



Coventry Building Society

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

£415,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities

Issue price: 100.00 per cent.

Coventry Building Society (the “Society”) will issue £415,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the “Perpetual Capital Securities”) on or about 2 April 2019 (the “Issue Date”) at an issue price of 100.00 per cent. of their nominal amount. The Perpetual Capital Securities are expected to be admitted to trading on the London Stock Exchange plc’s (the “London Stock Exchange”) International Securities Market (“ISM”) on or about the Issue Date. The ISM is not a regulated market for the purposes of the Markets in Financial Instruments Directive 2014/65/EU, as amended or replaced from time to time (“MiFID II”).

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 UK Listing Authority. The London Stock Exchange has not approved or verified the contents of this Offering Circular. This Offering Circular comprises an admission particulars (the “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 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 18 March and 18 September in each year, except that the first payment of interest, to be made on 18 September 2019, will be in respect of the period from and including the Issue Date to but excluding 18 September 2019. For each Interest Period which commences prior to 18 September 2024 (the “First Call Date”), the Interest Rate shall be 6.875 per cent. per annum. For each Interest Period which commences on or after the First Call Date, the Interest Rate shall be the sum of: (a) the Benchmark Gilt Reset Reference Rate in relation to that period; and (b) 6.111 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) issue to each Securityholder such number of Core Capital Deferred Shares (“CCDS”) as is equal to the aggregate nominal amount of that Securityholder’s Perpetual Capital Securities divided by the Conversion Price (such write-down and issue of CCDS being referred to as a “Conversion”, and “Converted” being construed accordingly). Such cancellation of interest, write-down of the Perpetual Capital Securities and (subject as provided in the Conditions) issue of CCDS to Securityholders shall occur on the Conversion Date specified in the Conversion Notice (as defined in the Conditions). Once the nominal amount of a Perpetual Capital Security has been written down, the nominal amount will not be restored in any circumstances, including where the relevant Conversion Trigger ceases to continue.

The CCDS will be consolidated and form a single series with the CCDS (if any) of the Society which are outstanding on the Conversion Date. The 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 of the date of this Offering Circular, no CCDS have been issued by the Society.

The Perpetual Capital Securities may also be written off or converted to Common Equity Tier 1 capital by the United Kingdom resolution authorities in certain circumstances pursuant to the bank and building society recovery and resolution regime under the Banking Act 2009, as amended.

The Perpetual Capital Securities have no fixed repayment date. The Society may, subject as provided herein, elect to repay all, but not some only, of the Perpetual Capital Securities at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions): (i) on the First Call Date or each date that falls five, or a whole multiple of five, years following the First Call Date (the First Call Date and each such date, each a “Reset Date”); or (ii) at any time following the occurrence of certain tax events described herein or in the event that the entire nominal amount of the Perpetual Capital Securities 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).

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 in the European Economic Area (“EEA”), as defined in the rules set out in MiFID II. Prospective investors are referred to the section headed “Prohibition on marketing and sales of Perpetual Capital Securities to retail investors” commencing on page 3 of this Offering Circular 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 Ltd. (“Fitch”) and Baa3 by Moody’s Investors Service Limited (“Moody’s”). Each of Fitch and Moody’s is established in the European Union (the “EU”) and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the “CRA Regulation”). As such, each of Fitch and Moody’s 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 Adviser

NatWest Markets

Joint Lead Managers

Barclays

BofA Merrill Lynch

HSBC

NatWest Markets

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

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

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated 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 or the Joint Lead Managers (as defined in “*Subscription and Sale*”). Neither the delivery of this Offering Circular nor any subscription, sale or purchase made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Society or the Group since the date of this Offering Circular.

The Perpetual Capital Securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) 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 Financial Services and Markets Act 2000 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 or the Joint Lead Managers to subscribe for or purchase, any Perpetual Capital Securities. The distribution of this Offering Circular and the offering of the Perpetual Capital Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Society and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offering and sales of the Perpetual Capital Securities and on distribution of this Offering Circular, see “*Subscription and Sale*”.

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 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 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

The Perpetual Capital Securities are complex and high-risk financial instruments and are not a suitable or appropriate investment for all 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 to retail investors. In particular, in June 2015, the U.K. Financial Conduct Authority (the “**FCA**”) published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (the “**PI Instrument**”). In addition, (i) on 1 January 2018, the provisions of Regulation (EU) No. 1286/2014 on key information documents for packaged and retail and insurance-based investment products (“**PRIIPs**”) became directly applicable in all EEA member states and (ii) MiFID II was required to be implemented in EEA member states by 3 January 2018. Together the PI Instrument, PRIIPs and MiFID II are referred to as the “**EU Regulations**”.

The EU Regulations set out various obligations in relation to (i) the manufacture and distribution of financial instruments and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write down or convertible securities, such as the Perpetual Capital Securities.

Further, in Singapore, the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (“**SFA**”), the Financial Advisers Act (Chapter 110 of Singapore) (“**FAA**”), the Guidelines on Fair Dealing - Board and Senior Management Responsibilities for Delivering Fair Dealing Outcomes to Customers (“**Guidelines on Fair Dealing**”) and the Code of Conduct for Private Banking in Singapore (“**PB Code**”) contain additional obligations and/or guidance in relation to the marketing, offer and sale of the Perpetual Capital Securities to investors in Singapore. Together, the SFA, the FAA, the Guidelines on Fair Dealing and the PB Code are referred to as the “**Singapore Regulations**”, and together with the EU Regulations, the “**Regulations**”.

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) including the Regulations.

Each of the Joint Lead Managers is required to comply with some or all of the Regulations.

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 to each of the Joint Lead Managers that:

1. it is not a retail client (as defined in MiFID II);
2. whether or not it is subject to the Regulations, it will not:
 - i. sell or offer the Perpetual Capital Securities (or any beneficial interest therein) to retail clients (as defined in MiFID II); or
 - ii. communicate (including the distribution of this Offering Circular, in preliminary or final form) 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 each case within the meaning of MiFID II),

and in selling or offering the Perpetual Capital Securities or making or approving communications relating to the Perpetual Capital Securities, each prospective investor may not rely on the limited exemptions set out in the PI Instrument;

3. if it is a purchaser in Hong Kong, its business involves the acquisition and disposal, or the holding, of securities (whether as principal or as agent) and it falls within the category of persons described as “professional investors” under the Securities and Futures Ordinance and its relevant rules;
4. it will act as principal in purchasing, making or accepting any offer to purchase any Perpetual Capital Securities (or any beneficial interest therein) and not as an agent, employee or representative of any of the Joint Lead Managers;
5. it is an “accredited investor” or an “institutional investor” as defined in Section 4A of the SFA;
6. it will not sell or offer the Perpetual Capital Securities (or any beneficial interest therein) to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA;
7. it will act as principal in purchasing, making or accepting any offer to purchase any Perpetual Capital Securities (or any beneficial interest therein) and not as an agent, employee or representative of any of the Joint Lead Managers; and
8. it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Perpetual Capital Securities (and any beneficial interest therein), including (without limitation) the Regulations (as applicable) and any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Perpetual Capital Securities (or any beneficial interest therein) by investors in any relevant jurisdiction.

Each prospective investor further acknowledges that:

- (i) the identified target market for the Perpetual Capital Securities (for the purpose of the product governance obligations in MiFID II) is eligible counterparties and professional clients only;
- (ii) all channels for distribution to eligible counterparties and professional clients are appropriate; and
- (iii) no key information document under PRIIPs 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 PRIIPs.

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 interest therein) from the Society and/or any of the Joint Lead Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding on both the agent and its underlying client(s).

PRIIPs Regulation/Prohibition of Sales to EEA 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 any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) 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 the Directive 2002/92/EC (as amended or superseded), 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 PRIIPs 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 PRIIPs.

MiFID II 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 eligible counterparties and professional clients only, each as defined in MiFID II; 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 MiFID II 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.

SINGAPORE: SECTION 309B(1)(C) NOTIFICATION

Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA") - In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Society has determined the classification of the Perpetual Capital Securities as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

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 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, 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, NatWest Markets 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 2017 and 31 December 2018 (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 International Financial Reporting Standards (“**IFRS**”) as adopted by the EU.

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, as amended;
- “**pounds**”, “**penny**”, “**sterling**”, “**£**” and “**p**” are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland (the “**United Kingdom**” or “**UK**”);
- “**euro**” are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended;
- the “**Rules**” are to the Rules of the Society;
- the “**Memorandum**” are to the Memorandum of the Society;
- 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.

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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:	£415,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the “ Perpetual Capital Securities ”) to be issued by the Society on 2 April 2019 (the “ Issue Date ”).
Joint Lead Managers:	Barclays Bank PLC HSBC Bank plc Merrill Lynch International NatWest Markets Plc
Registrar and Principal Paying Agent:	Citibank, N.A., London Branch
Issue Date:	2 April 2019
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) which will at all times rank <i>pari passu</i> without any preference among themselves, and are subject to conversion as provided under “ <i>Conversion</i> ” below.
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 rank: (a) junior to the claims of all creditors (including all subordinated creditors) and Shareholding Members (as regards the principal and interest due on such Shareholding Members' shares) of the Society including, (without limitation but save as follows) 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 any of the same remain outstanding, the PIBS and the Existing PCS of the Society, (ii) any other Deferred Shares (as defined in the Rules) outstanding of the Society ranking, or expressed to rank, <i>pari passu</i> with

or junior to any such PIBS or Existing PCS or the Perpetual Capital Securities and (iii) any other Parity Obligation or Junior Obligation (“**Senior Obligations**”);

- (b) *pari passu* among themselves and with any claims ranking, or expressed to rank, *pari passu* therewith, including (without limitation and for so long as any of the same remain outstanding) all claims in respect of the PIBS (as regards the principal and interest due thereon) and the Existing PCS of the Society (“**Parity Obligations**”); and
- (c) senior to all claims under any Core Capital Deferred Share (as defined in the Rules) of the Society and any other claims ranking, or expressed to rank, junior to either the Perpetual Capital Securities or any Parity Obligations (“**Junior Obligations**”).

“**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 have previously been approved by the Securityholders in accordance with Condition 15, 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 Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, as amended.

“**Existing PCS**” means the £400,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities (ISIN: XS1079786239) 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:

Subject to the 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 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 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 administration of the Society (the “**Solvency Test**”).

The Society shall be considered to be “solvent” for these purposes if (x) it is able to pay its debts which are Senior Obligations as they fall due and (y) its assets exceed its liabilities.

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

Conversion:

If, 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) and promptly shall notify the Securityholders (in accordance with Condition 17) of the occurrence of the Conversion Trigger and, without delay and by no later than one month (or such shorter period as the Regulator may require) following the determination that the Conversion Trigger has occurred: (a) cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date (whether or not such interest has become due for payment); (b) irrevocably (without the need for the consent of Securityholders) write down the Perpetual Capital Securities by reducing the nominal amount of each Perpetual Capital Security to zero; and (c) issue to each Securityholder such number of CCDS as is equal to the aggregate nominal amount of that Securityholder's Perpetual Capital Securities divided by the Conversion Price (such write-down under (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 and Purchase:

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

Society's Option to Repay

Subject to the “*Conditions to Repayment and Purchase*” below, the Society may elect to repay all, but not some only, of the Perpetual Capital Securities then outstanding on 18 September 2024 (the “**First Call Date**”) and each date that falls five, or a whole multiple of five, years following the First Call Date thereafter at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions).

Purchases

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

Conditions to Repayment and Purchase

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

- (i) 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;
- (ii) either: (A) the Society having replaced the Perpetual Capital Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Society; or (B) the Society having demonstrated to the satisfaction of the Regulator that the own funds of the Society would, following such repayment or purchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Regulator considers necessary at such time; and
- (iii) in respect of a redemption prior to the fifth anniversary of the Issue Date, (A) in the case of redemption upon the occurrence of a Tax Event, the Society has demonstrated to the satisfaction of the Regulator that (1) the change in tax treatment is material and (2) the relevant Tax Law Change was not reasonably foreseeable as at the Issue Date, or (B) in the case of redemption upon the occurrence of a Regulatory Event, the Society has demonstrated to the satisfaction of the Regulator that the change (or pending change) in the regulatory classification of the Perpetual Capital Securities was not reasonably foreseeable as at the Issue Date,

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

Optional Repayment for Tax Reasons or Regulatory Reasons

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

Such repayment is subject, in each case, to the same conditions as set out above under “*Conditions to Repayment and Purchase*”.

Impact of Solvency Test and Conversion Trigger on Repayment

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

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

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

Interest:

The Perpetual Capital Securities will bear interest from (and including) the Issue Date on their nominal amount, in accordance with the provisions of Condition 5 (i) for each Interest Period which commences prior to the First Call Date, at the Initial Interest Rate of 6.875 per cent. per annum and (ii) for each Interest Period which commences on or after the First Call Date, at the applicable Reset Interest Rate, as calculated by the Principal Paying Agent.

“**Reset Interest Rate**” means, in relation to a Reset Period, the sum of: (a) the Benchmark Gilt Reset Reference Rate in relation to that Reset Period; and (b) the Margin of 6.111 per cent. per annum.

Subject to Conditions 4.4, 6 and 8, interest shall be payable on the Perpetual Capital Securities semi-annually in arrear in equal instalments on each Interest Payment Date as provided in

Condition 5, except that the first payment of interest, to be made on 18 September 2019, will be in respect of the period from and including the Issue Date to but excluding 18 September 2019.

Interest Payment Dates:

18 March and 18 September in each year, starting on (and including) 18 September 2019.

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 referred to below, at any time elect to cancel any Interest Payment, in whole or in part, which is scheduled to be paid on an Interest Payment Date.

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

Mandatory Cancellation of Interest

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

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

In addition, the Society shall not pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the payment of such Interest Payment (together with any Additional Amounts payable thereon pursuant to Condition 10, if applicable) would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the Capital Requirements Directive (or any provision of applicable law transposing or implementing Article 141(2) of the Capital Requirements Directive, as amended or replaced, or any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society), the Maximum Distributable Amount (if any) then applicable to the Society to be exceeded. “**Maximum**

Distributable Amount” means any applicable maximum distributable amount relating to the Society required to be calculated in accordance with Article 141 of the Capital Requirements Directive (or as the case may be, any provision of applicable law transposing or implementing the Capital Requirements Directive, as amended or replaced, or any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society).

The Society will also exercise its discretion 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 (including, but not limited to, if the Society becomes subject to any applicable leverage-based or MREL-based maximum distributable amount restrictions), as further described and defined herein.

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

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

Enforcement:

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

Additional Amounts:

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

If any such withholding or deduction for or on account of any

Taxes is required by law, additional amounts will be payable by the Society 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 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 to a company.

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

write-down feature.

Selling and Transfer Restrictions:

The United States, the United Kingdom, the EEA, 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*”.

**MiFID II Product
Governance/PRIIPs Regulation/
FCA CoCo restriction:**

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. No PRIIPs Regulation key information document has been prepared as the Perpetual Capital Securities are not available to retail investors in the EEA. No sales to retail investors.

Use of Proceeds:

The net proceeds of the issue of the Perpetual Capital Securities will be used by the Society to refinance some or all of its existing additional tier 1 perpetual capital securities which are expected to be purchased by the Society pursuant to a cash tender offer announced by the Society on 25 March 2019, to strengthen its regulatory capital base and for general business purposes consistent with the Society’s principal purpose as a UK building society.

Risk Factors:

There are certain factors that may affect the Society’s ability to fulfil its obligations under the Perpetual Capital Securities. 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. An investor holding beneficial interests in the Perpetual Capital Securities through a Clearing System will not be a member of the Society by virtue of its investment in the Perpetual Capital Securities and (without prejudice to any rights or obligations that such person may have as a member of the Society in some other capacity) will be only indirectly subject to the Rules, the Memorandum and the Act with respect to its holding of Perpetual Capital Securities in the manner provided above. Investors holding beneficial interests in the Perpetual Capital Securities through a Clearing System shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of that Clearing Systems.*

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CFI:	DCFQPR
FISN:	COVENTRY BLD.SO/6.875 CONV B PERP

RISK FACTORS

The Perpetual Capital Securities are complex and high-risk financial instruments and may not be a suitable investment for all investors. Investors should ensure that they understand the risks of investing in the Perpetual Capital Securities before they make their investment decision. They should make their own independent decision whether to invest in the Perpetual Capital Securities and decide whether an investment in such Perpetual Capital Securities is appropriate or proper based upon their own judgement and upon advice from such advisers as they consider necessary.

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

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

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

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

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

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

The Group's business and financial performance has been, and will continue to be, affected by general economic conditions in the UK, the Eurozone and elsewhere, and developments in the UK or in the global financial markets could have an adverse impact on the Group's results of operations, financial condition and prospects

The Group 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. There have been periods of significant volatility in financial markets around the world since the financial crisis in 2007, and the global economy continues to face a range of challenges, including, but not limited to, a slowdown in the US and Chinese economies, trade tensions between the US and China, and

friction between EU states, including the rise of populist parties at either end of the political spectrum. The financial turbulence since 2007 and its after-effects on financial institutions and on the wider economy have led to generally more difficult earning conditions for the financial sector, which also faces the costs of higher levels of regulation. The impact of such global stresses on the UK economy could adversely affect the Group, 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 Group's net interest margin.

Forecasts by the Bank of England ("**BoE**") suggest that UK economic growth is likely to remain modest by historical standards, reflecting, among other factors, uncertainty around the impact of the UK's withdrawal from the EU (see *Uncertainty exists over the terms of the UK's withdrawal from the EU, and the future relationship between the UK and the EU* below). There is also a risk that a slowdown in economic activity in the Eurozone economy may contribute to a renewed slowdown in economic activity in the UK as the EU is the UK's principal export market, a risk that could be exacerbated by the UK's withdrawal from the EU. Domestically, both public and household spending have been constrained since 2007 by austerity measures and a compression of real household incomes, and there is an additional risk that, should levels of unemployment increase and/or the economy contract, there could be further pressure on real disposable incomes.

The exact nature of the risks that the Group faces from external economic factors and the manner and the extent to which they ultimately will impact the Group are difficult to predict and to guard against in light of: (i) the inter-related nature of the risks involved; (ii) the difficulties in predicting events; and (iii) the fact that the risks are totally or partially outside of the control of the Group.

Uncertainty exists over the terms of the UK's withdrawal from the EU, and the future relationship between the UK and the EU

On 23 June 2016 the UK voted to leave the EU and as a consequence the UK government (the "**Government**") invoked article 50 of the Lisbon Treaty relating to withdrawal from the EU on 29 March 2017. Under article 50, the Treaty on the European Union and the Treaty on the Functioning of the European Union cease to apply in the relevant state from the date of entry into force of a withdrawal agreement or, failing that, two years after the notification of intention to withdraw, although this period may be extended in certain circumstances. On 21 March 2019, the EU agreed to grant the UK the option to delay the date of its departure from the EU until 22 May 2019 if a withdrawal agreement is ratified by the UK Parliament by 29 March 2019, or otherwise until 12 April 2019 to enable the UK to indicate how it wishes to proceed (which could potentially result in, amongst other outcomes, a 'no-deal' exit on 12 April 2019 or a further postponement of the withdrawal date).

There remain a number of uncertainties in connection with the timing and form of the UK's withdrawal from the EU, and the nature of its subsequent relationship with the EU, given the negotiation of the terms of the UK's future relationship with the EU may take several years to conclude. Until the terms and timing of the UK's exit from the EU are confirmed and until the nature of the new relationship between the UK and the EU is known, it is not possible to determine the impact that the referendum, the UK's departure from the EU and/or any related matters may have on general economic conditions in the UK (including on the performance of the UK housing market) and/or on the business of the Group.

Future UK political developments, including but not limited to the UK's departure from the EU and/or any changes in Government structure and policies, could affect the fiscal, monetary and regulatory landscape to which the Group is subject. Consequently, no assurance can be given that the Group's operating results, financial condition and prospects would not be adversely impacted as a result of these developments.

In general, no assurance can be given that any of the matters outlined above would not adversely affect the ability of the Group to satisfy its obligations under the Perpetual Capital Securities and/or the market value or liquidity of the Perpetual Capital Securities.

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

The Group'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 Group'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, can be expected to 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 Group's core lending activity. Events such as a fall in property prices, or a deterioration of the economy leading to increased unemployment, or other pressures on household incomes, could lead to increased numbers of borrowers defaulting on their mortgage loans and result in losses being incurred by the Group where the net recovery proceeds from the sale of properties are insufficient to redeem the outstanding loans. The UK housing market has seen a recent slowing in activity with some negative impact on house prices, particularly in parts of London. There can be no assurance that the housing market, either as a whole or in certain regions, will not face further pressures. The UK economic environment and developments in the housing market may affect the rate at which new mortgage loans are originated and may also affect the level of attrition of the Group's mortgage exposure.

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

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

While the Group's buy-to-let mortgage book has performed well to date and is subject to prudent loan-to-value limits, there can be no assurance that, in the event of a material downturn in the private rental market, the performance of the Group would not be adversely affected. Such a downturn could be precipitated by a range of factors, which may include (but are not limited to) a reduction in margins for buy-to-let mortgage loans, increased competition, an expansion of owner-occupied lending which reduces demand for rental property, and/or legislative or regulatory changes which negatively affect the sector. Regulatory changes to the treatment of 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 Group, could detrimentally impact the Group's risk-based measures of capital. Any reduction in margin or volumes of the Group's buy-to-let mortgage book, or impact on the level of RWAs reported by the Group, may adversely affect the ability of the Group's results of operations, financial condition and prospects.

The UK Government has passed legislation restricting the amount of income tax relief that individual landlords can claim for residential property finance costs (such as mortgage interest) to the basic rate of tax. The introduction of this measure has impacted the attractiveness of the private residential rental market in England and Wales as an investment, and new purchases of properties for rental purposes have reduced, with some existing landlords leaving the market. 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, (ii) land and buildings transaction tax ("**LBTT**") in Scotland, and (iii) land transactions tax ("**LTT**") in Wales, in the case of certain acquisitions of residential property (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, LBTT or LTT applies and the increased rate for each of these taxes is currently 3 per cent. above the standard rates in these circumstances, although, with effect from 25 January 2019, the relevant LBTT increased rate has increased from 3 per cent. to 4 per cent. These increased rates could also further impact demand in this area of the market.

Changes in interest rates could adversely impact the Group's financial condition and the financial condition of the Group's mortgage borrowers

Consumers in the UK remain heavily indebted by historical standards and this could lead to a vulnerability to increases in unemployment, rising interest rates and/or falling house prices. Increased unemployment could lead to borrowers who lose their jobs being unable to service their loan payments in a timely fashion, which would result in higher levels of arrears in the Group's lending operations, which, in turn, could lead to an increase in the Group's impairment charges in respect of its lending portfolio.

Any rise in interest rates may impact on the payment obligations of borrowers, either where their loans with the Group are linked to the base rate or are otherwise variable in nature, or where borrowers have other commitments which are subject to variable interest rates. Borrowers may have become accustomed to the current low interest rate environment, and will need to adjust spending behaviours to respond to any increase in the cost of borrowing, which may be challenging for some borrowers. A significant portion of the Group'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 Group's retail lending portfolios as well as an increase in the Group's retail loan impairment charges. These events, alone or in combination, may contribute to higher delinquency rates and losses for the Group, and impact the Group's ability to satisfy its obligations under the Perpetual Capital Securities.

A cut in interest rates (in particular the base rate set by the BoE) or a further prolonged period of very low interest rates may have the effect of reducing the net interest margin of the Group, and so adversely impact the profitability of the Group. If these circumstances prevail for a significant period of time, this may impact on the Group's results of operations, financial condition and prospects.

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

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 Group 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 Group 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 Group's cost of funding would increase as competition for retail deposits would intensify and the cost of accessing the wholesale markets would rise. This could adversely affect the Group's profitability.

These risks can be exacerbated by enterprise-specific factors, including an over-reliance on a particular source of funding, changes in credit ratings, or market-wide events. There is also a risk that the funding structure employed by the Group may prove to be inefficient, giving rise to a level of funding cost that is not sustainable in the long term for the Group.

