNING LAW

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.

Subject to any overriding power under statute for the High Court to transfer particular proceedings to the County Court, section 85 of and Schedule 14 to the Act provide that, for a building society whose principal office is in England and Wales, 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 (save for narrow exceptions where the rules may require arbitration for certain disputes relating to election addresses, requisitioned resolutions and requisitioned meetings) or the Act or any statutory instrument under the Act.

17. AGREEMENT AND ACKNOWLEDGEMENT WITH RESPECT TO THE EXERCISE OF BAIL-IN POWER

17.1 Recognition of Bail-in

Notwithstanding and to the exclusion of any other term of the CCDS or any other agreements, arrangements, or understandings between the Society and any CCDS holder (or any person holding any interest in any CCDS), by its acquisition of any CCDS (or any interest therein), each CCDS holder, and each holder of a beneficial interest in any CCDS, acknowledges and accepts that the Society and/or the CCDS may be subject to the exercise of the Bail-in Power by the Resolution Authority, and acknowledges, accepts, consents and agrees to be bound by:

- (a) the effect of the exercise of the Bail-in Power by the Resolution Authority, that may include and result in (without limitation) any of the following, or some combination thereof:
 - (i) the cancellation, transfer and/or dilution of the CCDS; and
 - (ii) the amendment or alteration of the term of the CCDS or the amendment, cancellation or reduction of any amounts payable in respect of the CCDS (whether or not the same have or may become due and payable) and/or the date on which any amount may become payable, including by suspending payment for a temporary period and/or varying any conditions applicable to any payment; and
- (b) the variation of the terms of the CCDS, if necessary, to give effect to the exercise of the Bail-in Power by the Resolution Authority.

17.2 Payment of interest and other outstanding amounts

No payment of any amounts in respect of the CCDS will be or become due and payable or be paid after the exercise of any Bail-in Power by the Resolution Authority, if and to the extent such amounts have been reduced, converted, cancelled, suspended (for so long as such suspension or moratorium is outstanding), amended or altered as a result of such exercise.

17.3 No default

Neither the cancellation, transfer or dilution of the CCDS, nor the amendment or reduction of any amount payable in respect of the CCDS (whether or not such amount has or may become due and payable) or any other variation of the terms of the CCDS, nor any other effect of the exercise of the Bail-in Power by the Resolution Authority, as a result of the exercise of the Bail-in Power by the Resolution Authority with respect to the Society, nor the exercise of the Bail-in Power by the Resolution Authority with respect to the CCDS will be an event of default under these Conditions or otherwise or a default for any purpose.

17.4 Notice to CCDS holders

Upon the exercise of the Bail-in Power by the Resolution Authority with respect to the CCDS, the Society shall notify the Principal Paying Agent in writing of such exercise and give notice of the same to CCDS holders in accordance with Condition 14. Any delay or failure by the Society in delivering any notice referred to in this Condition 17.4 shall not constitute a default or event of default for any purpose, nor shall it affect the validity and enforceability of the Bail-in Power or the consequences thereof.

17.5 Definitions

For the purposes of this Condition 17:

"Bail-In Legislation" means Part I of the Banking Act 2009, and any other law or regulation applicable in the United Kingdom relating to the resolution of unsound or failing banks, building societies, investment firms or other financial institutions or their affiliates (otherwise than through liquidation, administration or other insolvency proceedings);

"Bail-in Power" means the powers under the Bail-In Legislation to cancel, transfer or dilute shares issued by a person that is a bank, building society or investment firm or affiliate of a bank, building society or investment firm, to cancel, reduce, transfer, modify or change the form of a liability of such a person or any contract or instrument under which that liability arises, to convert all or part of that liability into shares, securities or obligations of that person or any other person, to provide that any such contract or instrument is to have effect as if a right had been exercised under it or to suspend any obligation in respect of that liability; and

"Resolution Authority" means the Bank of England or any successor thereto or replacement thereof and/or such other and/or additional authority or authorities in the United Kingdom with the ability to exercise the Bail-in Power in relation to the Society and/or the CCDS.

18. DEFINITIONS AND INTERPRETATION

Interpretation

All references in these Conditions to any statute or any provision of any statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under any such modification or re-enactment.

For the purpose of these Conditions, references to **"winding up or dissolution"** shall, to the extent consistent with the classification of the CCDS as deferred shares pursuant to section 119 of the Act and the Deferred Shares Order, include any similar procedure (including building society insolvency, or a building society administration involving a distribution to creditors, pursuant to the Banking Act 2009) which has the effect of a winding up or dissolution.

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.

"**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 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 it forms part of the laws of the United Kingdom by virtue of the EUWA.

"**Capital Rules**" means, at any time, the applicable laws and regulations of the United Kingdom and rules, requirements, guidelines and policies of the Supervisory Authority (in each case, as amended or replaced from time to time, and whether or not having the force of law) and/or any other laws, regulations, rules, requirements, guidelines or policies (whether or not having the force of law) relating, in each case, to capital adequacy (whether on a risk-weighted, leverage or other basis) or prudential or supervision (including as regards the requisite features of own funds instruments) and/or to the resolution of credit institutions (including as regards any minimum requirement for own funds and eligible liabilities), in each case to which the Society and its group are subject at such time.

"**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 holders of CCDS.

"**Charity Assignee**" has the meaning given in Condition 1.3.