The on-going availability of retail deposit funding is dependent on a variety of factors outside of the Group'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 Group in particular, and the extent of deposit guarantees. These or other factors could lead to a reduction in the Group's ability to access retail deposit funding on appropriate terms in the future. Given the relative size of the Group's retail deposit base, it is particularly exposed to any serious loss of confidence by its retail depositors which results in significant withdrawals of deposits over a sustained period.

The maintenance and growth of the level of the Group's lending activities depends to a greater extent on the availability to the Group of retail deposits, and, to a lesser extent, on the availability of wholesale funding, on appropriate terms. A restriction on the Group'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 Group's retail deposit base, could affect the Group's ability to meet its financial obligations as they fall due, to meet its regulatory minimum liquidity requirements, or to fulfil its commitments to lend. In such circumstances, the Group may not be in a position to continue to operate without additional funding support and any inability to access such support could have a material impact on the Group's viability.

In the past, the Government has provided significant support to UK financial institutions, including access to the Bank of England Funding for Lending Scheme ("FLS") and more recently the Term Funding Scheme ("TFS"). The conclusion of these schemes can be expected to increase competition and the cost for other sources of funding, which could adversely impact the Group

In past years the Government, acting through the BoE or otherwise, has provided significant funding support to UK financial institutions through a range of measures, including the FLS and the TFS. 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. While the Group has an outstanding drawdown under the TFS and its final contractual repayment under the TFS is scheduled to occur in February 2022, the FLS and the TFS are no longer available for any further funding.

The availability of 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 schemes such as FLS and TFS, the Group has, in common with other participants in the schemes, reduced the need to fund itself in the wholesale and retail markets. The cessation of the FLS and TFS can be expected to result in an increase in competition for other forms of funding, which can be expected to increase funding costs across the industry. The Group may see a reduction in the availability of funding, and an increase in the cost of such funding, as a result. A decrease in the availability of funding may adversely impact the Group's ability to support its lending operations. Any increase in the cost of funding, driven by this increased competition or by other factors, will adversely impact the Group's net interest margin, results of operations and financial position, which in turn could affect the ability of the Group to satisfy its obligations under the Perpetual Capital Securities.

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 a "quantitative easing" programme and a sustained period of low interest rates. Any unwinding of quantitative easing may result in falls in Gilt prices which in turn could lead to valuation adjustments within the portfolios of liquid assets that the Group holds, impacting capital levels. Similarly, if interest rates rise, the market rate for variable rate deposits may begin to increase, and the extent to which the Group 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 Group 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 increases in arrears levels were this discretion to be exercised, or to an erosion of the Group's relative competitiveness which may have wider consequences for the Group's business. Variation of interest rates is also a matter which the FCA may look to challenge or intervene in – see also "*Failure of the Group to manage its regulatory and conduct risk may have a material adverse effect on the Group's business, financial condition and reputation*".

If margin compression were to occur, this could affect the profitability of the Group and could impact the Group's results of operations, financial condition and prospects.

Ratings downgrades and/or market sentiment with respect to the UK financial sector, the UK and/or other sovereign issuers may have an adverse effect on the Group'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 personal financial services (including the Group) were to deteriorate, or if the ratings of the Group and/or the ratings of the sector were to be adversely affected, this may have a materially adverse impact on the Group. Such a 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 Group. 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 Group'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 Group's credit specifically, and cause them to take negative ratings actions. Any downgrade in the Group'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 Group's business, results of operations, financial condition and prospects.

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

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

Developments in the Group's industry, including increased competition, could have a material adverse impact on its operations. The Group 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 Group's ability to grow or to maintain its market share. Technological advances (such as the development of open banking), the ability of some banks to cross-subsidise products from other parts of their businesses, the development 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 margins available on both retail savings and mortgages, and may require the Group, alongside other market participants, to adapt its business model or to

change its business plans. The Group 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.

The cessation of government funding schemes can be expected to increase the competition for and the cost of other sources of funding, which also could adversely impact the Group. See *"In the past, the Government has provided significant support to UK financial institutions, including access to the Bank of England Funding for Lending Scheme ("FLS") and more recently the Term Funding Scheme ("TFS"). The conclusion of these schemes can be expected to increase competition and cost for other sources of funding, which could adversely impact the Group"*.

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

The Group operates a multi-channel distribution model for mortgage origination, including through branch and telephone channels. However, the largest distribution channel for mortgages is through intermediaries, whereby the Group pays intermediaries a procurement fee to introduce new mortgage customers to the Group. If the cost of this fee were to increase significantly, or if the capacity of this channel were to reduce, this could adversely impact the ability of the Group to grow or maintain its interest margins, 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 Group's relatively small branch network compared with other national lenders, any such change could have a more significant impact on the Group's business than on the business of some of its competitors.

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

The Group's success depends on its ability to manage and control its financial risk, which includes liquidity and funding, market, and credit risks.

Liquidity risk is the risk that the Group may not have sufficient funds to meet its obligations as they fall due. The Group is exposed to liquidity risk as a result of mismatches in cash flows from balance sheet assets and liabilities and off-balance sheet financial instruments and changes in market sentiment. Funding risk is the inability to access funding markets or to only do so at excessive cost.

The Group is exposed to market risk as a result of changes in interest rates, foreign currency prices, asset prices or other financial contracts. The most significant market risks the Group faces are interest rate risks (including swap spread risk), along with, to a lesser extent, risks relating to foreign exchange rates and bond prices. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in currency rates, particularly in the sterling-euro exchange rates, affect the value of assets and liabilities denominated in foreign currencies. The performance of financial markets may also cause changes in the value of the Group's investment portfolios. Changes in economic or market conditions may have an adverse effect on the Group's financial performance and business operations.

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

Perpetual Capital Securities", "Changes in interest rates could adversely impact the Group's financial condition and the financial condition of the Group's mortgage borrowers".

If the Group fails to manage and control any of these risks, the Group could become unable to meet its own obligations, including those under the Perpetual Capital Securities.

Credit Risk

Failure to manage retail credit risk in the Group's lending operations may adversely impact profitability

Retail credit risk is present in the Group's lending operations, and represents the potential inability of a borrower to repay their loan with the Group. A loss for the Group will materialise if the inability to repay results in repossession of the borrower's property, and if the value of the property upon sale is insufficient to pay the mortgage balance in full. A failure of the Group to effectively manage retail credit risk could lead to an increased incidence of retail credit losses, which could impact on the profitability of the Group and its results of operations, financial condition and prospects.

Credit losses in the Group's treasury operations could adversely impact profitability and the Group'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 Group, and represents the risk that counterparties will fail to repay amounts when due. A failure to manage credit risk in the Group's treasury operations effectively could lead to credit losses if counterparties default, and could adversely affect the results of operations, financial condition and prospects.

Regulatory and Conduct Risk

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

United Kingdom authorised 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 United Kingdom and the European Union. 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 Group expects to continue for the foreseeable future. The Government, the Prudential Regulation Authority (the "**PRA**"), the FCA and other regulators in the United Kingdom or the European Union may intervene further in relation to areas of industry risk already identified, or in new areas, each of which could adversely affect the Group. The effects that such regulation may have on the Group include, without limitation, the imposition of additional costs or the limitation or restriction on the manner in which the Group conducts elements of its business. The Group 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 Group.

The Group 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 Issuer, any of which could have a material adverse effect on its results or its relations with its customers. The Group 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 Group believes that it has no liability. The Group may also do so when the potential consequences of failing to prevail would be disproportionate to the costs of settlement.

Failure to manage these risks adequately could impact the Group adversely and materially, both financially and reputationally. The financial impact on the Group of regulatory risks might be considerable but are difficult to quantify.

Operational Risk

Failure by the Group to control its operational risks may result in material adverse effects to 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 Group 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 Group and a failure to manage these risks effectively could adversely impact the Group's business and financial profile.

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

The pace and scope of change facing the financial services sector and individual firms continues unabated. The Group maintains an ongoing programme designed to keep pace with developments in the industry. 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 Group maintains a change management framework (comprising governance committees considering people, processes and technology), in line with industry practice.

The Group is currently undertaking significant investment in the upgrade of its core IT infrastructure. The programme is subject to extensive second and third line oversight, and regular reporting to the Group's board of directors (the "**Board**"). Action has been taken to minimise disruption to the Group's business during the IT infrastructure upgrade and to deliver predictable change for the Group's operations and customers.

A failure or delay in implementing the Group'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 Group's business and financial condition.

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

The Group has a high dependency on its IT systems and operations infrastructure to conduct its business. The Group is exposed to risks in regards to the failure or outage of its IT systems, as well as the risk of cyber crime and the unauthorised access of the Group's IT systems. Any failure, interruption or breach in security of these IT systems could result in failures in or interruptions to the Group's risk management, general ledger, deposit servicing, loan servicing, debt recovery, payment custody and/or other important systems. If the Group's IT systems fail, even for a short period of time, the Group 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 Group's IT systems could result in costs that are required for information retrieval and verification.

The occurrence of any failures, breaches or interruptions in the Group's IT systems and operations infrastructure could have a material adverse effect on the Group's business, financial condition and/or results of operations and, consequently, its ability to satisfy its obligations under the Perpetual Capital Securities.

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

The Group's ability to attract and retain customers and conduct business with its counterparties could be adversely affected to the extent that its reputation or the reputation of its brand is damaged.

Failure to address, or appearing to fail to address, various issues that could give rise to reputational risk could cause harm to the Group and its business prospects. Reputational issues include, but are not limited to: failing to appropriately address potential conflicts of interest; breaching or facing allegations of having breached legal and regulatory requirements (including money laundering and anti-terrorism financing requirements); acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices); failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record keeping; technology failures that impact upon customer services and accounts; failing to properly identify legal, reputational, credit, liquidity and market risks inherent in products offered; and generally poor company performance.

A failure to address these or any other relevant issues appropriately could make customers, depositors and investors unwilling to do business with the Group, which could adversely affect its business, financial condition and results of operations and could damage its relationships with its regulators.

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

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

The 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, UK building societies, UK investment firms and UK recognised central counterparties which are considered to be at risk of failing

The Special Resolution Regime

The Banking Act 2009 (the “**Banking Act**”) grants HM Treasury, the BoE, the PRA and the FCA (the “**UK Authorities**”), as applicable, substantial powers to deal with the failure (or likely failure) of a UK bank, UK building society (such as the Society), UK investment firm or UK recognised central counterparty (each a “**relevant entity**”).

The Banking Act introduced a special resolution regime (“**SRR**”) to address the situation where all or part of the business of a relevant entity has encountered, or is likely to encounter, financial difficulties. The SRR consists of five stabilisation options and two special insolvency procedures (bank administration and bank insolvency) which can be commenced by HM Treasury, the BoE, the PRA or Secretary of State. The stabilisation powers may only be exercised if (i) the relevant UK Authority determines that the relevant entity is failing, or is likely to fail, (ii) it is not reasonably likely that (ignoring the stabilisation powers) action will be taken that will result in the condition referred to in (i) ceasing to be met and (iii) certain other conditions specific to the relevant stabilisation option are satisfied. In exercising the stabilisation powers, the UK Authorities must have regard to several specified objectives (to be balanced as appropriate), including the protection and enhancement of the stability of the financial systems of the UK. It is possible that the extended tools described below could be used prior to the point at which an application for insolvency proceedings with respect to a relevant entity could be made.

The stabilisation options (which are modified in respect of UK building societies as described in the following paragraph) provide in particular for (i) transfer of a UK bank (or its UK holding company) into temporary public ownership, (ii) transfer of all or part of a UK bank to a commercial (i.e. private sector) purchaser, (iii) transfer of all or part of a UK bank to a bridge bank wholly owned by the BoE, (iv) transfer of all or part of a UK bank to an asset management vehicle owned and controlled by the BoE and (v) writing down certain claims of unsecured creditors of a relevant entity and converting certain unsecured debt claims to equity (the “**bail-in option**”) which equity could also be subject to any future write-down. The stabilisation options may be implemented through the exercise by the relevant UK Authorities of share transfer powers (applying to a wide range of securities), property transfer powers (including powers for partial transfers of property, rights and liabilities subject to certain protections made under The Banking Act 2009 (Restriction of Partial Property Transfers) Order 2009) and resolution instrument powers (including powers to make special bail-in provisions subject to certain protections afforded under The Banking Act 2009 (Restriction of Special Bail-in Provision, etc.) Order 2014).

The Banking Act also provides for certain ancillary powers, including (amongst others) powers to create, cancel or modify contractual arrangements between the residual bank, its group companies and/or the transferee to the extent necessary to enable the transferred business (or part of it) to be operated effectively, and powers to disapply or modify laws (with possible retroactive effect) and/or fiscal treatment.

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 which, among other things, enable the conversion of a building society into a company for the purposes of a transfer to a bridge bank; and (iii) 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. Pursuant to the Building Societies (Insolvency and Special Administration) Order 2009, the special bank insolvency and bank administration procedures contemplated by the Banking Act have also been applied (with modifications) to UK building societies.

The bail-in option, which is also applied with modifications to UK building societies, may include provisions converting the Society into a company or transferring all the property, rights and liabilities of the Society to a company wholly owned by the BoE, a person nominated by the BoE or a bail-in administrator. The resulting entity would then be subject to the bail-in option in the same way as a UK bank.

The capital write-down tool

In addition to the SRR, the Banking Act provides the UK Authorities with the power to permanently write-down, or convert into equity, capital instruments such as the Perpetual Capital Securities at the ‘point of non-viability’ and before any other resolution action is taken (often referred to as the “**capital write-down tool**”). Any CCDS issued to holders of Perpetual Capital Securities upon any such conversion into equity may also be subject to any further action under the capital write-down tool and/or the bail-in option. The point of non-viability under the Banking Act is the point at which the relevant Authority determines that the relevant entity meets the conditions for resolution (but no resolution action has yet been taken) or that the relevant entity or, in certain circumstances, group will no longer be viable unless the relevant capital instruments (such as Perpetual Capital Securities) are written-down or converted.

Transfers and override of contractual provisions

Transfers under the SRR may take effect regardless of any legal or contractual restrictions on transfer, and free from any trust, liability or other encumbrance. Subject to certain conditions, the exercise of the stabilisation powers and the occurrence of certain related events, will be disregarded in determining whether certain widely defined “default event” provisions have occurred (which default events could include certain events of default under any Perpetual Capital Securities). Otherwise, the transfer order or instrument may provide that such order or instrument (and possibly certain related events) be disregarded in determining whether such “default event” provisions have occurred.

If a transfer instrument or order were to be made under the Banking Act in respect of the Society, such instrument or order may (amongst other things) affect the ability of the Society to satisfy its obligations under any Perpetual Capital Securities and/or result in (i) a transfer of the Society via the modified tools described above and/or (ii) modifications relating to any interest payable in respect of the Perpetual Capital Securities, the maturity date or the dates on which any payments are due, including by suspending payment for a temporary period, or disapplication of certain of the Conditions of any Perpetual Capital Securities, which may also have certain tax implications.

The circumstances under which the relevant Authorities would exercise resolution powers are uncertain, which may affect the value of the Perpetual Capital Securities

There is considerable uncertainty regarding the specific factors beyond the goals of addressing banking crises pre-emptively and minimising taxpayers' exposure to losses (for example, by writing down relevant capital instruments before the injection of public funds into a financial institution) which the relevant Authorities would consider in deciding whether to exercise the Banking Act resolution powers with respect to the relevant financial institution and/or securities, such as the Perpetual Capital Securities, issued by that institution. While the Banking Act provides some guidance as to how and when the resolution powers may be utilised by the relevant Authorities, the Banking Act and the EU Bank Recovery and Resolution Directive (“**BRRD**”) (which has been transposed into English Law by amendments to the Banking Act) allow for discretion and there is no certainty as to how the relevant Authorities will exercise any resolution powers with respect to a financial institution and/or securities issued by that institution. As there may be many factors, including factors outside of the Society’s control or not directly related to it, which could result in such a determination, holders of the Perpetual Capital Securities may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such resolution powers.

The rights of holders of the Perpetual Capital Securities may be materially adversely affected

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 any actual or anticipated use of any stabilisation powers and/or the capital write-down tool in respect of the Society and/or the Perpetual Capital Securities may severely adversely impact the market price of the Perpetual Capital Securities and/or any CCDS and/or may materially adversely affect the rights of the holders thereof. Furthermore, the threat of resolution powers being used or a market perception that they might be used may affect trading behaviour, including prices and volatility, and, as a result, the Perpetual Capital Securities are not necessarily expected to follow the trading behaviour associated with other types of securities.

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 would be entitled to receive any compensation, or that any such compensation received would be equal to any loss actually incurred.

At present, 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 it will make any such instrument or order, but there can be no assurance that this will not change and/or that Securityholders will not be adversely affected by any such instrument or order if made.

Although the BRRD also makes provisions for public financial support to be provided to an institution in resolution subject to certain conditions, it provides that the financial public support should only be used as a last resort after the relevant resolution authorities have assessed and exploited, to the maximum extent practicable, all the resolution tools, including the bail-in power. Accordingly, it is unlikely that investors in the Perpetual Capital Securities will benefit from such support even if it were provided.

The Group is subject to capital and liquidity requirements which are subject to change

The Group is subject to capital and liquidity requirements, including through the implementation and evolution of prudential frameworks such as Basel III and CRD IV (each as defined below) that could have an impact on its operations. Changes to the regulatory capital and liquidity requirements under which the Society operates could hinder growth by prescribing more stringent requirements than those with which it currently complies. UK regulators and international policymakers are finalising a number of areas of the regulatory capital framework, with a view to making changes as appropriate. These areas include (as described further below) MREL, capital requirements for residential mortgages and review of the IRB model framework, use of the standardised approach for credit risk and use of the revised standardised approach for operational risk.

Overview of the prudential framework

On 16 December 2010, 13 January 2011, 12 January 2014 and 7 December 2017, the Basel Committee issued guidance on a number of fundamental reforms to the regulatory capital framework (such reforms are collectively referred to as “**Basel III**”), including additional capital requirements, higher capital ratios, more stringent eligibility requirements for capital instruments, leverage ratio requirements and liquidity requirements. The original components of the Basel III reform package were implemented in the EEA through a regulation (the Capital Requirements Regulation (the “**CRR**”)) and an updated version of the associated directive (the Capital Requirements Directive (the “**CRD**”)) (together, “**CRD IV**”), which were published in the Official Journal of the European Union on 27 June 2013. CRR established a single set of harmonised prudential rules which apply directly to all credit institutions in the EEA, with CRD containing other provisions required to be transposed into national law. CRR gives express recognition for Common Equity Tier 1 capital instruments for mutual and co-operative entities (such as core capital deferred shares) and permits the use of a cap or restriction to safeguard the interests of members and reserves. Full implementation began from 1 January 2014, with particular elements being phased in over a period of time, to be fully effective by 2027.

The Group's capital is reported as a ratio of capital to risk-weighted assets, expressed as a percentage in different measures – common equity tier 1 (“**CET1**”) capital, tier 1 capital and total capital, and through a leverage ratio (on a quasi-voluntary basis). The Group is required to maintain certain minimum levels of regulatory capital known as the ‘minimum capital requirement’ (or “**MCR**”) and also to meet certain capital ‘buffer’ requirements above such minimum level. If the Group fails, or is perceived to be likely to fail, to meet its regulatory capital requirements, this may result in administrative actions or regulatory sanctions against it.

The Group's capital ratios may be adversely affected not only by a reduction in the Group's capital (including if the Group suffers financial losses) but also by changes in the manner in which the Group is required to calculate its capital and/or the risk-weightings applied to its assets. For example, the Group is currently authorised to apply an Internal Ratings-Based (“**IRB**”) approach to calculating its risk-weighted assets. An IRB approach enables an institution to tailor more closely risk-weights to its particular assets than standardised risk-weights, and accordingly in many cases can be expected to be lower than risk-weights which would apply under a standardised approach. If, in the future, the Group's authorisation to apply an IRB approach is withdrawn, or if for any other reason it is required to calculate its risk-adjusted assets on the basis of standardised or loan-to-value-based standardised risk-weights, or minimum risk-weights are introduced for institutions applying an IRB approach (in which regard, see further below), such change could have a significant adverse impact the Group's capital ratios, even if the Group remains profitable. See also “*Future legislative and regulatory changes could impose operational restrictions on the Group, require the Group to raise further capital, increase the Group's expenses and/or otherwise adversely affect its business, results, financial condition or prospects*” below.

Key elements of CRD IV include the following:

Increased capital requirements – higher minimum CET1 ratios (a risk-based ratio calculated (on the basis set out in CRD IV) as CET1 capital divided by risk-weighted assets) and the introduction of additional capital ‘buffer’ requirements comprising conservation, countercyclical and systemic risk buffers, which, following a transitional implementation period, are fully effective as of 1 January 2019;

Definition of capital – the Group's permanent interest bearing shares, and other subordinated debt which does not meet CRD IV recognition criteria, is required to be phased out over the period from 1 January 2014 to 31 December 2021;

Additional capital charges – an additional capital charge for credit valuation adjustment ("CVA") risk. The majority of the Group's CVA charge relates to the use of derivative instruments (with highly-rated counterparties) to manage interest rate and foreign exchange risk;

Deductions from capital – expected losses in excess of provisions are deducted in full from CET1 capital, gross of tax. Under Basel II, only 50 per cent. of the deduction was from ‘core tier 1’ capital (the Basel II equivalent of CET1 capital) and was net of tax;

Liquidity metrics – a short-term liquidity stress ratio, referred to as the Liquidity Coverage Ratio, which is now in place, and a longer-term ratio, referred to as the Net Stable Funding Ratio;

Leverage ratio – a leverage ratio, calculated by dividing Tier 1 capital by total assets (as defined by Basel III), required to be maintained at a level of at least 3 per cent.;

Additional valuation adjustments – deductions from CET1 capital required for all assets (including derivatives) measured at fair value. The Group follows the simplified approach to this requirement, recognising the beneficial impact of hedge accounting treatment of derivatives; and

Available For Sale reserve – a reserve which records the unrealised gains and losses on assets measured at fair value. CRD IV brought this within the scope of own funds included in CET1 capital.

The Group's capital requirements

Under the current prudential framework, the Group is required to hold a minimum amount of regulatory capital equal to 8 per cent. of its risk-weighted assets (the “**Pillar 1 requirement**”), plus additional CET1 capital buffers (the “**buffer requirement**”), which buffer requirement as of 1 January 2019 is equal to 3.5 per cent. of risk-weighted assets. In addition, the PRA may impose additional individual capital requirements on the Group, which may comprise an add-on to the Pillar 1 requirement (the “**Pillar 2A requirement**”) to address risks to the Group which the PRA considers are not adequately covered by Pillar 1 requirements, and/or an add-on to the buffer requirement (the “**Pillar 2B requirement**”) to provide for additional capital buffers in a financial stress scenario. The Group's Pillar 2A requirements must be met with at least 56 per cent. CET1 capital, at least 75 per cent. Tier 1 capital and not more than 25 per cent. Tier 2 capital. Its Pillar 2B requirements must be met solely with CET1 capital. The Group may also decide to hold additional amounts of capital as part of its risk and growth strategies.

In addition, CRD IV introduced the leverage ratio, which is supplementary to the risk-based capital requirements. The calculation determines a ratio based on the relationship between Tier 1 capital and total exposures (i.e. non-risk-weighted assets), including off-balance sheet items. The leverage ratio does not distinguish between unsecured and secured loans, nor recognise the ratio of loan to value of secured lending. A binding requirement is expected to be introduced at the EU level under proposed forthcoming changes to CRR.

In the meantime, the PRA has implemented the Financial Policy Committee's (“**FPC**”) direction to introduce a UK leverage ratio framework. The UK leverage ratio framework is intended to mirror aspects of the risk-weighted capital requirement. The UK leverage ratio was originally set at 3 per cent. of risk-weighted assets and in 2017 was increased to 3.25 per cent. of exposures (excluding central bank reserve exposures), to

reflect the removal of central bank deposits from the leverage exposure measure. At least three-quarters of the leverage ratio must be met with CET1 capital and up to one-quarter may be met with Additional Tier 1 capital. In addition, the UK leverage ratio framework includes two additional buffers that are to be met using CET1 capital only: a Supplementary Leverage Ratio Buffer (“**SLRB**”), applying to the largest UK banks and building societies, and a macro-prudential Countercyclical Leverage Buffer (“**CCLB**”). The levels of these buffers are set at 35 per cent. of the corresponding risk-weighted SLRB and countercyclical buffer.

As at the date of this Offering Circular, the United Kingdom leverage requirements apply only to financial institutions and their group with retail deposits of £50 billion or more and so does not apply to the Group. However, the Group complies with the UK leverage requirements on a quasi-voluntary basis. The Group may, depending on business growth, become formally subject to the leverage requirements in the future due to an increase in its retail deposit base, or these requirements could be extended to all United Kingdom financial institutions, or a broader range of financial institutions, in the future. Given the Group’s focus on low-risk assets, the leverage ratio could over time operate as the Group’s primary capital constraint. Future changes to the leverage ratio calibration could, therefore, have a significant impact on the financial condition and prospects of the Group.

Continued evolution of the prudential and resolution regimes

There continue to be significant developments in the prudential and resolution regimes with which the Group must comply. These include (without limitation): the phasing in of the regime imposing on financial institutions a ‘minimum requirement for own funds and eligible liabilities’ (“**MREL**”), requiring them to hold sufficient capital and other ‘eligible liabilities’ instruments designed to absorb losses and to be available to recapitalise a failing bank or building society through use of the recovery and resolution tools under BRRD and the Banking Act; the introduction of capital floors for institutions which calculate risk exposures using IRB approaches; revisions to IRB models to reduce ‘point in time’ volatility; and PRA requirements to align firms’ IRB modelling approaches for residential mortgage risk-weighted assets. These changes could result in further increases in the level of capital which the Group is required to hold and could cause it to incur additional costs in order to ensure implementation of, and continued compliance with, the evolving regimes. This could have a material adverse effect on its profitability or results of operations of the Group and could hinder its growth.

RWA floors and IRB modelling

The Basel Committee published their final reforms to the Basel III framework in December 2017. The amendments include changes to the standardised approaches for credit and operational risks and the introduction of a new RWA output floor. The rules are subject to a transitional period from 2022 to 2027. In addition, in June 2017, the PRA published a policy statement relating to residential mortgage risk-weights, including proposals to align firms’ IRB modelling approaches for residential mortgage risk-weighted assets. This sets out a number of modifications to the IRB modelling methodologies for residential mortgages, and sets the expectation for firms to update IRB models by the end of December 2020.

These reforms represent a re-calibration of regulatory requirements with no underlying change in the capital resources the Society holds or the risk profile of its assets. The final impacts are subject to uncertainty for future balance sheet size and mix, and the final detail of some elements of the regulatory changes remain at the PRA’s discretion. The Society currently expects that introduction of these RWA floors and IRB calibration changes will result in a significant reduction of its capital ratios as compared to its reported ratios as at 31 December 2018. On an indicative basis and for illustrative purposes only, the Society anticipates that if these amendments (as the Society understands them) had been applied as at 31 December 2018 (i) with the initial transitional 50 per cent. floor, its reported CET1 ratio as at that date would have reduced to approximately 26 per cent.; or (ii) on an end-point basis (i.e. ignoring the transitional provisions through to 2027), its reported CET1 ratio as at that date would have reduced to approximately 17.9 per cent. On such end-state basis, the Society’s surplus over the revised CET1 ratio would have remained over 13 times the aggregate credit losses incurred in the last ten years (or, if applying the initial transitional floor of 50 per cent., would have remained over 16 times the aggregate credit losses incurred in the last ten years).

MREL and resolution strategy

MREL requirements are being introduced as part of a regime designed to make it easier to manage the failure of banks and building societies in an orderly way, without reliance on taxpayer bail-outs. These rules require all institutions to meet an individual MREL requirement by holding capital instruments and other ‘eligible liabilities’ which are available to be bailed-in (i.e. written down or converted to equity), calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities.

The Group is required to meet an interim MREL requirement of 18 per cent. of risk-weighted assets by 1 January 2020 with the full requirement of twice the binding capital requirement to be met by 1 January 2022. MREL requirements are split into two elements: firstly, a loss absorption amount, to cover losses up to and in resolution, based on a firm’s minimum going concern capital requirement; and secondly, a recapitalisation amount, intended to enable the firm to continue as a going concern post-resolution and to access funds in the capital markets (and accordingly the recapitalisation amount is likely to be at least equal to the minimum going concern capital requirement). The Bank of England will set MREL requirements on a firm-specific basis, informed by the resolution strategy for that firm. The Bank of England will review the timing and calibration of the end-state requirement before the end of 2020.

The preferred resolution strategy for the Group has been set by the Bank of England as “bail-in”, reflecting the size of the Group and consequential risks of an insolvency process, and of being able to affect a partial transfer at short notice. ‘Bail-in’ would involve the write down or conversion to equity instruments (such as core capital deferred shares) of liabilities of the Group, and would be expected to result in the write down or conversion of all or a large part of the Group’s own funds (including the Perpetual Capital Securities) and other eligible liabilities (and could in addition result in the write down or conversion of other, more senior-ranking liabilities of the Group). Notwithstanding this, the actual approach taken, should the Group require resolution, will depend on the circumstances at the time of a failure, and all available options would be considered by the BoE.

Banking reform package

In addition, on 23 November 2016, the European Commission published an extensive draft package of reforms to prudential standards, proposing amendments to the framework applicable to financial groups, including amendments to CRD IV, CRR and BRRD (the “**Banking Reform Package**”). Near-final texts of the revised legislation were published in February 2019 and, subject to a final legal linguistic review, are expected to be finalised and published in the EU Official Journal mid-2019. Amongst other things, the revised regime will provide further clarity on the MREL requirements, and is also expected to extend the application of ‘maximum distributable amount’ restrictions on discretionary payments to reflect leverage-based requirements (for global systemically important banks initially) and MREL requirements, in addition to the original risk-based capital requirements.

Stress tests

Since 2014, the Bank of England has conducted annual stress tests of the UK banking system, applying a range of stress scenarios. The annual cyclical scenario includes the largest UK banks and building societies. If such exercises were to reveal inadequate systemic resilience, the FPC could consider a variety of actions, including recommendations to the PRA and FCA to adjust a range of regulatory capital buffers, including the UK countercyclical buffer, sectorial capital requirements and the PRA buffer.

To date, the Society has not been involved in such stress tests. However, if, in the future, the Society were to be subject to such stress tests, any reported or perceived weakness in the financial resilience of the Group as a result of the outcome of any such stress test may also impact the Society’s reputation and consumer confidence in the Society and/or require it to raise further capital.

A failure adequately to manage capital, liquidity and MREL requirements could have a material adverse effect on the Group

Whilst 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 Group'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 procyclical 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.

Furthermore, if the Group 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 Group's business, financial position and results of operations.

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

The Group is regulated by the PRA and the FCA. The regulatory regime requires the Group to be compliant across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Group 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.

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

Future changes in regulation, accounting, fiscal or other policies are unpredictable and beyond the Group's control and could materially adversely affect its business or operations.

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

- The Mortgage Credit Directive was implemented in the UK on 21 March 2016 by way of the Mortgage Credit Directive Order 2015 (the "**MCD Order**") which contains amendments to legislation including the FSMA, the Consumer Credit Act 1974 and the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. In outline, the MCD Order (i) puts in place a new regulatory regime for consumer buy-to-let mortgages ("**CBTL mortgages**"); (ii) widens the definition of regulated mortgage contract to include second charge mortgages; and (iii) transfers the regulation of some existing agreements (e.g. Consumer Credit Act regulated first charge mortgages) from the FCA's consumer credit regime to the FCA's mortgage regime. For the most part the UK Government has sought to put in place what it has described as the minimum requirements to meet its legal obligations under the Mortgage Credit Directive in respect of buy-to-let mortgages. The

legislation provides that firms do not need to apply the Government's appropriate framework for buy-to-let mortgages where a borrower is acting wholly or predominantly for the purposes of a business. HM Treasury has stated that they would expect CBTL activity to represent a small proportion of total buy-to-let transactions; and

- In September 2016, following a consultation by the PRA earlier that year, the PRA published Policy Statement PS28/16 and a final Supervisory Statement SS13/16 both entitled "Underwriting standards for buy-to-let mortgage contracts". The Policy Statement applies to all PRA regulated firms that undertake buy-to let lending that are not already subject to FCA regulation. The Supervisory Statement does not apply to regulated mortgage contracts, CBTL mortgages, buy-to-let mortgages ("**BTL mortgages**") with corporates or which have a term of 12 months or less or to an application from an existing customer for consent to let. The Supervisory Statement contains the PRA's minimum standards that firms should follow when underwriting BTL mortgages (affordability testing) (including when dealing with portfolio landlords who have four or more buy-to-let mortgaged properties), clarifies the PRA's expectation regarding the application of the small and medium sized supporting factor on BTL mortgages and details the PRA's expectations regarding adequate risk management and controls. The PRA expects that regulated firms ensure that the standards are followed by other firms undertaking buy-to-let lending within their group.
- The EU General Data Protection Regulation ("**GDPR**") took direct effect in all EU Member States from 25 May 2018 and replaces the EU data privacy laws then in place. Although a number of basic existing principles will remain the same, the GDPR introduces new obligations on data controllers and rights for data subjects. The GDPR also introduces 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 €20 million and fines of up to the higher of 2 per cent. of annual worldwide turnover or €10 million for other specified infringements. The GDPR identifies a list of points to consider when imposing fines (including the nature, gravity and duration of the infringement). The implementation of the GDPR has required substantial amendments to the Group's procedures and policies. There is a risk that the measures will not be implemented correctly or that individuals within the Group will not be fully compliant with the new procedures. If there are breaches of these measures, the Group could face significant administrative and monetary sanctions as well as reputational damage which may have a material adverse effect on the Group's operations, financial condition and prospects.
- In June 2017, the PRA published a policy statement relating to residential mortgage risk weights, including proposals to align firms' IRB modelling approaches for residential mortgage risk weighted assets. This sets out a number of modifications to the IRB modelling methodologies for residential mortgages, and sets the expectation for firms to have updated their IRB models by the end of December 2020. This could result in risk based requirements increasing following implementation of new models.
- The BoE conducts an annual stress testing exercise of the UK banking system, which currently covers the seven largest UK banks and building societies. If such exercises reveal inadequate systemic resilience, the FPC could consider a variety of actions, including recommendations to the PRA and FCA to adjust a range of regulatory capital buffers, including the UK countercyclical buffer, sectorial capital requirements and the PRA buffer. The Group was not part of this review. The criteria applied to stress tests are not intended to be indicative of prospective changes to the capital requirements, however, if the PRA or BoE were to formally increase capital buffers across all UK lenders, this could have a significant adverse impact on the Group's CET1 and overall capital ratios.
- In addition, the European Banking Authority has conducted its own stress tests for certain European financial institutions. Whilst the Group was not the subject of such stress tests, if it were to become subject to future stress tests of this nature there is a risk that it would be required to raise further capital, including if the stress test methodology included standardised or minimum risk weights,

whether generally or in respect of exposures to specified sectors, which afford higher risk-weightings to the Group's assets than the Group's own internal ratings-based model.

- On 15 May 2014, the Council and Parliament of the EU adopted the BRRD which has since largely been implemented in the UK through changes to the Banking Act (as discussed above). The BoE published a statement of policy on its approach to setting a minimum requirement for own funds and eligible liabilities as required under the BRRD in November 2016, although it noted in that paper that it may update the statement of policy in due course. Until this is finalised, the Group cannot predict the impact such rules will have on its overall capital requirements or how they will affect its compliance with the capital and loss absorbency requirements of Basel III. The BoE intends to conduct a review of its general approach to the calibration of minimum requirements for own funds and eligible liabilities by the end of 2020. The introduction of the new rules and proposals could require the Group to increase its capital, liquidity and funding requirements or otherwise adversely affect its business or profitability.
- Reforms in respect of interest rates and indices which are deemed to be "benchmarks" could impact the efficacy of the Group's hedging strategies for liabilities referencing these benchmarks, and the valuation of both assets and liabilities which reference such benchmarks. These reforms, and the uncertainty in relation thereto, could lead to volatility in the Group's reported results or otherwise impact the financial condition of the Group.

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

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

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

From time to time, the International Accounting Standards Board ("IASB") and/or the European Union change the international financial reporting standards issued by the IASB ("IFRS"), as adopted by the European Commission for use in the European Union that govern the preparation of the Group's financial statements. These changes can be difficult to predict and could materially impact how the Group records and reports its financial condition and results of operations. In some cases, the Group could be required to apply a new or revised standard retroactively, resulting in restating financial statements for a prior period.

The International Accounting Standards Board has recently introduced IFRS 9: "*Financial Instruments*" as a 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.

Amongst other changes, IFRS 9 replaces the incurred loss approach to impairment of IAS 39 with one based on expected credit losses ("ECL"), which will result in earlier recognition of credit losses. This introduces a number of new concepts and changes to the approach to provisioning compared with the methodology under IAS 39. ECLs are based on an assessment of the probability of default, loss given default and exposure at

default, discounted to give a net present value. The estimation of ECL should be unbiased and probability-weighted, taking into account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. The Society implemented IFRS 9 on 1 January 2018 and has elected to apply the transitional provisions under Article 473A of CRR.

IFRS 9 could lead to an increase in provisions held against loans and advances to customers, in so far as it:

- estimates credit losses on certain assets over their full life on an expected credit loss basis, rather than the current incurred loss basis; and
- takes account of forward-looking economic scenarios and captures potential downside economic risks that are not explicitly included in the current methodology.

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

Demutualisation and consequences of the Butterfill Act for Securityholders

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

The Act includes provisions under which a building society may demutualise by transferring the whole of its business to a company. In addition, the Act (as modified by the Mutual Societies (Transfers) Order 2009 made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (commonly known as the “**Butterfill Act**”)) includes provisions under which a building society may transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the Butterfill Act).

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

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

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

An institution's FSCS levy is linked to its share of the UK deposit market. The Group is, and continues to be, a member of the FSCS. As at 31 December 2017, the Group held a provision of £2.5 million with respect to the estimated FSCS levy for the period 2017/18. The FSCS levy may have a material impact on the profits of the Group. Claims on the FSCS are funded by loans from the HM Treasury, and until such loans are repaid, levies on UK deposit taking institutions fund interest payments on such loans and any capital shortfalls that are identified. As a result of the various claims under the FSCS, the Group, in common with all regulated UK deposit takers, has recently been subject to significantly increased FSCS levies and there can be no assurance that there will not be further increases in the FSCS levy from time to time. Consequently, the FSCS levy may have a material impact on the profits of the Group.

There can also be no assurance that there will not be any actions taken under the Banking Act that may lead to further claims against the FSCS, and concomitant increased FSCS levies payable by the Group (and other regulated UK deposit takers). Any such increases in the Group'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 Group may also arise from discussions at national and EU levels 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.

Rules published by the PRA on 1 April 2015, with revisions published on 3 July 2015 and 30 July 2015, as a result of the EU recast directive on deposit guarantee schemes which was adopted in April 2014, have altered the way that the FSCS is operated. The new rules have resulted in a number of changes to the UK FSCS including temporary high balance deposit protection, up to £1 million (an increase to the previous £75,000 deposit protection limit), for up to six months for certain limited types of deposits, and changes to the manner and size of the FSCS's funding. The standard depositor protection limit was increased from £75,000 to £85,000 on 30 January 2017. It is possible that future FSCS levies on the Group may differ from those incurred previously, and such reforms could result in the Group incurring additional costs and liabilities, which may adversely affect its business, financial conditions and/or results of operations.

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

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

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, UK building societies, UK investment firms and UK recognised central counterparties which are considered to be at risk of failing” 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 for a significant period of time, and may impact the Society's ability or willingness to exercise any right to redeem 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 redemption provisions (including the timing of any redemption options and/or the amount payable upon 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) 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 deeply subordinated ranking of 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.

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

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.

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

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

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

The occurrence of a Conversion Trigger is inherently unpredictable and depends on a number of factors, which may be outside the control of the Society. Furthermore, a determination that a Conversion Trigger has occurred can be made on any information available to the Society, whether or not published. Accordingly, investors may be unable to predict accurately if and when a Conversion Trigger may occur. See “*The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect either CET1 Ratio*” and “*The two CET1 Ratios may be affected by different factors*” below.

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

In addition to Conversion of the Perpetual Capital Securities in accordance with Condition 8, the Perpetual Capital Securities may also be written off, written down, converted to CCDS or otherwise modified in a

manner which is materially adverse to investors in circumstances where the BoE or other resolution authorities exercise powers under EU and UK recovery and resolution regimes. See *“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, UK building societies, UK investment firms and UK recognised central counterparties which are considered to be at risk of failing”* above and *“Factors which are material for the purpose of assessing the market risks associated with CCDS, in the event that any are issued”* below.

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

The 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, will 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, 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), rank (a) junior to the claims of all creditors (including all subordinated creditors) and Shareholding Members (as regards the principal and interest due on such Shareholding Members' shares) of the Society, including (without limitation but save as follows) claims in respect of obligations of the Society which constitute Tier 2 Capital, but in each case excluding claims in respect of (i) the PIBS and the Existing PCS of the Society, (ii) any other Deferred Shares (as defined in the Rules) outstanding of the Society ranking, or expressed to rank, *pari passu* with or junior to the PIBS or the Existing PCS and (iii) any other Parity Obligation or Junior Obligation; (b) *pari passu* among themselves and with any claims ranking, or expressed to rank, *pari passu* therewith, including (without limitation) all claims in respect of the PIBS and 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 to rank, junior to either the Perpetual Capital Securities or any Parity Obligations, all as more particularly described in Condition 4.

The claims of the holders of the Perpetual Capital Securities in a winding-up or dissolution of the Society (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 are the most junior-ranking of all claims. Claims in respect of CCDS are not for a fixed nominal amount, but rather are limited to a proportionate and capped share of the surplus assets (if any) remaining following payment of all amounts due in respect of the liabilities of the Society.

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

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

Given the possible variables, it is not possible to predict, as at the date of this Offering Circular, the share of surplus assets which would be attributable to each CCDS in the event of a winding-up or dissolution of the Society in the future. See also "*Securityholders have limited anti-dilution protections with respect to the Conversion Price, which protections will apply from the time, if any, that the Society issues any CCDS prior to the Conversion of the Perpetual Capital Securities*" and "*The Society will be entitled, without the consent of the CCDS holders, to issue further CCDS and other instruments ranking in priority to the CCDS at any time. Any such further issue of CCDS and/or such other instruments may have a dilutive effect on existing CCDS*" below.

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

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

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

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

Moreover, although it is the Society's current intention that the Securityholders will become beneficial owners of the CCDS upon the issuance of such CCDS to the Nominee (in its capacity as nominee holder of

the CCDS), no holder will be able to sell or otherwise transfer any CCDS until such time as they are finally delivered to the Clearing System securities account of such holder.

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

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

Further, there can be no assurance that CCDS will be accepted for clearing in the Clearing Systems, in which case definitive certificates representing each holder's entitlement may be delivered directly to the holders – see “*Risks related to the listing and clearing of the CCDS to be issued upon Conversion*” below. Whether CCDS are delivered to the Clearing Systems or issued in definitive form could result in different UK tax treatment upon issue and subsequent transfers of CCDS – see “*Dealings in the CCDS may in certain circumstances be liable to UK stamp taxes*” below.

Interest Payments may be cancelled on a discretionary or mandatory basis

Payment of interest on any Interest Payment Date is at the sole discretion of the Society. The Society may elect not to pay interest, in whole or in part, on any Interest Payment Date. The Society may make such election for any reason. The Perpetual Capital Securities will be senior in ranking to any CCDS which may be issued by the Society in the future. It is the 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 policy 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 under regulations implementing Article 104 of CRD (as may be amended or superseded) to restrict or prohibit payments of interest by the Society to holders of Additional Tier 1 instruments. The risk of any such intervention by the Regulator is most likely to materialise if at any time the Society is failing, or is expected to fail, to meet its capital requirements – see also “*The Society is subject to regulatory capital requirements which are subject to change*” above. Any interest not paid will be cancelled, and Securityholders will have no right to receive such cancelled interest (or any amount in respect thereof) in any circumstances.

In addition, payment of interest will be prohibited if and to the extent that (i) payment cannot be made in compliance with the Solvency Test, (ii) the Society has insufficient Distributable Items, (iii) payment would result in a breach of any maximum distributable amount then applicable to the Society, and/or (iv) following the occurrence of a Conversion Trigger, each as further described below. The Society will also exercise its discretion 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 (including, but not limited to, if the Society becomes subject to any applicable leverage-based or MREL-based maximum distributable amount restrictions, as further described below).

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 administration of the Society) (the “**Solvency Test**”). For these purposes, the Society shall be considered to be solvent if (x) it is able to pay its debts which are Senior Obligations as they fall due and (y) its Assets exceed its Liabilities.

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

Insufficient Distributable Items

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

Maximum Distributable Amount

The Society shall not be permitted to pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the payment of such Interest Payment (together with any Additional Amounts payable thereon) would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the Capital Requirements Directive (or any provision of applicable law transposing or implementing Article 141(2) of the Capital Requirements Directive, as amended or replaced, or any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society), the Maximum Distributable Amount (if any) then applicable to the Society (as calculated in accordance with Article 141 or any applicable law transposing or implementing that Article, or any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society) to be exceeded.

As noted above under “*The Group is subject to capital and liquidity requirements which are subject to change - Banking reform package*”, the Banking Reform Package is expected to extend the scope of the ‘maximum distributable amount’ restrictions, which currently apply to risk-based capital requirements, to also reflect leverage-based capital requirements and MREL requirements. If such proposals are implemented as part of the prudential regime applicable to the Society, the Society would expect to exercise its discretion to cancel scheduled payments of interest in respect of the Perpetual Capital Securities, in whole or in part, as may be necessary to comply with such restrictions (if any) as may apply to the Society from time to time. See further “*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*” below.

Conversion Trigger

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

Consequences of cancellation

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

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

If at any time the Perpetual Capital Securities are Converted in accordance with the Conditions, no interest shall accrue from that time on the Perpetual Capital Securities. Consequently, no interest will be payable after the Conversion of the Perpetual Capital Securities.

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

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

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

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

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

determined by the Board, may fluctuate significantly and may materially adversely affect Distributable Items.

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

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

As provided above under “*The Group is subject to capital and liquidity requirements which are subject to change*”, the Group is subject to regulatory capital requirements comprising a Pillar 1 requirement, a Pillar 2A requirement, a Pillar 2B requirement and additional buffer requirements.

Under Article 141 (*Restrictions on distributions*) of the Directive that is part of CRD IV, as implemented in the United Kingdom (or any equivalent or similar rule as may be applicable to the Society under the Capital Regulations in the future) if the Society fails to meet its combined buffer requirement (broadly, the combination of the capital conservation buffer (set at 2.5 per cent. of risk-weighted assets from 2019), the institution-specific counter-cyclical buffer and, if applicable, the higher of (depending on the institution) the systemic risk buffer, the global systemically important institutions buffer and the other systemically important institution buffer, in each case as applicable to the institution), it will be subject to restricted “discretionary payments” (which are defined broadly as payments relating to Common Equity Tier 1 capital instruments, Additional Tier 1 instruments (including the Perpetual Capital Securities) and variable remuneration).

The restrictions will be scaled according to the extent of the breach of the combined buffer requirement and calculated as a percentage of the profits of the Society since the last decision to distribute profits or make such discretionary payments. 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 2018, the Society held Common Equity Tier 1 capital in excess of its combined buffer requirement equal to £973 million, or 2,139 basis points. 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 Group is subject to capital and liquidity requirements which are subject to change*” and “*Interest Payments may be cancelled on a discretionary or mandatory basis – Maximum Distributable Amount*” above. In addition, the Banking Reform Package proposes to extend the scope of the MDA restriction to also reflect leverage-based capital requirements and MREL requirements (as further described below).