"**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.

"**Designated Account**" has the meaning given in Condition 6.1.

"**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 (on the basis that the CCDS are intended to qualify as Common Equity Tier 1 Capital).

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, any profits which are non-distributable pursuant to national law or the institution's by-laws and any sums placed in non-distributable reserves in accordance with the law of the United Kingdom, or any part of it, or of a third country or the statutes of the institution, in each case with respect to the specific category of own funds instruments to which the law of the United Kingdom, or any part of it, or of a third country, institutions' by-laws, or statutes relate; such profits, 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.

"**Final Distribution**" has the meaning given in Condition 5.1.

"**Financial Year**" has the meaning given in the Rules (or, if the Rules no longer include a definition of such term, the period of 12 months ending on (and including) the date of the balance sheet forming part of the audited annual financial statements of the Society), in each case subject to any adjustment as the Board in its sole discretion may consider appropriate in respect of any short or long accounting period resulting from a change in the accounting reference date of the Society.

"**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.

"**Mutual Societies Transfers Act**" means the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007;

"**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) 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
- (iv) 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.

"**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.

a "**Regulatory Event**" will occur if there is a change (which has occurred or which the Supervisory Authority considers to be sufficiently certain) in the regulatory classification of the CCDS such that the CCDS or any part of them are, or are likely to be, excluded from the Common Equity Tier 1 Capital of the Society (whether on a solo, individual consolidated or consolidated basis).

"**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, the Bank of England and/or any successor or other authority or authorities having primary supervisory authority with respect to prudential and/or resolution matters in relation to the Society, as applicable.

"**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 currently expects, as of the date of this Offering Circular, taking into account applicable law and regulation (including as to United Kingdom taxation matters) as of such date, 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 (although there is no assurance that this will be the case).

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:

- (i) 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 and no successor Clearing System is available; or
- (ii) the Society has or will become subject to adverse tax consequences which would not be suffered were the CCDS represented by the Global CCDS Certificate in definitive form.

If the circumstances in paragraph (i) above occur, the Nominee (acting on the instructions of one or more of the Accountholders (as defined below)) may give notice to the Society and the Registrar of its intention to exchange the Global CCDS Certificate for definitive CCDS Certificates on or after the Exchange Date (as defined below).

If the circumstances in paragraph (ii) above occur, the Society may give notice to the Nominee and the Registrar requiring exchange of the Global CCDS Certificate for definitive Certificates on or after the Exchange Date.

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, save in the case of manifest error, be conclusive and binding for all purposes).

On the Exchange Date, the Nominee shall surrender the Global CCDS Certificate to, or to the order of, the Registrar for exchange for definitive Certificates. Upon exchange of the Global CCDS Certificate, the Registrar will make appropriate entries in the CCDS Register and will, as soon as reasonably practicable and in any event within 14 days following the Exchange Date, deliver, or procure the delivery of, definitive CCDS Certificates to (or to the order of) the Nominee 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.

Accountholders will have no right to require delivery of definitive Certificates representing their interests in any CCDS or to be entered as a CCDS holder on the CCDS Register except in the circumstances described in this paragraph 1.

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 (or otherwise by or on behalf of the Society) 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 (or otherwise by or on behalf of the Society) 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.

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 Society shall have no responsibility or liability for any aspect of the records of any Clearing System or for maintaining, supervising or reviewing any such records.

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 on a 'unit' basis 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 any stock exchange, investors and potential investors in CCDS who are members of such stock exchange should have regard to any settlement obligations under the rules of such stock exchange (such as, if applicable, rule G5000 (obligation to settle) of the London Stock Exchange).

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 (the "**Compliance 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/or such equivalent or similar rules (if any) of any Relevant Authority which are applicable to the CCDS as a result of their being listed or admitted to trading on any other stock exchange or market, in each case as amended or supplemented or replaced from time to time (together, the "**Free Float Rules**", and references to the "**Relevant Authority**" shall mean such stock exchange or other authority responsible for establishing or ensuring compliance with the applicable Free Float Rules).

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 the Free Float Rules 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 the Free Float Rules, 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 Relevant Authority.

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 the Free Float Rules, (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.

The Free Float Rules are rules which require the Society to ensure that a sufficient number of CCDS are, and on an ongoing basis remain, in 'public hands' within the meaning of the Free Float Rules (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 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 provided in paragraph 1 above, investors will hold their interests in the 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 Accountholders' 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 solely 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 Accountholders 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 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 an Accountholder or 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 the Charity Assignee any Conversion Benefits.

7. 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". "ICSD Business Day" means a day on which the Clearing Systems are open for business.

8. 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.

9. 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.

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 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 Accountholder

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 the relevant Clearing System 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. Such Direct Rights will be acquired in lieu and to the exclusion of the corresponding rights of the Nominee in respect of the relevant CCDS. 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 Global CCDS Certificate will be executed by the Society as a deed, which shall take effect as a deed poll for the benefit of the Relevant Persons to enable them to exercise their Direct Rights as described herein. The Society's obligations to Relevant Persons as described herein 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 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. For these purposes, a statement issued by a relevant Clearing System 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 at the time of the relevant breach of contract or the Relevant Time (as applicable).

11. 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 Accountholders as if those Accountholders had, at the vesting date, held in definitive form the number of CCDS corresponding to their book-entry interests in the Clearing Systems in the CCDS at that time.

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