The Society is also subject to the countercyclical capital buffer (“CCyB”) requirement, which 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 the UK CCyB rate. As at the date of this Offering Circular, the UK CCyB rate set by the FPC is 1.0 per cent. of risk weighted assets (which took effect from 28 November 2018). The FPC 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. In the March 2019 Financial Stability report the FPC stated it is maintaining the UK CCyB at 1 per cent.

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 2018, the Society's combined Pillar 1 requirement and Pillar 2A requirement as at 31 December 2018 was 11.2 per cent. of risk weighted assets, or £511 million (31 December 2017: 12.8 per cent., or £539 million).

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.

As noted above and under "*The Group is subject to capital and liquidity requirements which are subject to change - Banking Reform Package*", the Banking Reform Package proposes to extend the scope of the MDA restrictions, which currently apply to risk-based capital requirements, to also reflect leverage-based capital requirements and MREL requirements. In particular, it is proposed that:

- (i) *leverage-based MDA*: an institution that is designated as a global systemically important bank (a "**G-SIB**") that: (A) meets an applicable leverage ratio buffer shall not be entitled to make any distribution in connection with tier 1 capital to the extent this would decrease its tier 1 capital to a level where the leverage ratio buffer requirement is no longer met; and (B) is failing to meet an applicable leverage ratio buffer shall calculate a leverage ratio-based maximum distributable amount (the "**L-MDA**") and must not make discretionary payments (payments relating to Common Equity Tier 1 capital instruments, Additional Tier 1 instruments (such as the Perpetual Capital Securities) and variable remuneration) which would, in aggregate, exceed such L-MDA. As with the MDA, the L-MDA restrictions will be scaled according to the extent of the breach of the leverage buffer requirement and calculated by reference to the institution's distributable profits, applying a scaling factor depending on which quartile of the leverage buffer requirement the institution meets (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); and
- (ii) *MREL-based MDA*: where an institution is failing to meet its buffer requirements as a result of its MREL requirement (but would meet its buffer requirements but for its MREL requirement), the relevant resolution authority, having considered certain specified factors, will be entitled (and, if non-compliance continues for an extended period, may, subject to certain exceptions, be required) to prohibit such institution from distributing more than a maximum distributable amount determined by reference to its MREL requirement (the "**M-MDA**") by way of discretionary payments (payments relating to Common Equity Tier 1 capital instruments, Additional Tier 1 instruments (such as the Perpetual Capital Securities) and variable remuneration). As with the MDA and the L-MDA, the M-MDA restrictions will be scaled according to the extent of the breach of the buffer requirement (when having regard to MREL requirements) and calculated by reference to the institution's distributable profits, applying a scaling factor depending on which quartile of the buffer requirement the institution meets (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).

If such proposals are implemented as part of the prudential regime applicable to the Society, the Society would expect to exercise its discretion to cancel scheduled payments of interest in respect of the Perpetual Capital Securities, in whole or in part, as may be necessary to comply with such restrictions and/or with any requirement by the Bank of England, the PRA or any other supervisory authority having jurisdiction over it to cancel any such payment. Furthermore, as noted above under *“The Group is subject to capital and liquidity requirements which are subject to change - The Group’s capital requirements”*, the Society presently expects that if the Group becomes subject to a binding leverage requirement imposed by the PRA, such leverage requirements could over time operate as the Group’s primary capital constraint. In that case, the Society may be constrained from making discretionary payments – including payments of interest in respect of the Perpetual Capital Securities – under an applicable L-MDA before it would be constrained under a risk-based MDA. Furthermore, if the Society is subject to an applicable M-MDA and the Bank of England or other resolution authority were to require the Society to reduce or cancel discretionary payments as a result, the Society may be required to use its discretion to cancel interest payments in circumstances where there is no applicable MDA or L-MDA.

The Society's capital requirements are, by their nature, calculated by reference to a number of factors, any one of which or combination of which may not be easily observable or capable of calculation by investors. 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.

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

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

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

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

The Society currently intends to publicly report its CET1 Ratio (calculated both on a consolidated basis and on an individual consolidated basis) on a half-yearly basis, for so long as any Perpetual Capital Security remains outstanding. During each such half-yearly period there may be no published updating of either

CET1 Ratio and there may be no prior warning of adverse changes in either or both CET1 Ratios. However, any indication that either CET1 Ratio is moving towards the level of a Conversion Trigger may have an adverse effect on the market price of the Perpetual Capital Securities. A decline or perceived decline in either CET1 Ratio may significantly affect the trading price of the Perpetual Capital Securities.

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

The occurrence of a Conversion Trigger is inherently unpredictable and depends on a number of factors, 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, 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 mix of the Group's business, major events affecting its earnings, distributions payments by the Society, regulatory changes (including changes to definitions and calculations of regulatory CET1 Ratios and their components, including Common Equity Tier 1 and Risk Weighted Assets, in each case on either an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation or 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 has risk weighted assets denominated in foreign currencies, and changes in foreign exchange rates will result in changes in the pound sterling equivalent value of foreign currency denominated risk weighted assets. As a result, the CET1 Ratios are exposed to foreign currency movements. The calculation of either CET1 Ratio may also be adversely affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules. Even if changes in applicable accounting rules, or changes to regulatory adjustments which modify accounting rules, are not yet in force as of the relevant calculation date, the PRA could require the Society to reflect such changes in any particular calculation of either of its CET1 Ratios.

As further described under “*The Group is subject to capital and liquidity requirements which are subject to change - RWA floors and IRB modelling*” the Basel Committee published their final reforms to the Basel III framework in December 2017, including changes to the standardised approaches for credit and operational risks and the introduction of a new RWA output floor. The Society expects its CET1 capital ratios assessed against these new reporting requirements to show a significant reduction. However, based on current estimates, the Society expects that it will continue to have a substantial capital surplus above regulatory minima. The introduction of these output floors will not change the Society's risk profile or capital resources, but will remove much of the impact of the Society's low risk loan book from the updated capital calculations. On an indicative basis and for illustrative purposes only, the Society anticipates that if these amendments (as the Society understands them) had been applied as at 31 December 2018 (i) with the initial transitional 50 per cent. floor, its reported CET1 ratio as at that date would have reduced to approximately 26 per cent.; or (ii) on an end-point basis (i.e. ignoring the transitional provisions through to 2027), its reported CET1 ratio as at that date would have reduced to approximately 17.9 per cent. On such end-state basis, the Society's surplus over the revised CET1 ratio would have remained over 13 times the aggregate credit losses incurred in the last ten years (or, if applying the initial transitional floor of 50 per cent., would have remained over 16 times the aggregate credit losses incurred in the last ten years).

Accordingly, 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 be 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 purposes of the Conversion Trigger, the CET1 Ratios will be calculated on a “fully loaded” basis. This will result in lower calculated CET1 Ratios than if using CRD IV transitional provisions

The CRD IV legislation sets out a minimum pace of introduction of enhanced capital requirements (the “**Transitional Provisions**”). For the purposes of the Perpetual Capital Securities, the CET1 Ratios will be calculated without applying the Transitional Provisions and will instead be calculated on a so-called “fully loaded” or “end-point” basis. This means that the CET1 Ratios as defined for the purposes of the Perpetual Capital Securities are lower than would otherwise be the case were the CET1 Ratios to be calculated applying the Transitional Provisions.

As further described under “*Changes to the Group's accounting policies or in accounting standards could materially affect its capital ratios, how it reports its financial condition and the results of its operations*” above, the Society has also implemented IFRS 9 with effect from 1 January 2018, and has elected to apply the IFRS 9 transitional provisions provided for under Article 473A of CRR (as introduced by the IFRS 9 Regulation). Notwithstanding such election, the Society intends to continue to calculate and report its CET1 Ratios on an end-point basis. Such ratios would not be materially different if the Article 473A transitional provisions were to be reflected in the published ratio.

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

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

Conversion of the Perpetual Capital Securities and for so long as any such CCDS remain in issue. See Condition 8 for the complete provisions regarding the Conversion Price.

There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of CCDS (if any) in issue and the adjustment events that are included are less extensive than those often included in the terms of convertible securities.

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

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

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

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

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

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

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

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

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

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

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

In particular, such changes could impact the definitions of Common Equity Tier 1 and Risk Weighted Assets, each calculated on either an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation or 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 Article 141 of the Directive 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, including uncertainty stemming from the UK's withdrawal from the EU, 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. In the event that the UK does leave the EU, the current proposal is that the UK will initially transpose and adopt all applicable EU legislation into national law, but there is currently no guarantee that UK law will remain aligned with EU legislation beyond any initial transition period. As such, UK law may diverge from EU law over time. The Society is not able to predict how UK legislation might develop, and consequently cannot assess the impact changes may have on its business, its ability to make payments under the Perpetual Capital Securities or to maintain its CET1 Ratios above the Conversion Trigger.

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

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

The circumstances in which any Tax Event or Regulatory Event may occur may be difficult to predict. As at the date of this Offering Circular, there are proposed changes to the European laws establishing the necessary features of regulatory capital instruments (such as the Perpetual Capital Securities). Whilst near-final drafts of the new rules have been published, there can be no assurance that the final rules, once implemented, will accurately reflect the draft rules in all respects. Whilst the Society is not entitled to exercise any redemption right upon the occurrence of a Tax Event or a Regulatory Event before the fifth anniversary of issue of the Perpetual Capital Securities in circumstances where the relevant change in law was reasonably foreseeable at the issue date of the Perpetual Capital Securities, if the final rules implemented differ in any relevant respect from the draft rules available as at the issue date such that the relevant change in law was not reasonably foreseeable as at the issue date, the Society may (subject to obtaining regulatory approval and to compliance with the Capital Regulations) be entitled to exercise such redemption rights at any time before the fifth anniversary of the issue date.

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

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

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

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

Subject also to the subordination of the Perpetual Capital Securities (as described in “*The obligations of the Society under the Perpetual Capital Securities are unsecured and deeply subordinated, and the rights of the holders of CCDS will be further subordinated*” above), holders of the Perpetual Capital Securities shall, in a winding-up or dissolution of the Society (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). 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.

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

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

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

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

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

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

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

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

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

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

The Perpetual Capital Securities represent a new security for which no secondary trading market currently exists and there can be no assurance that one will develop. Following admission to trading of the Perpetual Capital Securities on the 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):

- material decreases in the Society's capital ratios and/or any application of a Maximum Distributable Amount under Capital Regulations implementing, or similar to, Article 141 of CRD, or any application of a leverage-based or MREL-based maximum distributable amount, which could arise as a result of a number of factors including changes in regulation or losses incurred by the Society;

- variations in operating results in the Group's reporting periods;
- any shortfall in revenue or net profit or any increase in losses from levels expected by market commentators;
- increases in capital expenditure compared with expectations;
- any perception that the Group's strategy is or may be less effective than previously assumed or that the Group is not effectively implementing any significant projects;
- changes in financial estimates by securities analysts;
- changes in market valuations of similar entities;
- announcements by the Group of significant acquisitions, strategic alliances, joint ventures, new initiatives, new services or new service ranges;
- regulatory matters, such as changes in PRA, UK Financial Policy Committee, FCA, HM Revenue & Customs or HM Treasury requirements;
- additions or departures of key personnel; and
- future issues or sales of Perpetual Capital Securities or other securities.

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

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

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. 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 resales 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 to a company (a “**Successor Entity**”).

Those provisions enable (in the context of such amalgamation or transfer only) certain amendments to be made to the terms of the Perpetual Capital Securities without the consent of the Securityholders, which potentially could be adverse to the interests of Securityholders, subject to certain restrictions. Such provisions could potentially result in amendments to the Conversion provisions of the Perpetual Capital

Securities, including the nature of the instrument into which the Perpetual Capital Securities would convert upon the occurrence of a Conversion Trigger.

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

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 capital securities in a Successor Entity will offer a similar risk profile or return on investment when compared with the Perpetual Capital Securities. 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 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 (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.

Risks related to the Perpetual Capital Securities generally

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

Holdings of less than £200,000

The Perpetual Capital Securities are denominated in amounts of £200,000 and integral multiples of £1,000 in excess thereof. In the event that definitive Perpetual Capital Securities are required to be issued, a holder who holds a nominal amount which is less than £200,000 in its account with the relevant clearing system 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 the UK 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. Accordingly, if any such withholding or deduction were to apply to any payments of principal 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.

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

The Conditions contain provisions for calling meetings of holders of the Perpetual Capital Securities to consider matters affecting their interests generally. 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.

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.

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 as introduced by Finance Act 2019 (the "**HCI Rules**"). The Perpetual Capital Securities will be taxable under the HCI Rules if (a) the Society makes 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 Instruments 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 within six months of 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.

Risks related to the market generally

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

Exchange rate risks and exchange controls

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

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

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

Credit ratings may not reflect all risks

Each of Fitch and Moody's is expected to assign a credit rating to the Perpetual Capital Securities. Other rating agencies may assign ratings to the Society or the Perpetual Capital Securities on an 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. The aforementioned rating does not address the likelihood that the interest or principal on the Perpetual Capital Securities will be paid on any particular date. The rating does not address the marketability of the Perpetual Capital Securities or any market price. Any change in the credit ratings of the Perpetual Capital Securities or the Group could adversely affect the price that a subsequent purchaser will be willing to pay for the Perpetual Capital Securities. The significance of any rating should be evaluated independently of any other rating. The rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Perpetual Capital Securities.

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

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

Securityholders should ensure that, in addition to the risks in this section headed “Factors which are material for the purpose of assessing the market risks associated with CCDS, in the event that any are issued”, they understand also the risks set out above 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.

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

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

As at the date of this Offering Circular and as at the Issue Date, no CCDS will have been issued by the Society or listed or admitted to trading on any stock exchange. There may not be any CCDS in issue prior to Conversion, in which case the CCDS to be issued upon Conversion will be new securities which may not be widely distributed and which will not have an active trading market. There is no assurance that an active trading market in CCDS will develop nor as to the liquidity of any trading market for the CCDS. As no primary or secondary market price for the CCDS will exist at the time of investment in the Perpetual Capital Securities, investors in the Perpetual Capital Securities will therefore not be able to compare the Conversion Price with any market valuation for the CCDS. There may be no distribution policy in place at the time the CCDS are issued, making valuation of the CCDS even more challenging. The initial Core Capital Contribution Proportion is unknown as at the Issue Date of the Perpetual Capital Securities and it is therefore impossible to determine the amount of any Surplus the CCDS holders may be eligible to receive upon a winding-up of the Society. These factors may adversely affect how the market perceives and values the Perpetual Capital Securities.

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

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

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

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

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

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

See *"The CCDS will be perpetual instruments and the Society will have no obligation nor any right to redeem the CCDS. In addition, no secondary trading market exists for CCDS and none may develop. As a result, a CCDS holder should be prepared to hold its CCDS for an indefinite period of time"* 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 allow them to raise Common Equity Tier 1 capital (although there can be no assurance that the CCDS to be issued upon Conversion will qualify as common equity tier 1 (or equivalent) capital of the Society at the time of Conversion or that, at a later date, the CCDS will not cease to qualify as common equity tier 1 (or equivalent) capital of the Society). 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 to not have any right to Distributions (as defined in the Indicative CCDS Conditions) set out in the Annex to this Offering Circular) on the CCDS (or to any particular level or frequency of payment of such Distributions, if paid), the declaration of which by the Board will be wholly discretionary and may be restricted by applicable law and regulation. The Rules of the Society provide for an upper limit on the amount of Distributions which the Society is permitted to declare on each CCDS in respect of any financial year;
- the rights of CCDS holders to participate in the winding-up or dissolution of the Society are expected to be limited to (i) a deeply subordinated claim in respect of any declared, unconditional and unpaid Distributions (if any) on the CCDS at the time of the winding-up or dissolution, and (ii) a capped entitlement to share in surplus assets (if any) remaining in the Society after all depositors and creditors (including subordinated creditors) of the Society have been repaid in full;
- the CCDS holders 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 (which the Society considers unlikely) CCDS in definitive form are issued and held directly by holders outside the Clearing Systems, their member voting rights at general meetings of the Society will be insignificant; and
- CCDS holders may have their holdings diluted by an issuance of Additional CCDS by the Society. 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 of the CCDS falls significantly;
- if CCDS or other regulatory capital instruments are issued which dilute (either initially or upon conversion into CCDS) the holdings of CCDS investors; and
- if, in a worst-case scenario, the United Kingdom authorities take action under the Banking Act (or similar future legislation) or the Society or another company in the Group enters into an insolvent winding-up.

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

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

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

- ***Lowest ranking claim:*** the claims of CCDS holders will rank behind the claims of all depositors and creditors of the Society, including subordinated creditors and other shareholding member claims (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 and creditors (including subordinated creditors and higher-ranking shareholding members) of the Society are first paid in full.

- ***Subordinated claim for declared but unpaid Distributions:*** If, at the time of commencement of winding-up or dissolution, the Society has declared but not yet paid a Distribution, then (provided the Distribution is unconditional, or that any conditions stated to apply to the Distribution are fulfilled prior to commencement of winding-up or dissolution) holders will be entitled to claim for such Distribution. However, that claim will be deeply subordinated, and will rank behind the claims of all creditors (including subordinated creditors) of the Society.
- ***No other fixed claims:*** Save for the claim (if any) in respect of a declared but unpaid Distribution, CCDS holders will not have a fixed claim in such winding-up or dissolution for the amount of their initial investment in CCDS (or for any other amount).
- ***Right to a proportionate and capped share in any Surplus:*** CCDS holders will be entitled only to share in the surplus assets (if any) of the Society remaining following payment in full of the claims of all depositors and creditors (including subordinated creditors) of the Society (and, if applicable, after payment of the claim in respect of declared but unpaid Distributions), any such surplus assets being a “**Surplus**”. Any Surplus would be shared between the CCDS holders and other shareholding members of the Society on a proportionate basis. However, in the case of CCDS holders, the proportionate amount payable to them 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:*** CCDS holders will not be entitled, on any account, to set-off any amounts owing to them in respect of their CCDS against amounts owing by them to the Society.

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

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, UK building societies, UK investment firms and UK recognised central counterparties which are considered to be at risk of failing*” 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, UK building societies, UK investment firms and UK recognised central counterparties which are considered to be at risk of failing*” 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 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 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.

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, UK building societies, UK investment firms and UK recognised central counterparties which are considered to be at risk of failing*” 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, 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 depart from this policy at its sole discretion.

With respect to any given financial year of the Society, the Board may declare an Interim Distribution during such financial year and/or a Final Distribution in respect of such financial year. Interim Distributions and Final Distributions are independent, and accordingly whether or not the Board declares an Interim Distribution during any financial year will have no bearing on the Board's discretion to declare a Final Distribution in respect of that financial year (save that the amount of the Final Distribution (if any) declared in respect of a financial year shall not, when aggregated with any Interim Distribution 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's distribution policy in respect of the CCDS may set out an indication of the level of Distributions which the Board expects to declare on the CCDS. Any such indication shall not be binding on the Board or the Society, 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 intends that it will maintain a stable distribution policy, subject to such factors as the Board deems relevant, including (but not limited to) the Society's profitability, availability of distributable resources, business outlook, capital and liquidity and the adequate recognition of the value to the Society of investments in CCDS, as well as the duty of the Board to act in the best interests of the Society and to have regard to the interests of all categories of the Society's members (of which CCDS holders form only one such category). If at any time the Board elects not to declare 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. Changes to applicable law and regulation, including changes to the Act, could potentially have an impact on what items the Society may use for the purpose of paying Distributions. For example, 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 implementing, or similar to, Article 141 of CRD IV, 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' ("**MDA**") 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 (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 the Society will automatically cancel such interest payments"* above with respect to the 'stacking' of the capital buffers and their relation to MREL and Pillar 2A capital requirements. Accordingly, CCDS holders may not be able to predict accurately the proximity of the risk of distributions being prohibited from time to time as a result of the application of an MDA. 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 applicable leverage-based or MREL-based 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 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 2018 is £16.14. 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 2019 to the prevailing Cap of £16.14. 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 Prudential Regulation Authority, to declare Distributions on the CCDS until its capital ratios had been restored to an acceptable level. There can be no guarantee that the Society's capital ratios would be restored to such levels promptly, or at all.

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 an 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 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 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 (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 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 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 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 Clearing Systems (if they have accepted the CCDS for clearing) will not accept instructions to settle transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount, and (in the circumstances in which definitive CCDS are issued) the registrar for the CCDS will not register in the CCDS Register any transfer of CCDS in definitive form in amounts less than the prevailing Minimum Transfer Amount. Accordingly, purported transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount will be incapable of settlement. Holders of CCDS will be responsible for ensuring that any trades they enter into in respect of the CCDS are capable of settlement; failure to do so may result in a holder breaching its contract of sale and purchase. If, and for so long as, the CCDS are admitted to trading on 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, will not be members of the Society by virtue of their investment in CCDS and will have to rely on the relevant Clearing System's procedures

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

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

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

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

System would be required to look solely to that Clearing System for its share of each payment made to or to the order of the Nominee.

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

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

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

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

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

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

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

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

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

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

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):

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

- changes in the Group's credit ratings and/or the ratings of other institutions operating in the UK personal financial services sector generally;
- changes in market valuations of similar entities;
- announcements by the Group of significant acquisitions, strategic alliances, joint ventures, new initiatives, new services or new service ranges;
- regulatory matters, such as changes in PRA, UK Financial Policy Committee, FCA, HM Revenue & Customs or HM Treasury requirements;
- additions or departures of key personnel;
- any election by the Society not to declare a Distribution in respect of any given financial year, or the declaration of a Distribution which is lower than that expected by the market; and
- future issues or sales of CCDS or other securities.

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

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

The initial issue and subscription price of any CCDS might not be indicative of prices that will prevail in the trading market 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 sterling may be affected by exchange rate fluctuations

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

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

Based on UK tax law as at the date of this Offering Circular, the CCDS, if issued, are expected to constitute "chargeable securities" for United Kingdom 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.

DOCUMENTS INCORPORATED BY REFERENCE

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

- (i) the Rules and Memorandum of the Society;
- (ii) the audited consolidated and non-consolidated annual financial statements of the Society for the financial year ended 31 December 2017, as set out on the following pages of the Society's Annual Report and Accounts 2017:

*For the financial year ended
31 December 2017*

Independent Auditors' Report.....	Pages 93 to 99
Income Statements	Page 100
Statements of Comprehensive Income	Page 100
Balance Sheets.....	Page 101
Statements of Changes in Members' Interests and Equity.....	Page 102
Statements of Cash Flows	Page 103
Notes to the Accounts.....	Pages 104 to 143

- (iii) the Society's Annual Report and Accounts 2018, including (without limitation) the audited consolidated and non-consolidated annual financial statements of the Society for the financial year ended 31 December 2018, as set out on the following pages:

*For the financial year ended
31 December 2018*

Independent Auditors' Report.....	Pages 96 to 101
Income Statements	Page 102
Statements of Comprehensive Income	Page 102
Balance Sheets.....	Page 103
Statements of Changes in Members' Interests and Equity.....	Page 104
Statements of Cash Flows	Page 105
Notes to the Accounts.....	Pages 106 to 150

- (iv) the Pillar 3 Disclosures of the Society for the financial year ended 31 December 2017; and
- (v) the Pillar 3 Disclosures of the Society for the financial year ended 31 December 2018.

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 Society's Annual Report and Accounts 2017 and Annual Report and Accounts 2018 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 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”; “Member”; “Ordinary Resolution”; “Person”; “Share”; “Shareholding”; “Shareholding Member”; “Shareholding Members’ Resolution”; “Special Resolution” and “voting date”.

1. GENERAL

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

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

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

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

2. REGISTER

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

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

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

The Society will appoint Citibank, N.A., London Branch at 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 in a financial year, at the beginning of the period of 56 days immediately preceding the voting date); and
 - (b) on the voting date; and
- (ii) that Securityholder has not ceased to be a Shareholding Member between the relevant time specified in (a) above and the voting date.

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

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

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

4. WINDING-UP OR DISSOLUTION

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

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

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

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

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

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

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

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

5. DISPUTES AND LEGAL PROCEEDINGS

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

CONDITIONS OF ISSUE OF THE PERPETUAL CAPITAL SECURITIES

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

The £415,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the “**Perpetual Capital Securities**”, which term shall include any further Perpetual Capital Securities issued pursuant to Condition 16(a) which are consolidated and form a single series with the Perpetual Capital Securities) are issued under, and are subject to, the Rules (the “**Rules**”) of Coventry Building Society (subject as provided in Condition 1.3, the “**Society**”) for the time being. Securityholders are entitled to the benefit of, are bound by and are deemed to have notice of, the Rules. The Perpetual Capital Securities are also issued subject to, and with the benefit of, these conditions of issue (the “**Conditions**”) and subject to an agency agreement (as amended from time to time, the “**Agency Agreement**”) dated 2 April 2019 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. The investors holding the beneficial interests in Perpetual Capital Securities through Clearing System accounts shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of the relevant Clearing System.*

1 General

1.1 Definitions

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

1.2 Deferred shares

The Perpetual Capital Securities:

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

1.3 ***Society Conversion Benefits***

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

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

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

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

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

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

2.1 ***Form and denomination***

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

2.2 ***Title and transfer***

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

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

2.3 Certificates

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

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

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

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

2.4 Formalities free of charge

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

3 Perpetual Capital Securities register

3.1 Registrar

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

3.2 Perpetual Capital Securities register

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

3.3 Certificates

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

3.4 ***Entries free of charge***

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

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

4.1 ***Status***

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

4.2 ***Subordination***

On a winding-up or dissolution of the Society 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 rank:

- (i) junior to the claims of all creditors (including all subordinated creditors) and Shareholding Members (as regards the principal and interest due on such Shareholding Members' shares) of the Society, including (without limitation but save as follows) 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 any of the same remain outstanding, the PIBS and the Existing PCS of the Society, (ii) any other Deferred Shares (as defined in the Rules) outstanding of the Society ranking, or expressed to rank, *pari passu* with or junior to any such PIBS or Existing PCS or the Perpetual Capital Securities and (iii) any other Parity Obligation or Junior Obligation ("**Senior Obligations**");
- (ii) *pari passu* among themselves and with any claims ranking, or expressed to rank, *pari passu* therewith, including (without limitation and for so long as any of the same remain outstanding) all claims in respect of the PIBS (as regards the principal and interest due thereon) and 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 to rank, junior to either the Perpetual Capital Securities or any Parity Obligations ("**Junior Obligations**").

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

Holders of the Perpetual Capital Securities shall, in a winding-up or dissolution of the Society (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. 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 administration of the Society (the “**Solvency Test**”).

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

4.5 Set off

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

5 Interest

5.1 Interest Rate

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

Subject to Conditions 6 and 8, interest shall be payable on the Perpetual Capital Securities semi-annually in arrear in equal instalments on each Interest Payment Date as provided in this Condition 5, except that the first payment of interest, to be made on 18 September 2019, will be in respect of the period from and including the Issue Date to but excluding 18 September 2019.

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 (or, if the relevant accrual period falls within the short first Interest Period, from and including 18 March 2019) to but excluding the next following Interest Payment Date multiplied by two.

5.2 Interest accrual

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

5.3 Calculation of interest amounts

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

5.4 Initial Interest Rate and interest amounts

For each Interest Period which commences prior to the First Call Date, the Interest Rate shall be 6.875 per cent. per annum (the “**Initial Interest Rate**”).

Provided the Perpetual Capital Securities are not Converted, and subject to the Society’s discretion (which it may exercise at any time) or obligation to partially or fully cancel Interest Payments pursuant to Condition 6, the Interest Payment in relation to the short first coupon scheduled to be paid on 18 September 2019 will (if paid in full) amount to £31.57 per Calculation Amount and each subsequent semi-annual Interest Payment thereafter for each Interest Period which commences prior to the First Call Date will (if paid in full) amount to £34.38 per Calculation Amount.

5.5 Reset Interest Rate

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

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

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

Interest Rate shall (in the absence of manifest or proven error) be binding on the Society and the Securityholders.

6 Interest cancellation

6.1 *Optional cancellation of interest*

The Society may, at its sole discretion but subject at all times to the requirements for mandatory cancellation of Interest Payments in Condition 6.2, at any time elect to cancel any Interest Payment, in whole or in part, which is scheduled to be paid on an Interest Payment Date.

Upon 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 Interest Payment Date (provided that any failure to give such notice shall not affect the validity of the cancellation of any Interest Payment in whole or in part by the Society and shall not constitute a default under the Perpetual Capital Securities for any purpose). Such notice shall specify the amount of the relevant cancellation and, accordingly, the amount (if any) of the relevant Interest Payment that will be paid on the relevant Interest Payment Date.

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) in accordance with this Condition 6.1, and such Interest Payment (or the cancelled part thereof) shall not become due and payable at any time.

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

6.2 *Mandatory cancellation of interest*

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

In addition, the Society shall not pay any Interest Payment otherwise due on an Interest Payment Date if and to the extent that the payment of such Interest Payment (together with any Additional Amounts payable thereon pursuant to Condition 10, if applicable) would cause, when aggregated together with other distributions of the kind referred to in Article 141(2) of the Capital Requirements Directive (or any provision of applicable law transposing or implementing Article 141(2) of the Capital Requirements Directive, as amended or replaced, or any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society), the Maximum Distributable Amount (if any) then applicable to the Society to be exceeded. "**Maximum Distributable Amount**" means any applicable maximum distributable amount relating to the Society required to be calculated in accordance with Article 141 of the Capital Requirements Directive (or as the case may be, any provision of applicable law transposing or implementing the Capital Requirements Directive, as amended or replaced, or any

equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society).

The Society will also exercise its discretion 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 the Perpetual Capital Securities to be so cancelled (including, but not limited to, if the Society becomes subject to any applicable leverage-based or MREL-based maximum distributable amount restrictions). 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.

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

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

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

6.3 Interest non-cumulative; no default

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

7 Repayment and purchase

7.1 No fixed maturity

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

7.2 *Society's option to repay*

The Society may, subject to Condition 7.5 and having given not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 17 (which notice shall, subject to Condition 7.5, be irrevocable), elect to repay all, but not some only, of the Perpetual Capital Securities then outstanding on the First Call Date or on any Reset Date thereafter at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with these Conditions).

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

7.3 *Repayment for tax reasons*

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

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

As used herein:

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

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

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

The Society shall make available to the Securityholders, at the same time as giving a notice to repay under this Condition 7.3, a copy of an opinion of an independent nationally recognised law firm or other tax adviser in the relevant taxing jurisdiction experienced in such matters to the

effect that the circumstances set out one or more of limbs (i) to (iv) of the definition of Tax Event have occurred and are continuing.

7.4 *Repayment for regulatory reasons*

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

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

A “**Regulatory Event**” will occur if, as a result of a change (or pending change which the Regulator considers to be sufficiently certain) in the regulatory classification of the Perpetual Capital Securities under the Capital Regulations, the entire nominal amount of the Perpetual Capital Securities 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 *Conditions to repayment and purchase*

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

- (i) the Society 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;
- (ii) either: (A) the Society having replaced the Perpetual Capital Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Society; or (B) the Society having demonstrated to the satisfaction of the Regulator that the own funds of the Society would, following such repayment or purchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Regulator considers necessary at such time; and
- (iii) in respect of a redemption prior to the fifth anniversary of the Issue Date, (A) in the case of redemption upon the occurrence of a Tax Event, the Society has demonstrated to the satisfaction of the Regulator that (1) the change in tax treatment is material and (2) the relevant Tax Law Change was not reasonably foreseeable as at the Issue Date, or (B) in the case of redemption upon the occurrence of a Regulatory Event, the Society has demonstrated to the satisfaction of the Regulator that the change (or pending change) in the regulatory classification of the Perpetual Capital Securities was not reasonably foreseeable as at the Issue Date,

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

In addition, notwithstanding any other provision of these Conditions, if the Society has elected to repay the Perpetual Capital Securities but the Solvency Test is not satisfied in respect of the relevant payment on the date scheduled for repayment, the relevant repayment notice shall be

automatically rescinded and shall be of no force and effect and, accordingly, no repayment of the nominal amount of the Perpetual Capital Securities or any interest thereon will be due and payable on the scheduled repayment date, and the Perpetual Capital Securities will continue to remain outstanding on the same basis as if no repayment notice had been given.

Further, if the Society has elected to repay the Perpetual Capital Securities but, prior to the repayment of the nominal amount, a Conversion Trigger occurs, the relevant repayment notice shall be automatically rescinded and shall be of no force and effect, no repayment of the nominal amount of the Perpetual Capital Securities or any interest thereon will be due and payable on the scheduled repayment date and, instead, a Conversion shall occur in respect of the Perpetual Capital Securities as described under Condition 8. The Society shall not be entitled to give notice of any redemption under this Condition 7 following the occurrence of a Conversion Trigger.

7.6 Purchases

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

7.7 Cancellation

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

8 Conversion

8.1 Conversion on a Conversion Trigger

If, 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) and promptly shall notify the Securityholders (in accordance with Condition 17) of the occurrence of the Conversion Trigger and, without delay and by no later than one month (or such shorter period as the Regulator may require) following the determination that the Conversion Trigger has occurred:

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

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

For the purposes of determining whether a Conversion Trigger has occurred, each CET1 Ratio may be calculated at any time based on information (whether or not published) available to the management of the Society, 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 that a Conversion Trigger has occurred, and in any event not less than 5 days prior to the Conversion Date (provided that shorter notice shall not constitute a default under the Perpetual Capital Securities for any purpose or affect the Conversion of the Perpetual Capital Securities on the Conversion Date), give notice (which notice shall be irrevocable) to the Securityholders in accordance with Condition 17 (the “**Conversion Notice**”) stating (i) that the Conversion Trigger has occurred, (ii) the Conversion Date, (iii) the prevailing Conversion Price and (iv) the procedures Securityholders will need to follow (if any) to receive CCDS pursuant to Condition 8.1(c).

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

8.3 Consequences of a Conversion

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

Such write-down and cancellation of the Perpetual Capital Securities and cancellation of interest shall be independent of the 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 for any purpose. Following the Perpetual Capital Securities being written down in accordance with this Condition 8, no amount shall at any time be or become due and payable to the Securityholders in respect of the Perpetual Capital Securities, and the liability of the Society to pay any amounts in respect of the Perpetual Capital Securities (including the nominal amount of, any interest in respect of and any other amounts in connection with the Perpetual Capital Securities) shall be automatically released (but this is without prejudice to the right of Securityholders to claim for the issue to them of CCDS pursuant to Condition 8.1(c)).

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

8.4 Conversion Price

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

8.5 Conversion Price adjustments

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

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

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

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

where:

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

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

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

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

where:

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

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

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

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

Such adjustment shall become effective on the Effective Date.

As used herein:

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

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

(d) Notwithstanding paragraphs (a), (b) and (c) above, no adjustment to the Conversion Price will be made:

- (i) as a result of the payment of any Distribution;
- (ii) to the extent CCDS or other securities (including convertible or exchangeable securities, rights or options in relation to CCDS and other securities) are issued, offered or granted as consideration for the purchase of shares or assets of companies;
- (iii) if an increase in the Conversion Price would result from such adjustment (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.

(e) Notwithstanding the foregoing provisions:

- (i) where the events or circumstances giving rise to any adjustment pursuant to this Condition 8.5 have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Society, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall, subject to compliance with the prevailing Capital Regulations, be made to the operation of the adjustment provisions as may be determined in good faith by an Independent 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 (including, without limitation, as to the determination of any Effective Date or (if applicable) Current Market Price), and following consultation between the Society and an Independent 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.

8.7 *Option schemes and reinvestment plans*

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

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

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

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

8.9 *Taxes etc.*

The Society shall not be liable for any taxes or capital, stamp, issue, registration or transfer taxes or duties arising on Conversion or that may arise or be paid as a consequence of the delivery of CCDS upon Conversion. A Securityholder must pay any taxes and capital, stamp, issue, registration and transfer taxes and duties arising on Conversion as a consequence of any disposal or deemed disposal of its Perpetual Capital Securities (or any interest therein) and/or the issue or delivery to it of any CCDS (or any interest therein).

8.10 *CCDS*

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

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

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

The CCDS issued upon Conversion would, in the event of a subsequent winding-up or dissolution of the Society (other than a winding-up or dissolution in connection with an amalgamation or transfer as described 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, if the CCDS issued upon Conversion are to be consolidated into a single series with CCDS that are already in issue at that time, will be calculated (under the equivalent provisions in the terms of such existing CCDS) on the basis of an adjustment to the then-current claim of holders of the CCDS as a class. Further adjustments would be made in the event of further subsequent issues of CCDS or cancellations of CCDS.

8.11 Covenants

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

- (a) ensure that the CCDS issued upon Conversion shall be admitted to listing and trading on (i) a Relevant Stock Exchange and (ii) if and to the extent there are CCDS in issue immediately prior to the time of Conversion, the principal stock exchange or securities market (if any) on which such CCDS are then listed, admitted to trading or quoted or accepted for dealing, in each case, as soon as the Society in its sole discretion (having regard to the interests of the Society's members, the financial condition of the Society and prevailing market conditions) considers practicable following the issue of such CCDS;
- (b) appoint an Independent 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 Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Perpetual Capital Security shall be made in Sterling by cheque drawn on a bank and mailed to the Securityholder (or to the first named of joint Securityholders) of such Perpetual Capital Security at its address appearing in the Register. Upon application by the Securityholder to the specified office of

the Registrar before the Record Date, such payment of interest may instead be made by transfer to a Sterling account specified by the payee.

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

9.2 Payments subject to applicable laws

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

9.3 Payment initiation

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

9.4 Delay in payment

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

9.5 Non-payment days

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

10 Taxation

All payments by or on behalf of the Society in respect of the Perpetual Capital Securities shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. If any such withholding or deduction for or on account of any Taxes is required by law, the Society will, 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) by or on behalf of a Securityholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Perpetual Capital Securities by reason of it having some connection with the United Kingdom other than the mere holding of the Perpetual Capital Securities;
- (b) where (in the case of a payment of 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.

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

11 Prescription

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

12 Replacement of Certificates

A Securityholder who has lost a Certificate shall immediately give notice in writing of such loss to the Society at its Principal Office and to the Registrar at its specified office. If a Certificate is damaged or alleged to have been lost, stolen or destroyed, a new Certificate representing the same Perpetual Capital Securities shall be issued by the Registrar, on behalf of the Society, to the Securityholder upon request, subject to delivery up of the old Certificate or (if alleged to have been lost, stolen or destroyed) subject to compliance with such conditions as to evidence and indemnity as the 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 under section 93 or 94 of the Act

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

If the Society, in its sole discretion, considers that, as a result of such amalgamation or transfer, it is necessary to amend the provisions of these Conditions relating to Conversion of the Perpetual Capital Securities pursuant to Condition 8 in order to give effect to or preserve substantially the economic effect of Conversion for the Securityholders, it may, upon not less than 15 days’ notice to Securityholders in accordance with Condition 17 but without the consent or approval of the

Securityholders, make such amendments to Condition 8 (and/or any other provision of these Conditions relating to Conversion and any consequent changes) which, as determined by the Society in consultation with an Independent Adviser appointed by the Society for such purpose:

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

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

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

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

13.2 Transfer of business under section 97 of the Act

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

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

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

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

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

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

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

If, however, notwithstanding such reasonable commercial endeavours, the Society is unable to procure such outcome, then (notwithstanding any provision of Condition 13.1 or 13.2) if a Conversion Trigger occurs on or after the effective date of such amalgamation or transfer, the outstanding Perpetual Capital Securities (or any instrument issued in replacement thereof as a result of a transfer in accordance with Condition 13.2) shall not be subject to Conversion but instead will be subject to permanent write-down. Accordingly, upon the occurrence of such Conversion Trigger, the full nominal amount of such Perpetual Capital Securities (or replacement

instruments) will automatically be written down to zero, each Perpetual Capital Security (or replacement instrument) will be cancelled, the Securityholders will be automatically deemed to have irrevocably waived their right to receive, and will no longer have any rights against the Resulting Society or Successor Entity with respect to, repayment of the aggregate nominal amount of the Perpetual Capital Securities (or replacement instruments) so written down or delivery of any instrument as a result of such write-down, and all accrued but unpaid interest and any other amounts payable on each Perpetual Capital Security (or replacement instrument) will be cancelled, irrespective of whether such amounts have become due and payable prior to the occurrence of the Conversion Trigger.

13.4 Undertakings

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

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

14 Variations of the Conditions and the Rules

14.1 Variation of the Conditions

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

14.2 Variation of the Rules

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

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

15 Meetings of the Securityholders

15.1 *Convening the meeting, notice and quorum*

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

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

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

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

15.2 *Adjournment*

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

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

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

15.3 *Conduct of business of the meeting*

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

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

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

15.4 Proxies

A Securityholder entitled to attend a meeting of the Securityholders:

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

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

15.5 Effect of resolution

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

15.6 Other matters

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

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

15.7 Written resolution

A resolution may also be passed, without the need for a meeting of Securityholders, by way of a resolution in writing signed by or on behalf of Securityholders holding in aggregate not less than three-quarters in nominal amount of the Perpetual Capital Securities then 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.

15.8 Notice

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

16 Further issues

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

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

17 Notices

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

18 Governing law and rights of third parties

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

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

Subject to the provisions of section 1 of the Courts and Legal Services Act 1990, section 85 of and Schedule 14 to the Act provide that no court other than the High Court in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society or the Act. Pursuant to section 1 of the Courts and Legal Services Act 1990, the High Court and County Courts Jurisdiction Order 1991 No. 724 has been made which empowers the High Court to transfer cases over which it has jurisdiction to the County Court.

19 Definitions

For the purpose of these Conditions:

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

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

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

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

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

“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;

“Benchmark Gilt Reset Reference Rate” means, in relation to a Reset Period, the gross redemption yield (as calculated by the Principal Paying Agent on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields”, page 5, Section One: Price/Yield Formulae “Conventional Gilts”; Double dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date (published 8 June 1998, as amended or updated from time to time) or if such basis is no longer in customary market usage at such time, as calculated by the Principal Paying Agent in accordance with generally accepted market practice at such time) on a semi-annual compounding basis (rounded up (if necessary) to four decimal places) of the Benchmark Gilt in respect of that Reset Period, with the price of the Benchmark Gilt for the purpose of determining the gross redemption yield being the arithmetic average (rounded (if necessary) to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered prices of such Benchmark Gilt quoted by the Reset Reference Banks at 11.00 a.m. (London time) on the Reset Determination Date in respect of 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, 0.764 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 Principal Paying Agent, with the advice of the Reference Banks, 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 any requirements of United Kingdom law or contained in the regulations, requirements, guidelines and policies of the Regulator, or (for so long as the same are applicable to the Society) of the European Parliament and the European Council, then in effect in the United Kingdom relating to capital adequacy and applicable to the Society;

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

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

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

“CCDS holder” means a holder of a CCDS;

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

“CET1 Ratio” means, 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 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 on a consolidated basis and expressed as a percentage;

“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 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 on an end-point basis (i.e. without taking into account any transitional, phasing in or similar provisions);

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

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

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

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

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

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

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

“Current Market Price” means, in respect of a CCDS as at a particular date, the volume weighted average price of the CCDS observed over the 5 dealing days ending on the dealing day immediately preceding such date; provided that if the Society or, if applicable, its appointed Calculation Agent is not able to obtain sufficient information over such 5 dealing days from a relevant screen page on Bloomberg, Reuters or another information service of recognised standing in order to determine such volume weighted average price, it shall request at least four reference banks (selected by the Society or,

if appointed, the Calculation Agent in consultation with the Society) to provide it with quotations for (or a best estimate of quotations for) prices of trades in a representative amount of CCDS for each of the 5 dealing days. If one or more of the reference banks provide such quotations, the Current Market Price shall be the arithmetic mean of such quotations as determined by the Society or, if appointed, the Calculation Agent; if no such reference bank provides such quotations, the Current Market Price shall be determined in good faith by an Independent Adviser in its sole discretion;

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

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

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

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

“EEA Regulated Market” has the meaning set out in Article 4.1(21) of Directive 2014/65/EU of the European Parliament and of the Council on markets on financial instruments, as amended;

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

“Excluded Dissolution” means 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 have previously been approved by the Securityholders in accordance with Condition 15, 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 Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, as amended;

“Existing PCS” means the £400,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities (ISIN: XS1079786239) of the Society;

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

“First Call Date” means 18 September 2024;

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

“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” means, in respect of an Interest Payment Date, the amount of interest which, subject to Conditions 4.4, 6 and 8, is payable for the relevant Interest Period in accordance with Condition 5;

“Interest Payment Date” means 18 March and 18 September in each year, starting on (and including) 18 September 2019;

“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 2 April 2019;

“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 6.111 per cent. per annum;

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

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

“Perpetual Capital Securities” 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;

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

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

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

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

“Regulator” means the UK Prudential Regulation Authority and any successor or replacement thereto or such other authority in the United Kingdom or elsewhere having primary responsibility for the prudential oversight and supervision of the Society;

“Regulatory Event” has the meaning ascribed thereto in Condition 7.4;

“Relevant Date” means whichever is the later of: (a) the date on which the payment in question first becomes due; and (b) if the full amount payable has not been received by the Registrar, the Principal Paying Agent or another registrar or agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Securityholders;

“Relevant Stock Exchange” means a United Kingdom stock exchange or securities market, an EEA Regulated Market or another regularly operating, internationally recognised stock exchange or securities market;

“Reset Date” means the First Call Date and each date that falls five, or a whole multiple of five, years following the First Call Date;

“Reset Determination Date” means, in relation to a Reset Period, the day falling two Business Days prior to the Reset Date on which such Reset Period commences;

“Reset Interest Rate” means, in relation to a Reset Period, the sum of: (a) the 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 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;

“Securityholder” means a person whose name and address is entered in the Perpetual Capital Securities Register as the holder of Perpetual Capital Securities or, in the case of a joint holding of Perpetual Capital Securities, the first person whose name is entered in the Perpetual Capital Securities Register in respect of the joint holding of the Perpetual Capital Securities (and the term **“holder”** in respect of any Perpetual Capital Security shall be construed accordingly);

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

“Shareholding Member” has the meaning ascribed thereto in the Rules;

“Society Conversion Benefits” has the meaning ascribed thereto in Condition 1.3;

“Solvency Test” has the meaning ascribed thereto in Condition 4.4;

“Sterling” or **“£”** means British pounds sterling;

“Subsidiary” means each subsidiary undertaking (as defined under section 119 of the Act) for the time being of the Society;

“Taxes” has the meaning ascribed thereto in Condition 10;

“Tax Event” has the meaning ascribed thereto in Condition 7.3;

“Tax Law Change” has the meaning ascribed thereto in Condition 7.3;

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

“Tier 2 Capital” has the meaning given to it (or any successor term) in the Capital Regulations from time to time.

SUMMARY OF PROVISIONS RELATING TO THE PERPETUAL CAPITAL SECURITIES WHILE REPRESENTED BY THE GLOBAL CERTIFICATE

The following is a summary of the provisions to be contained in the Agency Agreement and in the Global Certificate which will apply to, and in some cases modify the effect of, the Conditions while the Perpetual Capital Securities are represented by the Global Certificate:

1. EXCHANGE OF THE GLOBAL CERTIFICATE AND REGISTRATION OF TITLE

Registration of title to Perpetual Capital Securities in a name other than that of the Nominee will be permitted only if all Clearing Systems have closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or does in fact do so.

Thereupon, the Nominee (acting on the instructions of one or more of the Accountholders (as defined below)) may give notice to the Society of its intention to exchange the Global Certificate for definitive Certificates on or after the Exchange Date (as defined below). References herein to “**Accountholders**” are to each person (other than a Clearing System) who is for the time being shown in the records of a Clearing System as the holder of a particular number of Perpetual Capital Securities (in which regard any certificate or other document issued by that clearing system as to the number of Perpetual Capital Securities standing to the account of any person shall be conclusive and binding for all purposes).

On or after the Exchange Date, the Nominee may surrender the Global Certificate to, or to the order of, the Registrar. In exchange for the Global Certificate, the Registrar will deliver, or procure the delivery of, definitive Certificates in minimum nominal amounts of £200,000 and integral multiples of £1,000 in excess thereof printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. On exchange of the Global Certificate, the Society will procure that it is cancelled and, if the Nominee so requests, returned to the Nominee together with any relevant definitive Certificates.

For these purposes, “**Exchange Date**” means a day specified in the notice requiring exchange falling not less than 10 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Registrar is located.

Accountholders will have no right to require delivery of definitive certificates representing their interests in any Perpetual Capital Securities except in the circumstances described in this paragraph 1.

2. PAYMENTS

Payments due in respect of Perpetual Capital Securities represented by the Global Certificate shall be made by the Registrar or the Principal Paying Agent to, or to the order of, the Nominee. A record of each payment made in respect of Perpetual Capital Securities represented by the Global Certificate will be endorsed on the appropriate part of the schedule to the Global Certificate by or on behalf of the Registrar, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Perpetual Capital Securities.

Payment by the Registrar or the Principal Paying Agent to or to the order of the Nominee as aforesaid will discharge the obligations of the Society in respect of the relevant payment under the Perpetual Capital Securities. Each Accountholder must look solely to its Clearing System for its share of each payment made to or to the order of the Nominee, and each Beneficial Owner (as defined below) who is not itself an Accountholder must look solely to the relevant Accountholder through which it holds its Perpetual Capital Securities for its share of each payment made to such Accountholder.

3. TRANSFERS

Transfers of book-entry interests in the Perpetual Capital Securities will be effected through the records of the Clearing Systems and their respective direct and indirect participants in accordance with their respective rules and procedures.

4. NOTICES

For so long as the Perpetual Capital Securities are represented by the Global Certificate and such Global Certificate is held on behalf of one or more Clearing Systems, notices may be given to the Securityholders by delivery of the relevant notice to the relevant Clearing Systems for communication to the relevant Accountholders and Beneficial Owners in substitution for despatch and service as required by Condition 17. Such notice shall be deemed to have been given on the date of delivery of the notice to the relevant Clearing Systems for such communication.

5. MEETINGS; MEMBERSHIP RIGHTS WHILST THE PERPETUAL CAPITAL SECURITIES ARE HELD THROUGH THE CLEARING SYSTEMS

Save as permitted in paragraph 1 above, investors will hold their Perpetual Capital Securities directly or indirectly through Accountholders with the Clearing Systems and will not themselves be entered on the Perpetual Capital Securities Register as holder of the relevant Perpetual Capital Securities. Instead, the holder entered on the Perpetual Capital Securities Register for such Perpetual Capital Securities shall be the Nominee and the relevant Accountholder's holding of interests in such Perpetual Capital Securities will be recorded in the internal records of the relevant Clearing Systems.

This means that Accountholders and Beneficial Owners will not themselves be members of the Society and, accordingly, will not be entitled to vote at any general meeting of the members of the Society or in a postal ballot or to any other similar membership rights. Instead, the members' rights attaching to the Perpetual Capital Securities held through the Clearing Systems will be held by the Nominee. Such Nominee will be entered in the Perpetual Capital Securities Register as the holder of such Perpetual Capital Securities, and will be entitled to exercise the voting and other members' rights attributable to such Perpetual Capital Securities. Each member of the Society has one vote at any general meeting of the members of the Society. Accordingly, the Nominee will be entitled to exercise one vote at any such meeting, regardless of the nominal amount of Perpetual Capital Securities held by it (and regardless also of the size and number of other relevant investments or interests (if any) conferring membership rights which the Nominee may have in the Society).

Given the difficulty of casting the single vote at a general meeting of the members of the Society in a manner which reflects the views of all Beneficial Owners of Perpetual Capital Securities and the insignificance of that vote in the context of all the votes which may be cast by members of the Society, the Nominee has informed the Society that it does not intend to exercise its vote insofar as it relates to its holding of Perpetual Capital Securities.

At a separate meeting of Securityholders only, the Nominee will have one vote per £1,000 in nominal amount of Perpetual Capital Securities and will act on the instructions of one or more Accountholders (who in turn will act on the direct or indirect instructions of Beneficial Owners holding through such Accountholders) received by it through the Clearing Systems. The Agency Agreement contains provisions relating to the convening and conduct of such meetings of Securityholders. Those provisions include arrangements pursuant to which a Beneficial Owner will be able (i) to attend any such meeting and cast the votes attributable to its Perpetual Capital Securities, or (ii) otherwise to direct (including by way of electronic consents) how the votes attributable to its Perpetual Capital Securities shall be cast at such meeting. For these purposes, notwithstanding the provisions of Condition 15.4(a), the Nominee shall be entitled to appoint one or more persons as its proxy or proxies to attend, speak and, on a resolution, vote at a meeting of Securityholders. Each proxy shall be appointed in respect of such nominal amount of Perpetual

Capital Securities specified by the Nominee (provided that no two proxies can be appointed in respect of the same Perpetual Capital Securities).

The Agency Agreement also contains provisions for the passing of resolutions, without the need for a meeting of Securityholders, by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) by or on behalf of Securityholders holding in aggregate not less than three-quarters of the number of Perpetual Capital Securities for the time being outstanding.

As Accountholders and Beneficial Owners will not be members of the Society, they will also not be entitled to any Society Conversion Benefits (including any rights to windfall payments) arising on a demutualisation or merger of the Society. Any Society Conversion Benefits arising on a demutualisation or merger of the Society will belong instead to the Nominee, as the registered holder of the Perpetual Capital Securities in the Perpetual Capital Securities Register. The Nominee will, on or prior to the issue date of the Perpetual Capital Securities, irrevocably agree to assign to Coventry Building Society Charitable Foundation (or other charities nominated by Coventry Building Society Charitable Foundation) any Society Conversion Benefits.

As used herein:

“**Beneficial Owner**” means each person who for the time being holds any interests in Perpetual Capital Securities for its own account (and not only as custodian or an Intermediary for another person) (and “**Beneficial Owners**” shall be construed accordingly); and

“**Intermediary**” means each Clearing System and each Accountholder, custodian, broker or other intermediary who for the time being holds interests in Perpetual Capital Securities (as custodian or otherwise) for the account of another person (and “**Intermediaries**” shall be construed accordingly).

6. CONVERSION

Any Conversion of Perpetual Capital Securities held in the Clearing Systems will be effected in accordance with the procedures set out in the Conversion Notice referred to in Condition 8.2 and otherwise in accordance with the relevant procedures of the Clearing Systems.

7. PRESCRIPTION

Claims against the Society in respect of any amounts payable in respect of the Perpetual Capital Securities represented by the Global Certificate will be prescribed after 12 years from the due date and shall revert to the Society.

8. PURCHASE AND CANCELLATION

Cancellation of any Perpetual Capital Securities purchased and surrendered for cancellation in accordance with Condition 7 will be effected by a corresponding reduction in the nominal amount of Perpetual Capital Securities represented by the Global Certificate.

9. RECORD DATE

For so long as all Perpetual Capital Securities are held in the Clearing Systems, the Record Date shall be determined in accordance with Condition 9, provided that the words “fifteenth day” shall be deemed to be replaced with “ICSD Business Day” (where “**ICSD Business Day**” means a day on which the Clearing Systems are open for business).

10. DIRECT RIGHTS

Subject as follows, upon a breach of contract by the Society (which shall, for the purposes of this paragraph “*Direct Rights*”, include a Securityholder becoming entitled to bring any action against the Society as contemplated by Condition 14.2) or upon a winding-up or dissolution of the Society, each Beneficial Owner at the time of such breach (each a “**Relevant Person**”) shall (for the purpose only of bringing an action for such breach of contract or, as the case may be, claiming in the winding-up or dissolution of the Society in accordance with Condition 4) acquire against the Society all those rights (“**Direct Rights**”) which such Relevant Person would have had if, at the time of the relevant breach of contract, such Relevant Person had been identified in the Perpetual Capital Securities Register as the registered holder of such nominal amount of Perpetual Capital Securities (the “**Underlying Perpetual Capital Securities**”) as is equal to the nominal amount of CCDS which are credited to such Relevant Person's securities account with the relevant Clearing System (or, as the case may be, with any Intermediary) at such time.

The Relevant Persons will acquire such Direct Rights only in the circumstances and for the purposes described in the preceding paragraph and for no other purpose. Direct Rights will be acquired automatically at the time of the relevant breach of contract, without the need for any further action on behalf of any person. The Society's obligation hereunder shall be a separate and independent obligation to each Relevant Person by reference to each Underlying Perpetual Capital Securities of such Relevant Person, and the Society agrees that a Relevant Person may assign such Direct Rights in whole or in part.

The records of the Clearing Systems and (subject to the following proviso) each Intermediary (as applicable) shall be conclusive evidence of the identity of the Relevant Persons and the nominal amount of Underlying Perpetual Capital Securities credited to the securities account of each Relevant Person; provided that the records of an Intermediary shall be conclusive evidence of the identity of any Relevant Persons only if accompanied by records of (i) the Accountholder (and any other Intermediary) through which such Intermediary holds the relevant Perpetual Capital Securities and (ii) the relevant Clearing System, which records when taken together evidence a chain of ownership linking the records of such Intermediary and the records of the relevant Clearing System. For these purposes, a statement issued by the relevant Clearing System and/or a relevant Intermediary (as applicable) stating the name of the Relevant Person to which the statement is issued and the nominal amount of Underlying Perpetual Capital Securities credited to the securities account of such Relevant Person as at the opening of business on the first business day following the time of the relevant breach of contract, shall be conclusive evidence of the records of the relevant clearing system or (subject to the foregoing proviso) such Intermediary (as the case may be) at the time of the relevant breach of contract.

11. SUCCESSION AND TRANSFERS

Upon a transfer by the Society of the whole of its business to a Successor Entity in accordance with Condition 13.2, the Nominee will (unless otherwise agreed as part of the terms of the transfer at the relevant time) direct that the securities to be delivered to it shall instead be delivered directly to (or to the order of) the Beneficial Owners as if those Beneficial Owners had, at the vesting date, held in definitive form the nominal amount of Perpetual Capital Securities corresponding to their book-entry interest in the Perpetual Capital Securities at that time.

CERTAIN PROVISIONS OF THE ACT AND REQUIREMENTS OF THE SUPERVISORY AUTHORITY

1. AMALGAMATION

Section 93 of the Act permits a building society to amalgamate with one or more building societies by establishing a building society as their successor. Amalgamation requires a shareholding members' resolution passed by the shareholding members of each amalgamating society and a borrowing members' resolution (each as defined in Schedule 2 to the Act) of the borrowing members of each amalgamating society, as well as confirmation of amalgamation by the Supervisory Authority. The Act provides that on the date specified by the Supervisory Authority all of the property, rights and liabilities (which, in the case of the Society, would include the Perpetual Capital Securities) of each of the societies shall by virtue of the Act be transferred to and vested in the successor, whether or not otherwise capable of being transferred or assigned. In the event of such an amalgamation by the Society with another building society, the Perpetual Capital Securities would, pursuant to their terms, become deferred shares in the successor without any alteration of their terms, except as set out in Condition 13.1.

2. TRANSFER OF ENGAGEMENTS

Section 94 of the Act permits a building society to “transfer its engagements to any extent” to another building society which undertakes to fulfil such engagements. A transfer requires approval by a shareholding members' resolution and a borrowing members' resolution of each of the transferor society and the transferee society. However, the resolutions of the transferee society are not required if the Supervisory Authority consents to the transfer proceeding by a resolution of its Board only. The transfer must be confirmed by the Supervisory Authority. The Act provides that on the date specified by the Supervisory Authority and to the extent provided in the instrument of transfer, the property, rights and liabilities of the transferor society shall by virtue of the Act be transferred to and vested in the transferee society, whether or not otherwise capable of being transferred or assigned. In the event of a transfer of all or part of the property and/or all or some of the liabilities (including the Perpetual Capital Securities) of the Society, the Perpetual Capital Securities would, pursuant to their terms, become deferred shares in the transferee without any alteration of their terms, except as set out in Condition 13.1 and 13.3.

3. TRANSFER OF BUSINESS

Sections 97 to 102D of the Act permit a building society to transfer the whole of its business to a company which has been specially formed by the society wholly or partly for the purpose of assuming and conducting the society's business in its place or is an existing company which is to assume and conduct the society's business in its place. The transfer must be approved by a requisite shareholding members' resolution, in accordance with Schedule 2, paragraph 30(2)-(5) of the Act, passed by shareholding members and by a borrowing members' resolution passed by borrowing members. The society must also obtain the confirmation of the Supervisory Authority to the transfer and its terms. If the Supervisory Authority confirms the transfer, then the Act provides that on the vesting date (as defined in the Act) all of the property, rights and liabilities (which would include the Perpetual Capital Securities) of the transferor society, whether or not capable of being transferred or assigned, shall by virtue of the Act and in accordance with the transfer regulations (then in force) be transferred to and vested in the successor. Pursuant to section 100(2)(a) of the Act, the Perpetual Capital Securities would be converted into deposits with the successor. Condition 13.2 provides that the deposits will be subordinated and will be applied in the subscription of perpetual subordinated bonds of the successor, subject as provided therein.

Where, in connection with any transfer, rights are to be conferred on members of the Society to acquire shares in priority to other subscribers, the right is restricted to shareholding members of the Society who have held their shares throughout the period of two years expiring on a qualifying day specified by the Society in the transfer agreement. Also, all shareholding members' shares, including Perpetual Capital Securities, are converted into deposits with the successor. On any such transfer, shareholding members of the

Society who were members on the qualifying date but not entitled to vote on the transfer resolution will receive a cash bonus equal to their notional share of the reserves of the Society. If the transfer is to an existing company, any distribution of funds (apart from the statutory cash bonus referred to above) may only be made to certain shareholding members of the Society who have held their shares for at least two years expiring on a qualifying day specified by the Society in the transfer agreement.

4. GENERAL

The Society may, as a result of an amalgamation, transfer of engagements or transfer of business as described above, be replaced as the principal debtor, under all or some of the Perpetual Capital Securities, by an entity substantially different in nature from the Society at present or with a substantially different capital position. In all cases, the confirmation of the Supervisory Authority is required before any such change can take place.

USE OF PROCEEDS

The net proceeds of the issue of the Perpetual Capital Securities will be used by the Society to refinance some or all of its existing additional tier 1 perpetual capital securities which are expected to be purchased by the Society pursuant to a cash tender offer announced by the Society on 25 March 2019, to strengthen its regulatory capital base and for general business purposes consistent with the Society's principal purpose as a UK building society.

DESCRIPTION OF THE SOCIETY

Introduction

Coventry Building Society is the second largest building society in the UK based on asset size with Group assets as at 31 December 2018 of £46,070.9 million (31 December 2017: £45,572.5 million).

All financial data in this section (including comparative 31 December 2017 financial data) are extracted from the audited consolidated annual financial statements of the Society for the year ended 31 December 2018. As at 31 December 2018, the Society operated a regional network of 70 branches and 21 agencies and had over 1.8 million members.

The Society

The Society was originally founded in 1884 and in its present form was created as a result of a merger between Coventry Economic Building Society and Coventry Provident Building Society on 30 June 1983 and, more recently, as a result of a merger between Coventry Building Society and Stroud & Swindon Building Society (“**Stroud & Swindon**”) on 1 September 2010. The Society's principal office is Economic House, High Street, Coventry, United Kingdom – telephone number +44 24 7655 5255.

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

The Society is incorporated under the Building Societies Act 1986 and operates in accordance with the Act, regulations made thereunder and its Rules and Memorandum. The Society is an authorised building society for the purposes of the Act and is authorised and regulated by the FCA and PRA under firm reference number 150892. The affairs of the Society are conducted and managed by a Board who are elected and serve in accordance with the Rules and Memorandum. The Board is responsible to the members for the proper conduct of the affairs of the Society and appoints and supervises executives who are responsible to the Board for the day to day management of the Society.

The Society is a mutual organisation with both retail investors and borrowers having membership. Eligibility to vote at General Meetings is governed by the Act and by the Society's Rules.

In addition the Society has two subsidiary lending businesses, Godiva Mortgages Limited (“**Godiva**”) and ITL Mortgages Limited (“**ITL**”). As at 31 December 2018¹ Godiva had assets of £14,104.3 million (31 December 2017: £12,311.8 million) and ITL had assets of £506.1 million (31 December 2017: £561.3 million). Borrowers from Godiva and ITL do not become members of the Society by virtue of this borrowing.

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

Business

General

The principal purpose of the Society, as stated in Clause 3 of its Memorandum, is making loans which are secured on residential property and are funded substantially by its members. The Society seeks to provide a safe and attractive home for members' savings.

¹ The Godiva and ITL financial information for the year ended 31 December 2018 is not yet audited.

The Society obtains funds from the retail market through personal savings and deposit accounts and also raises funds in the wholesale markets. It advances the funds raised mainly to borrowers on the security of first charge mortgages secured on freehold and leasehold property.

The Society concentrates on its core business of personal savings and residential mortgage lending. As at 31 December 2018 over 99 per cent. of loans were fully secured on residential property.

Mortgage lending activities

During 2018 the Society made mortgage advances of £8.9 billion gross, with a net increase in lending of £3.4 billion. The corresponding figures for 2017 were advances of £8.6 billion gross and a net increase in lending of £3.0 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 £33.3 billion as at 31 December 2018, representing 76.3 per cent. of total shares and borrowings.

Asset quality and risk appetite

The Society takes a conservative approach to risk and considers that a focus on low loan-to-value (“LTV”) assets provides resilience to its business model. In the year to 31 December 2018, 76 per cent. of lending was at LTVs of 75 per cent. or below, compared with a market average of 62 per cent. (to end of Q3 2018, based on PRA data). As at 31 December 2018, 97 per cent. of the Society's mortgage book had an indexed LTV of 85 per cent. or less and the balance weighted average indexed LTV was 54.6 per cent. No lending has been advanced at more than 90 per cent. LTV since 2009 (based on original advances and excluding product fees).

The Society has historically experienced arrears levels consistently below industry averages, with just 0.18 per cent. of accounts being more than three months in arrears as at 31 December 2018 (compared with an industry average of 0.79 per cent. based on UK Finance published data).

Unsecured lending levels were £23.4 million in the financial year ended 31 December 2018. The Society does not advance sub-prime, commercial or second-charge lending (its legacy inherited commercial book of £1.5 million is in run off). As at 31 December 2018, 25 per cent. of mortgages and 67 per cent. of savings were on administered rates.

Buy-to-let (“BTL”)

The balance weighted average LTV of the Society's BTL book was 54 per cent. as at 31 December 2018. Strict lending criteria, together with a focus on low LTV lending and on lending against properties which the Society considers more readily saleable into the owner-occupier market, has historically led to low levels of arrears and impairments on the Society's BTL portfolio. On over £27.5 billion of lending granted since entering the market in 2002, the Society had incurred total losses of approximately £9.1 million as at 31 December 2018. As at 31 December 2018, the number of BTL loans in arrears for more than three months (including possessions) was 0.08 per cent. (31 December 2017: 0.10 per cent.). As at 31 December 2018, 44 per cent. of the Society's BTL balances were in London, with 0.03 per cent. of these balances in arrears for more than three months (lower than the national average of the portfolio of 0.08 per cent.). The Society's indexed interest coverage ratio for the BTL portfolio as at 31 December 2018 was 175.7 per cent.

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 2018 was 0.50 per cent (31 December 2017: 0.42 per cent.). This was the lowest level of

any of the ten largest UK building societies by assets (based on the latest annual financial statements published by each of the relevant societies).

The 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 2018	46,070.9	
Total assets 2017	42,572.5	
Mean total assets		44,321.7
Administrative expenses	200.2	
Amortisation of intangible assets	13.7	
Depreciation of property, plant and equipment	7.8	
Management expenses		221.7
Ratio of management expenses to mean assets		0.50%

Financial position and liability management

Capital base

The Society considers that it is well capitalised and had an “end-point” common equity tier 1 capital ratio of 35.5 per cent. as at 31 December 2018 (34.9 per cent. as at 31 December 2017). The Society’s total capital ratio as at 31 December 2018 of 45.5 per cent. reflects a 30.8 per cent. buffer over its total RWA-based capital requirement of 14.7 per cent. (comprising its total capital requirement of 11.2 per cent. (including Pillar 2A requirements) plus a capital conservation buffer of 2.5 per cent. and a countercyclical buffer of 1.0 per cent). Retained earnings (c.£1.6 billion as at 31 December 2018) are the Society’s primary source of common equity tier 1 capital.

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.

	end-point 31 December 2018 (%)	end-point 31 December 2017 (%)
Common Equity Tier 1 (as a percentage of risk weighted assets) ¹	35.5	34.9
CRR Leverage ratio	4.2	4.3
UK Leverage Ratio	4.6	4.6

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

As further described under “Risk Factors - Changes to the Group’s accounting policies or in accounting standards could materially affect its capital ratios, how it reports its financial condition and the results of its operations” in this Offering Circular, the Society has implemented IFRS 9 with effect from 1 January 2018, and has elected to apply the IFRS 9 transitional provisions provided for under Article 473A of CRR (as

introduced by the IFRS 9 Regulation). Notwithstanding such election, the capital ratios above are expressed on an end-point basis, and the Society intends to continue to calculate and report its CET1 Ratios on an end-point basis. Such ratios would not be materially different if the Article 473A transitional provisions were to be reflected in the published ratio.

Subscribed Capital

The Society has further subscribed Tier 1 capital in the form of the PIBS (which are included in Tier 1 capital on a transitional basis, to be phased out from Tier 1 capital in full by 31 December 2021) and £400 million perpetual contingent convertible additional tier 1 capital securities issued in 2014 (the “**Existing PCS**”):

	First Call Date	As at 31 December	
		2018 £m	2017 £m
£40 million Permanent Interest Bearing Shares	n/a	41.6	41.6
£400 million Perpetual Contingent Convertible Additional Tier 1 Capital Securities	1 November 2019	400.0	400.0

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 commencing prior to the Conversion Date (and save as otherwise provided in an Excluded Dissolution), the claims in respect of PIBS would rank *pari passu* with claims in respect of the Existing PCS and the Perpetual Capital Securities 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 for Tier 1 capital and, accordingly, are being progressively de-recognised in accordance with transitional grandfathering provisions during the period from 1 January 2014 to 31 December 2021. Accordingly, the Society expects that no part of the PIBS will qualify as Tier 1 capital of the Society (whether on a grandfathered basis or otherwise) with effect on and from 1 January 2022.

Existing PCS

Interest is payable, subject to the conditions of issue of the Existing PCS, semi-annually in arrear on the Existing PCS, at a rate of 6.375 per cent. per annum up to, and including, the first call date on 1 November 2019. If any Existing PCS 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 5-year mid-swap rate prevailing at that time and a margin of 4.113 per cent.

In a winding up or dissolution of the Society commencing prior to the Conversion Date (and save as otherwise provided in an Excluded Dissolution), the claims in respect of the Existing PCS would rank *pari passu* with claims in respect of the PIBS and the Perpetual Capital Securities 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 Existing PCS are not entitled to any share in any final surplus upon a winding up or final dissolution of the Society occurring prior to the conversion date for such Existing PCS.

As announced by the Society on 25 March 2019, in conjunction with the offer of the Perpetual Capital Securities, the Society is conducting a cash tender offer (the “**Tender Offer**”) to purchase and cancel any or all of the Existing PCS on the terms contained in a tender offer memorandum dated 25 March 2019 (the “**Tender Offer Memorandum**”). The purpose of the Tender Offer is to provide liquidity for investors in the Existing PCS and to manage the refinancing of the Society’s additional tier 1 capital through the issue of the Perpetual Capital Securities.

The Tender Offer Memorandum provides that when considering allocation of the Perpetual Capital Securities, the Society may in its discretion elect to give preference to those holders of the Existing PCS who validly tender (or give a firm intention that they intend to tender) their Existing PCS pursuant to the Tender Offer. As announced by the Society at launch of the Tender Offer, an investor (the “**Significant Investor**”), which had represented to the Society that it beneficially held £235,896,000 in aggregate principal amount of the Existing PCS, had committed to tender its entire holding of Existing PCS in the Tender Offer on the terms set out in the Tender Offer Memorandum and to subscribe for at least 25 per cent. of the aggregate principal amount of the Perpetual Capital Securities to be issued pursuant to this Offering Circular, with a minimum allocation of not less than 25 per cent. of the aggregate principal amount of the Perpetual Capital Securities. The Society confirmed that all other allocations of the Perpetual Capital Securities (including any further allocations above 25 per cent. to the Significant Investor, if any), were to be made in accordance with customary new issue allocation processes and procedures. The results of the Tender Offer are currently expected to be published on 2 April 2019.

The Society intends to cancel any Existing PCS acquired by it pursuant to the Tender Offer. With respect to Existing PCS which remain outstanding after settlement of the Tender Offer, the Society is entitled, subject to PRA approval and to compliance with applicable prudential rules, to redeem all such outstanding Existing PCS on 1 November 2019 or at five-year intervals thereafter. The Society intends to consider future optional redemption rights in respect of the Existing PCS on an economic basis, considering current and future regulatory value, relative funding cost, rating agency considerations, regulatory developments and having regard to the prevailing circumstances at the relevant time.

Subordinated Liabilities

The Society has the following outstanding subordinated notes:

	As at 31 December	
	2018 £m	2017 £m
Fixed rate subordinated notes 2026 - 6.327%	10.2	10.2
Fixed rate subordinated notes 2032 - 7.54%	15.3	15.3
Total	25.5	25.5

The subordinated notes are repayable in the years stated in the table above, or earlier in accordance with their terms at the option of the Society, with the prior consent of the PRA. Interest is payable on the notes at the rates specified above. In a winding up or dissolution of the Society, the claims in respect of the subordinated notes would rank in priority to claims in respect of the PIBS, the Existing PCS and the Perpetual Capital Securities and subordinated to the claims of all depositors, unsubordinated creditors and members holding shares (other than deferred shares) as to principal and interest on such shares.

Non-share (“wholesale”) funding

As at 31 December 2018, the Society obtained 23.5 per cent. of its funding from sources other than shares held by individuals (31 December 2017: 22.5 per cent.).

Wholesale funding

	As at 31 December	
	2018 £m	2017 £m
Amounts owed to credit institutions.....	5,453.8	3,499.0
Debt securities in issue	4,353.9	4,888.8
Other deposits and loans.....	506.0	739.5
Total.....	10,313.7	9,127.3

Liquidity

The Society is required to maintain sufficient liquidity resources to meet regulatory requirements. In practice the Society seeks to operate with a buffer over and above any such requirement, and as at 31 December 2018 had a liquidity coverage ratio (LCR) of 202 per cent.

As at 31 December 2018, the Society had core liquidity (value of unencumbered assets) of £5.3 billion with over 99 per cent. eligible as high quality liquidity assets (HQLA), and contingent liquidity of £3.3 billion (including £1.8 billion of unencumbered pre-positioned loans with the BoE). The loan to deposit ratio as at the same date was 118 per cent. and the net stable funding ratio (NSFR) was 142 per cent., reflecting the stable funding profile of the Society.

The Society's liquidity resources as at 31 December 2017 and 2018 are set out below:

	As at 31 December	
	2018 £m	2017 £m
Cash in hand and balances with the Bank of England	4,948.7	4,708.0
UK Government Securities and other qualifying securities	313.7	669.6
Other Securities - on balance sheet	8.2	10.7
Bank of England approved mortgage portfolios and self issued covered bonds and RMBS	3,301.4	2,183.2
Total	8,572.0	7,571.5

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:

Borrowers

- Competitive traditional residential mortgage products as well as a range of other competitive products including offset mortgages and low loan to value buy to let mortgages.
- Existing borrowers have access to mortgage products at new business rates.
- Privilege rate loyalty discount for borrowers who have been on the same mortgage scheme for five years.

Savers

- Competitive product set which offers traditional fixed rate bonds, instant access accounts, ISAs, children's accounts, which are available through branch, telephone and internet channels.
- With no dividends to pay to outside shareholders and high levels of cost efficiency, the Society is able to offer competitive interest rates to both savers and borrowers, not only to attract new customers but also to ensure that existing customers are retained as well.
- Profits for the full year ending 31 December 2018 before tax totalled £201.6 million. Capital, reserves and subordinated liabilities and subscribed capital of £2,187.5 million enabled the Society to achieve a Common Equity Tier 1 ratio of 35.5 per cent. as at 31 December 2018 under current regulatory requirements.
- The Society's aim is to maintain a high level of service to all customers, both existing and new.

Final Results

Selected highlights from the Society's final results for the year ending 31 December 2018 are as follows:

- Profit before tax decreased in comparison to the Society's final results for the year ending 31 December 2017 by 16.9 per cent. to £201.6 million.
- Mortgage assets increased in comparison to the Society's final results for the year ending 31 December 2017 by £3.4 billion to £39.3 billion.
- New mortgage lending of £8.9 billion.
- Retail savings balances increased in comparison to the Society's final results for the year ending 31 December 2017 by £2.3 billion to £33.3 billion.
- Rated A/F1 by Fitch and A2/P-1 by Moody's.
- Common Equity Tier 1 ratio of 35.5 per cent.
- Cost to mean assets ratio of 0.50 per cent.

Selected Historical Financial Information

Set out below is certain selected historical financial information for the Group for each of the financial years ended 31 December 2011-2018.

Income statement

	year ended 31 December							
	2018	2017	2016	2015	2014	2013	2012	2011
	(£m)							
Net interest income	425.8	411.0	385.0	363.9	341.3	253.1	186.9	167.5
Other income ¹	(1.2)	5.1	6.1	5.4	8.2	9.3	12.5	14.0
Net gains/losses from derivatives	(0.3)	(0.3)	(1.0)	(0.3)	(0.7)	2.8	0.1	0.5
Total income	424.3	415.8	390.1	369.0	348.8	265.2	199.5	182.0
Management expenses ²	221.7	(167.9)	(149.5)	(137.4)	(124.6)	(108.9)	(98.6)	(87.5)
Impairment losses on loans and advances to customers	(0.4)	0.2	(1.5)	1.9	(5.4)	(6.3)	(9.6)	(9.9)
Financial Services Compensation Scheme	1.0	(2.5)	(4.3)	(14.1)	(15.3)	(15.4)	(7.6)	(13.4)
Provisions for liabilities and charges	(1.0)	(1.0)	(1.8)	(1.7)	-	(0.9)	-	-
Stroud & Swindon integration and merger related items ³	-	-	-	-	-	-	-	(10.7)
Charitable donation Poppy Appeal	(1.4)	(1.5)	(1.3)	(1.7)	(1.7)	(1.6)	(1.9)	(1.0)
Gain on pension curtailment	-	-	-	-	-	-	9.3	-
Profit before tax	201.6	242.7	239.1	216.0	201.8	132.1	91.1	59.5
Taxation	(45.5)	(57.9)	(56.7)	(44.7)	(43.3)	(30.8)	(21.6)	(12.9)
Profit for the period	156.1	184.8	182.4	171.3	158.5	101.3	69.5	46.6

¹ Other income comprises: Fees and commissions receivable; Fees and commissions payable; and Other Operating income

² Management expenses comprise: administrative expenses; amortisation of intangible assets; and depreciation of tangible fixed assets

³ Stroud & Swindon integration and merger related items comprise: Integration and merger costs; and Gain on business combination

Balance sheet

	as at 31 December							
	2018	2017	2016	2015	2014	2013	2012	2011
	(£m)							
Liquid Assets ¹	6,401.9	6,209.5	4,827.8	4,375.3	3,950.2	3,887.4	4,476.1	4,842.1
Loans and advances to customers	39,264.6	35,930.9	32,881.6	29,411.0	26,959.6	24,117.1	22,018.9	19,240.0
Derivative financial instruments	268.9	306.5	354.2	173.0	208.3	191.2	279.6	259.7
Fixed & other assets ²	135.5	125.6	232.3	155.1	160.2	57.6	159.2	144.8
Total assets	46,070.9	42,572.5	38,295.9	34,114.4	31,278.3	28,253.3	26,933.8	24,486.6
Shares	33,281.6	31,035.7	28,054.3	25,355.8	23,395.6	21,311.7	20,110.5	18,964.1
Wholesale Funding ³	10,313.7	9,127.3	7,742.0	6,336.0	5,604.3	5,438.5	5,050.1	3,947.0
Derivative financial instruments	167.4	214.0	366.7	353.5	323.3	213.6	411.2	336.0
Other liabilities ⁴	120.7	152.4	244.5	197.8	244.4	174.8	330.0	265.8
Subordinated liabilities	25.5	25.5	25.5	58.2	58.2	58.2	58.1	68.2
PIBS	41.6	41.6	41.6	161.6	161.6	161.5	161.4	161.3
Members Interests and Equity	2,120.4	1,976.0	1,821.3	1,651.5	1,490.9	895.0	812.5	744.2
Total liabilities & equity	46,070.9	42,572.5	38,295.9	34,114.4	31,278.3	28,253.3	26,933.8	24,486.6

¹ Liquid assets comprise: Cash and balances with the Bank of England; Loans and advances to credit institutions; Debt securities; and other liquid assets

² Fixed & other assets comprise: Hedge accounting adjustment, Investment in equity shares, Intangible assets, Property, plant and equipment; Investment properties; Pension benefit surplus; Deferred tax assets; Prepayment and accrued income; current tax asset; and non-current assets held for sale

³ Borrowings comprise: Deposits from banks; Other deposits; Amounts owed to other customers; and Debt securities in issue

⁴ Other liabilities comprise: Hedge accounting adjustment, Current tax liabilities; Deferred tax liabilities; Accruals and deferred income; Other liabilities; and Provisions for liabilities and charges

Key ratios

	as at and year ended 31 December							
	2018	2017	2016	2015	2014	2013	2012	2011
	(%)							
Net interest margin ¹	0.96	1.02	1.06	1.11	1.15	0.92	0.73	0.72
Management expense ratio ²	0.50	0.42	0.41	0.42	0.42	0.39	0.38	0.37
Liquidity assets ³	14.7	15.4	13.5	13.8	13.6	14.5	17.8	21.1
Wholesale funding ⁴	23.7	22.7	21.6	20.0	19.3	20.3	20.1	17.2

¹ Net interest income as a percentage of mean opening and closing total assets

² Aggregate of administrative expenses, amortisation of intangible assets and depreciation of property, plant and equipment as a percentage of mean opening and closing total assets (also referred to as cost to mean asset ratio)

³ Total of cash and balances with the Bank of England, loans and advances to credit institutions, debt securities and other liquid assets as a percentage of shares and borrowings

⁴ Wholesale funding ratio measures the proportion of shares and borrowings not in the form of shares held by individuals

Arrears data

	as at and year ended 31 December							
	2018	2017	2016	2015	2014	2013	2012	2011
	(%)							
Impairment charges ¹	(0.00)	0.00	(1.50)	(0.01)	0.02	0.03	0.05	0.05
Loans in arrears >= 2.5% of balance ²	0.10	0.13	0.17	0.24	0.40	0.62	0.77	0.83

¹ Impairment charge based mean opening and closing total loans and advances (£m)

² Residential loans in arrears by >= 2.5% of mortgage balance including possessions, as a percentage of total outstanding balances (%)

Management

The Board is responsible for the Society's strategy and policy. The execution of that policy and day to day management is vested with the Executive Directors and Senior Management. The members of the Board and Senior Management, their roles in relation to the Society, and their principal outside activities (if any) of significance to the Society are as follows:

Board of Directors

Name	Position within the Society	Other Directorships and Appointments
G Hoffman	Chair	Choice Matters Limited Hastings Group Holdings plc Monzo Bank Limited The Football Foundation
P Ayliffe	Deputy Chair	TruRating Limited The Pennies Foundation
R Burnell	Senior Independent Non-Executive Director	Clarence Mansions Management Company Limited
C Doran	Independent Non-Executive Director	-
A Deeks	Product, Marketing and Strategy Director and Executive Director	-
M Faull	Chief Financial Officer and Executive Director	Arkose Funding Limited Bow Arts Trust Coventry Cathedral Coventry Financial Services Limited Coventry Property Services Limited Five Valleys Property Company Limited Godiva Financial Services Limited Godiva Housing Developments Limited Godiva Mortgages Limited Godiva Savings Limited Godiva Securities and Investments Limited ITL Mortgages Limited
P Frost	Chief Operating Officer and Executive Director	Five Valleys Property Company Limited
M Stewart	Independent Non-Executive Director	Clayton Stewart
I Amiri	Independent Non-Executive Director	Development Bank of Wales National Employment Savings Trust Woodford Lake Limited
J Kenrick	Independent Non-Executive Director	Current Account Switch Service for Pay.uk Dwr Cymru Cyfyngedig Glas Cymru Holdings Cyfyngedig Global Charities Global Charities (Trading) Limited Lynmouth Colossus Way Management Limited Rhapsody Court Freehold limited Safestore Holdings plc
M Parsons	Chief Executive Officer and Executive Director	Godiva Mortgages Limited ITL Mortgages Limited UK Finance Limited

The principal office of the Society is Economic House, P.O. Box 9, High Street, Coventry CV1 5QN and the business address of the Society is Oak Tree Court, Binley Business Park, Coventry CV3 2UN.

The Executive Directors have entered into service contracts which enable the Society to give one year's notice of termination.

There are no existing or potential conflicts of interest between any duties owed to the Society by its Directors or members of its Executive and the private interests and/or other external duties owed by these individuals.

Subsidiaries

The following direct, wholly owned subsidiaries of the Society are carrying on a business:

- 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
- Five Valleys Property Company Limited

The subsidiaries detailed in this sub section are, together, the “**Subsidiaries**”. The Society also has an interest in Coventry Building Society Covered Bonds LLP which gives rise to risks and rewards that are in substance no different than if it was a subsidiary undertaking, and which is therefore consolidated under IFRS in the Group accounts.

No share capital is held in Mercia No.1 plc; however it is consolidated under IFRS as if it were a wholly owned subsidiary of the Society. The Society also holds securities issued by Mercia No.1 plc.

No share capital is held in Offa No.1 plc; however it is consolidated under IFRS as if it were a wholly owned subsidiary of the Society. The Society also holds securities issued by Offa No.1 plc.

Independent Auditors

Ernst & Young LLP of 2 St Peters Square, Manchester, M2 3EY have audited without qualification the consolidated and non-consolidated financial statements of the Society for the years ended 31 December 2017 and 2018, respectively.

The Society proposes to appoint PricewaterhouseCoopers LLP as auditor for the 2019 year end, subject to member approval at its Annual General Meeting of members (the “**AGM**”). Accordingly, subject to such member approval, the Society expects its financial statements for 2019 will be audited by PricewaterhouseCoopers LLP.

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 under the quoted eurobond exemption (the “**Quoted Eurobond Exemption**”) in Section 882 of the Income Tax Act 2007 (the “**ITA 2007**”) provided that the Perpetual Capital Securities are and continue to be “admitted to trading on a multilateral trading facility operated by an EEA-regulated recognised stock exchange” within the meaning of section 987 of the ITA 2007 (“**Section 987**”). The ISM is a “multilateral trading facility” for this purpose. It is operated by the London Stock Exchange which is an EEA-regulated recognised stock exchange.

The London Stock Exchange may cease to be an EEA-regulated stock exchange if the UK withdraws from the EU and, in that case and unless the law is changed, securities admitted to trading on the ISM will no longer fall within the Quoted Eurobond Exemption and interest payable on those securities may become subject to UK withholding tax. In such circumstances, the Society intends, prior to the next following interest payment date on the Perpetual Capital Securities, to list them on a stock exchange or to admit them to trading on a multilateral trading facility which will in either case satisfy the requirements for the Quoted Eurobond Exemption.

On 27 March 2019 the Government published the Taxes (Amendments) (EU Exit) Regulations 2019 (the “**Regulations**”), which are intended to ensure the continuity of certain tax arrangements following the UK’s withdrawal from the EU. The Regulations include provision for a reference in certain tax laws to “EEA Regulated” to be replaced in certain cases with a reference to “Regulated”, which term would include regulation by the UK. If the Regulations become effective, then securities admitted to the ISM will continue to fall within the Quoted Eurobond Exemption.

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 as introduced by Finance Act 2019 (the “**HCI Rules**”). The Perpetual Capital Securities will be taxable under the HCI Rules if (a) the Society makes 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 within six months of 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 stamp duty reserve tax 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 stamp duty reserve tax 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 stamp duty reserve tax at the rate of 0.5 per cent. of the consideration given under the agreement to transfer CCDS. If definitive CCDS certificates are issued, stamp duty and/or stamp duty reserve tax may be payable on a transfer of, or an agreement to transfer CCDS, generally at the rate of 0.5 per cent. of the consideration given under the agreement to transfer CCDS (or 0.5 per cent. of the consideration for the transfer rounded up to the nearest £5 in the case of stamp duty). Any such charge to stamp duty reserve tax would be discharged if stamp duty is duly paid on the instrument transferring CCDS in definitive form, within six years of the date of the agreement.

THE PROPOSED FINANCIAL TRANSACTIONS TAX (“**FTT**”)

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Perpetual Capital Securities (including secondary market transactions) in certain circumstances. The issuance and subscription of Perpetual Capital Securities should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Perpetual Capital Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Perpetual Capital Securities are advised to seek their own professional advice in relation to the FTT.

FOREIGN 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. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Perpetual Capital Securities, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Perpetual Capital Securities characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Perpetual Capital Securities.

SUBSCRIPTION AND SALE

Barclays Bank PLC, HSBC Bank plc, Merrill Lynch International and NatWest Markets Plc (together, the “**Joint Lead Managers**”) have, pursuant to a subscription agreement (the “**Subscription Agreement**”) dated 29 March 2019, jointly and severally agreed with the Society, subject to the satisfaction of certain conditions, jointly and severally to subscribe for, or procure subscribers for, the Perpetual Capital Securities at the issue price of 100.00 per cent. of their nominal amount. The Society has agreed to pay the Joint Lead Managers a commission if the conditions to which the issue of the Perpetual Capital Securities is subject are satisfied or waived by the Joint Lead Managers. The Society has agreed to pay certain of the Joint Lead Managers' expenses.

The Joint Lead Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Society. The Society has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the issue of the Perpetual Capital Securities.

As further described in the section of this Offering Circular “*Description of the Society - Financial Position and Liability Management - Subscribed Capital - Existing PCS*”, the offering of the Perpetual Capital Securities is being conducted in conjunction with the Tender Offer for any and all of the Society's Existing PCS. The Tender Offer Memorandum provides that when considering allocation of the Perpetual Capital Securities, the Society may in its discretion elect to give preference to those holders of the Existing PCS who validly tender (or give a firm intention that they intend to tender) their Existing PCS pursuant to the Tender Offer. As announced by the Society at launch of the Tender Offer, the Significant Investor, which had represented to the Society that it beneficially held £235,896,000 in aggregate principal amount of the Existing PCS, had committed to tender its entire holding of Existing PCS in the Tender Offer on the terms set out in the Tender Offer Memorandum and to subscribe for at least 25 per cent. of the aggregate principal amount of the Perpetual Capital Securities to be issued pursuant to this Offering Circular, with a minimum allocation of not less than 25 per cent. of the aggregate principal amount of the Perpetual Capital Securities. The Society confirmed that all other allocations of the Perpetual Capital Securities (including any further allocations above 25 per cent. to the Significant Investor, if any), were to be made in accordance with customary new issue allocation processes and procedures. The results of the Tender Offer are currently expected to be published on 2 April 2019.

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.

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 later of the commencement of the offering and the Closing Date (the “**distribution compliance period**”), within the United States or to, or for the account or benefit of, U.S. persons 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 (as amended, “**MiFID II**”); or
- (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Perpetual Capital Securities in circumstances in which Section 21(1) of the FSMA would not, if the Society was not an authorised person, apply to the Society; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Perpetual Capital Securities in, from or otherwise involving the United Kingdom.

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 (a) 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 (Chapter 289 of Singapore), as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Perpetual Capital Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Perpetual Capital Securities pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law; or
- (iv) as specified in Section 276(7) of the SFA.

Notification under Section 309B(1)(c) of the SFA - In connection with Section 309B of the SFA and the CMP Regulations 2018, the Society has determined the classification of the Perpetual Capital Securities as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

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 21 November 2018 and 19 March 2019 and resolutions of a duly appointed sub-committee of the Board passed on 19 March 2019.

2. Approval, listing and admission to trading

The Perpetual Capital Securities are expected to be admitted to trading on the ISM from 3 April 2019. The ISM is not a regulated market within the meaning of MiFID II. The ISM is a market designated for professional investors.

3. Clearing Systems

The Global Certificate has been accepted for clearance through the Clearing Systems. The ISIN for the Perpetual Capital Securities is XS1961836712 and the Common Code is 196183671. The CFI for the Perpetual Capital Securities is DCFQPR and the FISN is COVENTRY BLD.SO/6.875 CONV B PERP.

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 change

Since 31 December 2018, there has been no significant change in the financial or trading position of the Society or the Group and no material adverse change in the financial position or prospects of the Society or the Group.

5. Litigation

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) of which the Society is aware during the 12 months preceding the date of this Offering Circular which may have, or have had in the recent past, significant effects on the financial position or profitability of the Group.

6. Auditors

The consolidated and non-consolidated annual financial statements of the Society for the two financial years ended 31 December 2017 and 2018, respectively, have been audited by Ernst & Young LLP in accordance with applicable law and International Standards on Auditing (UK and Ireland). Ernst & Young LLP is registered to carry out audit work by the Institute of Chartered Accountants of England and Wales. Ernst & Young LLP have no material interest in the Group.

The Society proposes to appoint PricewaterhouseCoopers LLP as auditor for the 2019 year end, subject to member approval at its Annual General Meeting of members. PricewaterhouseCoopers LLP is registered to carry out audit work by the Institute of Chartered Accountants of England and Wales. PricewaterhouseCoopers LLP have no material interest in the Group.

7. Registrar

The Society, pursuant to the Agency Agreement, will appoint Citibank, N.A., London Branch at its specified office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United

Kingdom to maintain the Perpetual Capital Securities Register at such specified office. It is intended that the Registrar will act as agent of the Society for the purposes of making payments in respect of the Perpetual Capital Securities as they fall due, maintaining the Perpetual Capital Securities Register, accepting instructions for, and effecting, transfers of Perpetual Capital Securities, issuing Certificates and receiving requests for the replacement of, and replacing, defaced, damaged, stolen, worn-out, lost or destroyed Certificates. The Registrar shall hold copies of the Agency Agreement available for inspection at its specified office.

8. Documents available for inspection

Copies of the following documents may be inspected at the principal office of the Society during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) during the period from the date of this Offering Circular up to and including the date on which no Perpetual Capital Security remains outstanding:

- (i) the Rules and Memorandum of the Society;
- (ii) the published audited consolidated and non-consolidated annual financial statements of the Society for the financial years ended 31 December 2017 and 31 December 2018;
- (iii) the Risk Management Report set out on pages 26 to 61 of the Society's Annual Report and Accounts 2018;
- (iv) the Pillar 3 Disclosures of the Society for the years ended 31 December 2017 and 31 December 2018; and
- (v) the Agency Agreement.

ANNEX

INDICATIVE PROVISIONS RELATING TO THE CCDS

This Annex contains the following indicative provisions which the Society expects will apply to CCDS issued upon conversion of the Perpetual Capital Securities pursuant to Condition 8 of the Perpetual Capital Securities:

Part I: contains an indicative overview of certain provisions of the Rules of the Society and the Act relating to the Core Capital Deferred Shares;

Part II: contains indicative conditions of issue of the Core Capital Deferred Shares; and

Part III: contains an indicative overview of provisions relating to the CCDS while represented by the Global CCDS Certificate.

Unless otherwise defined, terms used in this Annex shall have the same meanings given to them in Part II of this Annex.

The provisions of this Annex are indicative only and are subject to amendment. Whilst it is not the intention of the Society to issue CCDS on terms substantively different to the indicative provisions contained in this Annex should a conversion of the Perpetual Capital Securities occur, it may be necessary for the Society to do so if, for example (but without limitation):

- (i) the Capital Rules, or the implementation or official interpretation thereof as applicable to the Society, change after issue of the Perpetual Capital Securities such that the terms of the CCDS issued upon conversion of the Perpetual Capital Securities are required to depart from the indicative provisions contained in this Annex in order that such CCDS qualify as common equity tier 1 (or equivalent) capital of the Society at that time;
- (ii) the Supervisory Authority requires the terms of the CCDS to depart from the indicative provisions contained in this Annex at the time of conversion of the Perpetual Capital Securities;
- (iii) the Society issues securities which are Core Capital Deferred Shares for the purposes of the Rules 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 others Core Capital Deferred Shares (including, without limitation, to reflect any pre-emption rights (if any) attaching to such Core Capital Deferred Shares);
- (iv) the Society or its business is the subject of a succession or transfer of a type envisaged by Condition 10 of the CCDS as set out in Part II of this Annex (in which event the Society intends that provisions substantially the same as the provisions of that Condition 10 should apply, where appropriate, as if the CCDS had already been issued at the time of such succession or transfer); or
- (v) the Society is unable to procure clearing of the CCDS in the Clearing Systems (either without the terms of the CCDS departing in certain respects from the indicative provisions contained in this Annex, or at all).

The Society confirms that the provisions of this Annex have been reviewed by the Supervisory Authority and, whilst it has not issued a binding decision that such CCDS would qualify as Common Equity Tier 1 Capital upon issue, the Supervisory Authority has not raised any objections to the provisions in the form set out in this Annex.

PART I

OVERVIEW OF CERTAIN PROVISIONS OF THE RULES OF THE SOCIETY AND THE ACT RELATING TO THE CORE CAPITAL DEFERRED SHARES

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

As used in this Part I, the following terms have the meanings given to them in the Rules: “Borrowing Members’ Resolution”; “Deferred Share”; “Deferred Shares Register”; “Member”; “Ordinary Resolution”; “Periodic Distributions”; “Periodic Distributions Cap”; “Person”; “Share”; “Shareholding Member”; “Shareholding Members’ Resolution”; “Special Resolution” and “voting date”.

1. GENERAL

A person who holds a Deferred Share in the Society (including a Core Capital Deferred Share) is a “**Shareholding Member**” of the Society. The CCDS are Core Capital Deferred Shares for the purposes of the Rules and therefore a person whose name is entered in the CCDS Register (as defined below) as a CCDS holder is a Shareholding Member of the Society.

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

*It is expected that the CCDS will be held by investors through accounts with a Clearing System and will be registered in the name of a nominee (the “**Nominee**”) who shall be the CCDS holder for the purposes of the Rules and the Conditions. An investor holding beneficial interests in the CCDS through a Clearing System will not be a member of the Society by virtue of its investment in the CCDS and (without prejudice to any rights or obligations that such person may have as a member of the Society in some other capacity) will be only indirectly subject to the Rules, the Memorandum and the Act with respect to its holding of CCDS in the manner provided above. Investors holding beneficial interests in the CCDS through a Clearing System shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of that Clearing System.*

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

2. REGISTER

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

Transfers and other documents or instructions relating to or affecting the title to any CCDS shall also be recorded in the CCDS Register. No charge shall be made in respect of any entry in the CCDS Register. The CCDS Register shall be maintained at the specified office of the Registrar, or at such other place as the board of directors of the Society thinks fit.

3. DISTRIBUTIONS

Cap on Distributions

The CCDS are Core Capital Deferred Shares for the purposes of the Rules. The Rules provide that any Core Capital Deferred Share must be issued on terms that limit the amount of the Periodic Distributions (“**Distributions**”) that may be paid on any such Share in respect of any given financial year to not more than the applicable Periodic Distributions Cap (the “**Cap**”), in order to protect the reserves of the Society.

The Rules provide that the initial Cap, which would have been applicable to Distributions in respect of the financial year to 31 December 2013 had CCDS been in issue during that financial year, was £15 per CCDS, and that (subject as stated below) in respect of each subsequent financial year the Cap will be adjusted for inflation by reference to the United Kingdom Consumer Price Index (overall index, 2005=100) (“**CPI**”) published by the Office for National Statistics (or any successor to that index). Such adjustment will be made by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for the last full calendar month of the financial year in respect of which the Distributions are payable (being the percentage increase or decrease over the twelve months to and including that month) to the prevailing Cap. If the CPI ceases to be published and no direct successor or replacement index is published, the Board shall be entitled to determine an appropriate replacement index for determining inflation-based adjustments to the Cap, and shall have sole discretion to determine any modifications to the method of determining inflation-based adjustments to the Cap during the transition from CPI to the replacement index. The Society shall in each year determine the adjustment to the Cap promptly following publication of the relevant CPI (or successor or replacement index) data by the Office for National Statistics (or such successor or other organisation as may be responsible for publishing official data with respect to the relevant index) and will notify the members of the Society of the adjusted Cap not later than at the first Annual General Meeting following publication of the relevant data. In the event that adjustment of the Cap in the manner described above would prejudice the regulatory capital treatment of the CCDS, the Society will disapply those adjustment provisions and the Cap will remain at (or revert to) £15 per CCDS.

The Cap will be adjusted by reference to the CPI in each year and notified to the members of the Society whether or not CCDS are in issue during the relevant financial year. As at the date of this Offering Circular, the prevailing Cap in respect of the financial year to 31 December 2018 is £16.14. 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 2019 to the prevailing Cap of £16.14.

Distribution Policy

The Rules also provide that the Board may determine and from time to time publish the policy of the Society in relation to the Distributions on any Core Capital Deferred Shares and shall have regard to the ongoing profitability and long term viability of the Society, the need for the Society to ensure that it has adequate capital resources and such other factors as the Board considers appropriate.

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 in a financial year, at the beginning of the period of 56 days immediately preceding the voting date); and
 - (b) on the voting date; and
- (ii) that CCDS holder has not ceased to be a Shareholding Member between the relevant time specified in (a) above and the voting date.

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

Given the difficulty of casting the single vote in a manner which reflects the views of all investors holding CCDS through the Clearing Systems and the relative insignificance of that vote in the context of all the votes which may be cast by members of the Society, it is expected that the Nominee will not exercise its vote insofar as such vote relates to its holding of CCDS.

The foregoing provisions relate to general meetings of the members of the Society. For provisions relating to the convening of separate meetings of the CCDS holders only, see Condition 12 and "Meetings; membership rights whilst the CCDS are held through Clearing Systems" under "Overview of provisions relating to the CCDS while represented by the Global CCDS Certificate" in "Part II: Conditions of issue of the Core Capital Deferred Shares" below.

5. WINDING-UP OR DISSOLUTION

Upon the winding-up of the Society, or upon it being dissolved by consent, any surplus remaining after payment in full of the Society's creditors and repayment to Members of the amount of their Shares (together with interest due thereon) according to their priority under their respective terms and conditions of issue (but excluding Core Capital Deferred Shares unless and to the extent provided in their terms and conditions of issue) shall be applied as follows:

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

- (c) the remainder of the surplus will be distributed among qualifying Members (other than holders of Deferred Shares) in proportion to the value of their Shareholding at the relevant date.

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

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

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

On a winding-up or dissolution of the Society, the rights of the CCDS holders to participate in the winding-up or dissolution will, subject as provided in Condition 4.8, be limited to an entitlement to share, to the extent and in the manner provided in the Conditions, in the Surplus (if any) of the Society remaining following payment of all amounts in respect of Liabilities of the Society and any amounts payable pursuant to Condition 4.8. If there are insufficient assets of the Society to pay all amounts in respect of Liabilities of the Society, no payment shall be made to the CCDS holders in the winding-up or dissolution of the Society.

The provisions under (a) to (c) above reflect Rule 45 of the Society’s Rules. Rule 45 provides the basis for distribution of any surplus amongst members of the Society on a proportionate basis, having regard to the nature and amount of their investments, and without preference as to priority. The reference in (a) to up to 20% of the surplus being available for distribution to holders of Deferred Shares other than Core Capital Deferred Shares establishes a limit on the amount of any surplus which can be distributed to such holders but does not result in such amount of the surplus being ring-fenced for the benefit of such holders. As at 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 8.3 of the terms and conditions of the Perpetual Capital Securities, the nominal amount by which the Perpetual Capital Securities will be written down following the occurrence of the Conversion Trigger shall be applied, directly or indirectly, to paying up the CCDS to be issued to holders of the Perpetual Capital Securities, and such holders shall be deemed irrevocably to have directed and authorised the Society to apply such amounts for such purpose on their behalf. Accordingly, CCDS issued upon conversion of the Perpetual Capital Securities will be paid up in full upon issue, and there will be no liability of holders of such CCDS to further contribute in the winding up or dissolution of the Society.

6. DISPUTES AND LEGAL PROCEEDINGS

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

PART II

CONDITIONS OF ISSUE OF THE CORE CAPITAL DEFERRED SHARES

The following (save for paragraphs in italics, which do not form part of the conditions) are the indicative conditions of issue of the CCDS as they are expected to apply to holders of the CCDS and in the form in which they are expected to appear on the reverse of each CCDS Certificate, subject to amendment and completion:

The Core Capital Deferred Shares (the “**CCDS**”, which term shall include any further core capital deferred shares issued pursuant to Condition 13 which are consolidated and form a single series with the CCDS) are issued under the Rules (the “**Rules**”) of Coventry Building Society (the “**Society**”) for the time being. CCDS holders are entitled to the benefit of, are bound by and are deemed to have notice of, the Rules. The CCDS are also issued subject to, and with the benefit of, these conditions of issue (the “**Conditions**”) and subject to an agency agreement (as amended from time to time, the “**Agency Agreement**”) dated on or around [date] between the Society and [entity name] as registrar and transfer agent (in such capacities, the “**Registrar**”, which term shall include any other registrar and transfer agent appointed by the Society in respect of the CCDS from time to time) and principal paying agent (in such capacity, the “**Principal Paying Agent**”, which term shall include any other principal paying agent appointed by the Society in respect of the CCDS from time to time). In the event of inconsistency between the Rules, these Conditions and the Agency Agreement, the Rules will prevail and, subject thereto, in the event of inconsistency between these Conditions and the Agency Agreement, these Conditions will prevail. CCDS holders are bound by and are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

The CCDS are expected to be held through accounts with the Clearing Systems and to be issued in definitive form only in the very limited circumstances described under “Overview of provisions relating to the CCDS while represented by the Global CCDS Certificate – Exchange of the Global CCDS Certificate and registration of title”. While CCDS are held on behalf of investors through an account with a Clearing System, CCDS will be registered in the name of the Nominee. The Nominee shall be the CCDS holder for all of the CCDS for the purposes of the Conditions, and not the investors holding beneficial interests in the CCDS through the Clearing Systems. The investors holding the beneficial interests in CCDS through Clearing System accounts shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of the relevant Clearing System.

1. GENERAL

- 1.1 Terms defined in the Rules will, unless otherwise defined herein or unless the context otherwise requires, have the same meanings when used in these Conditions. Other capitalised terms used in these Conditions shall have the meanings set out in Condition 17.
- 1.2 The CCDS:
 - (a) are deferred shares for the purposes of section 119 of the Building Societies Act 1986, as amended (the “**Act**”);
 - (b) are not protected deposits for the purpose of the Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000 as amended (the “**FSMA**”);
 - (c) are not withdrawable; and
 - (d) are Core Capital Deferred Shares for the purposes of the Rules.
- 1.3 By purchasing CCDS, each CCDS holder agrees to assign any rights to Conversion Benefits to which it may become entitled by reason of its holding of CCDS to Coventry Building Society Charitable

Foundation (or other charities nominated by Coventry Building Society Charitable Foundation) pursuant to any scheme for charitable assignment established by the Society for the time being. For these purposes, “**Conversion Benefits**” shall mean any benefits under the terms of any future transfer of the Society’s business to a company (other than rights to receive ordinary shares issued by the Successor Entity or its parent, as specifically provided for under Condition 10) and, if the Society merges with any other building society, “**Society**” shall, after the date of such merger, extend to such other society.

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

As investors holding the beneficial interests in CCDS through Clearing System accounts will not, by virtue of such holding, be members of the Society they will not be entitled to any Conversion Benefits by virtue of such holding. Any Conversion Benefits relating to the CCDS will belong instead to the Nominee, as the registered holder of the CCDS in the CCDS Register. It is expected that the Nominee will, on or prior to date of issue of the CCDS, irrevocably agree to assign to Coventry Building Society Charitable Foundation (or other charities nominated by Coventry Building Society Charitable Foundation) any Conversion Benefits.

2. FORM, TITLE AND TRANSFER

2.1 Form

The CCDS are in registered form and have a nominal value of £1 each (the “**Nominal Amount**”). The CCDS are transferable in accordance with the Rules and subject to Condition 2.2.

In the event that a CCDS is subscribed at a price higher than the Nominal Amount, the difference between the subscription price and the Nominal Amount shall constitute CCDS premium (the “**Premium Amount**”).

2.2 Title and transfer

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

CCDS are transferable in whole numbers and no CCDS may be transferred in part. A transfer of CCDS will not be valid, and will not be registered in the CCDS Register, unless the number of CCDS transferred is equal to or greater than the specified minimum transfer amount (the “**Minimum Transfer Amount**”) prevailing at the time of transfer. The initial Minimum Transfer Amount is [number] CCDS. The Minimum Transfer Amount may be reduced in agreement with the Relevant Regulators upon not less than 30 nor more than 60 days' notice to CCDS holders in accordance with Condition 14. The Minimum Transfer Amount prevailing from time to time will be published on the Society's website.

The Society currently expects that, if it were to issue CCDS, the initial Minimum Transfer Amount would be approximately 250 CCDS (which assumes an issue price per CCDS of approximately £100). However, the actual Minimum Transfer Amount which may be set, or which may be prevailing, at the time of conversion of the Perpetual Capital Securities may be higher or lower than 250 CCDS, and will depend upon agreement with the Relevant Regulators.

No legal transfer of a CCDS shall be valid unless made in the form endorsed on the CCDS Certificate or in such other form as the Board may agree, which form shall be duly completed and signed (as

appropriate) and presented to the Registrar. Legal title to the CCDS will pass upon registration of such transfer in the CCDS Register and, if so requested in writing by the registered holder, the Registrar shall, on behalf of the Society, issue a CCDS Certificate in respect of such holding (which will be made available at the specified office of the Registrar).

The Society currently expects that, if it were to issue CCDS, it will not be possible for investors to transfer CCDS in amounts less than the Minimum Transfer Amount prevailing as at the time of transfer. The Clearing Systems will not accept instructions to settle transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount, and (in the limited circumstances in which definitive CCDS are issued) the Registrar will not register in the CCDS Register any transfer of CCDS in definitive form in amounts less than the prevailing Minimum Transfer Amount. Accordingly, purported transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount will be incapable of settlement. Investors in CCDS are responsible for ensuring that any trades they enter into in respect of the CCDS are capable of settlement; failure to do so may result in an investor breaching its contract of sale and purchase. If, and for so long as, CCDS are admitted to trading on 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 14 days of receipt by the Registrar of the original CCDS Certificate, be mailed by uninsured mail at the risk of the holder of the CCDS not so transferred to the address of such holder appearing on the CCDS Register or as specified in the form of transfer.

It is expected that, except in the limited circumstances described under “Overview of provisions relating to the CCDS while represented by the Global CCDS Certificate – Exchange of the Global CCDS Certificate and registration of title”, owners of interests in the CCDS will not be entitled to receive physical delivery of CCDS Certificates.

2.4 Formalities free of charge

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

3. CCDS REGISTER

- 3.1 The Society has appointed the Registrar to act as registrar and transfer agent in respect of the CCDS under the terms of the Agency Agreement.
- 3.2 Pursuant to the Agency Agreement, the Society shall procure that the Registrar maintains the CCDS Register, in which shall be entered the name and address of each CCDS holder. Each CCDS holder shall notify the Registrar immediately of any change of name or address and shall produce such evidence of change of name or address as the Registrar may reasonably require.
- 3.3 A CCDS holder must provide the Registrar with a written order containing such instructions and other information as the Society and the Registrar may reasonably require to complete, execute and deliver a CCDS Certificate to such CCDS holder.
- 3.4 Transfers and other documents or instructions relating to or affecting the title of any CCDS shall be recorded in the CCDS Register. No charge shall be made in respect of any entry in the CCDS Register or any change in relation to such entry. The CCDS Register shall be maintained at the specified office of the Registrar or at such other place as the Society and the Registrar shall agree.

4. STATUS, SUBORDINATION AND RIGHTS ON A WINDING-UP

4.1 Status and subordination

The CCDS constitute direct, unsecured and subordinated investments in the Society and, on a winding-up or dissolution of the Society, rank (a) *pari passu* among themselves and with any other investments ranking or expressed to rank *pari passu* with the CCDS (provided that participation of CCDS holders in the Surplus (as defined in Condition 4.2) will be in the manner and proportion described in this Condition 4), and (b) junior to (i) all Liabilities of the Society and (ii) any claims in respect of declared, unconditional and unpaid Distributions in accordance with Condition 4.8 and claims ranking or expressed to rank *pari passu* therewith.

4.2 Rights on a winding-up or dissolution

On a winding-up or dissolution of the Society (other than a winding-up or dissolution in connection with an amalgamation or transfer as described Condition 10, in respect of which the provisions of Condition 10 will apply), the rights of the holders of Outstanding CCDS to participate in the winding-up or dissolution shall, save as provided in Condition 4.8, be limited to an entitlement to share, to the extent and in the manner provided in Condition 4.3, in the surplus assets (if any) of the Society remaining (“**Surplus**”) following payment of all amounts in respect of Liabilities of the Society and any amounts payable pursuant to Condition 4.8 and claims ranking or expressed to rank *pari passu* therewith, provided that such entitlement shall be capped at the Average Principal Amount per CCDS as provided in Condition 4.7.

4.3 Distribution of Surplus

In the event of a distribution of Surplus, such Surplus shall, subject to Condition 4.7, be shared without preference as to priority between:

- (a) CCDS holders (whose entitlement shall be for such amount as will, upon such sharing of the Surplus, result in CCDS holders receiving, in respect of each CCDS held which is Outstanding at the Relevant Time, an amount equal to (i) the Core Capital Contribution Share determined in accordance with Condition 4.4 or, if less (ii) the Average Principal Amount determined as at the Relevant Time in accordance with Condition 4.5);

- (b) those Persons who are qualifying Members (whose entitlement shall be calculated based on the proportionate value of their Shareholding (excluding any holding of Deferred Shares) at the Relevant Time);
- (c) (unless the terms of the relevant Deferred Shares otherwise provide) holders of any other Deferred Shares in the Society at the Relevant Time (whose entitlement (if any) shall be calculated based on and subject to the terms of issue of such Deferred Shares and subject to any limit specified in the Rules as regards distributions of surplus to holders of Deferred Shares); and
- (d) any other persons entitled to share in the surplus assets in accordance with the Rules from time to time (whose entitlement shall be calculated based on and subject to the Rules).

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

In this Condition 4.3, the terms “**Member**”, “**Person**”, “**qualifying Members**”, “**Share**” and “**Deferred Share**” have their respective meanings given in the Rules.

In these Conditions, “**Relevant Time**” means (i) 1.00 a.m. (London time) on the earlier of the date on which notice is given of a winding-up or dissolution resolution of the Society or the date on which notice is given of presentation of a winding-up petition of the Society (including, without limitation, notice of an order made under a building society insolvency or building society special administration (each as defined in the Act) but excluding notice of an effective resolution passed for dissolution of the Society by virtue of section 93(5) (dissolution following an amalgamation with one or more building societies by the establishment of a successor building society), section 94(10) (dissolution following transfer of all engagements to another building society) or section 97(9) or (10) (dissolution following transfer of the whole business to a company) of the Act), or (ii) such other time and date as may be specified by the insolvency official appointed with primary responsibility for the winding-up or dissolution of the Society.

4.4 Core Capital Contribution Share

This Condition 4.4 determines the amount of any Surplus the CCDS holders will be eligible to receive upon a winding-up of the Society as described in Condition 4.2 (unless the amount calculated in accordance with this Condition 4.4 exceeds the Average Principal Amount per CCDS calculated in accordance with Condition 4.5, in which case CCDS holders will instead be eligible to receive the Average Principal Amount for each CCDS held). For the avoidance of doubt, if the Society is wound up and there is no Surplus, CCDS holders will not be eligible to receive any amount pursuant to this Condition 4.4 or Condition 4.5.

The calculation in Condition 4.4(b) determines the relative contribution proportion (expressed as a percentage) of the CCDS holders (as a class) to the total Common Equity Tier 1 Capital of the Society from time to time. This Core Capital Contribution Proportion will be first calculated at the time of issue of the first tranche of CCDS and subsequently adjusted upon recalculation from time to time to reflect any additional issues of CCDS pursuant to Condition 13 and any cancellations of CCDS. If the Society is wound up in circumstances where a Surplus is available for distribution, Condition 4.4(a) provides that the CCDS holders (as a class) would be eligible to receive such share (i.e. percentage) of that Surplus as is equal to the Core Capital Contribution Proportion prevailing at that time, which amount would be shared amongst the CCDS holders pro rata based on the number of CCDS they hold.

In addition to recognising new issues and cancellations of CCDS from time to time, the calculation in Condition 4.4(b) also recognises that the CCDS holders have a notional proportionate interest in the profits and losses of the Society on an ongoing basis: each time the calculation is repeated, the section of the formula “ $(CCCP_{DT-1} \times \text{Core Capital}_{DT})$ ” effectively apportions to outstanding CCDS a notional interest in the appropriate proportion of profits generated or losses incurred (recognised as increases or

decreases in Common Equity Tier 1 Capital) in the period between the previous calculation and the current calculation. The amount of those profits or losses attributed to the CCDS is based on the Core Capital Contribution Proportion prevailing at the time those profits were generated or losses incurred. Thus all CCDS will have a notional proportionate interest in the profits and losses of the Society from their time of issue (subject, on a winding-up or dissolution, to Condition 4.5). For the avoidance of doubt, the calculation is relevant for determining the proportion of any Surplus that CCDS holders would be eligible to receive upon the winding-up or dissolution of the Society. The notional proportionate interest in profits is not an entitlement to receive any amounts in respect of such profits at any time. Except for any payment of Surplus upon the winding-up or dissolution of the Society, no payments will be made to CCDS holders as a result of the calculation being performed.

The Core Capital Contribution Proportion will be first calculated as at the time of issue of the first tranche of CCDS, which may be the CCDS issued upon conversion of the Perpetual Capital Securities or may alternatively be CCDS which are issued prior to conversion of the Perpetual Capital Securities and with which the CCDS issued upon such conversion are consolidated and form a single series.

- (a) The “**Core Capital Contribution Share**” means the amount (rounded to the nearest penny, with £0.005 being rounded up) calculated by (i) multiplying (x) the total amount of Surplus available for distribution in accordance with Condition 4.2 by (y) the Core Capital Contribution Proportion calculated in accordance with Condition 4.4(b) as at the Relevant Time and (ii) dividing the resulting figure by the total number of CCDS which are Outstanding as at the Relevant Time.
- (b) The “**Core Capital Contribution Proportion**” at any given Determination Time (as defined below) is the portion (expressed as a percentage) of the total Common Equity Tier 1 Capital of the Society at such time which is determined, in accordance with the following provisions of this Condition 4.4(b), to have been contributed by the CCDS which are Outstanding at such time.
 - (i) The Core Capital Contribution Proportion shall be calculated as at the time of issue of the first tranche of CCDS (whether upon conversion of other securities of the Society or otherwise) and recalculated (A) as at the time of each issue of Additional CCDS (as defined in Condition 13), (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 CCDS issued in exchange for, or upon the write-down and/or conversion of, other securities of the Society), the Premium Amount of each such CCDS shall be determined by the Board in good faith (and in accordance with generally accepted accounting practices and the accounting policies of the Society for the time being) as an amount equal to the notional value (such notional value being, as close as practicable, the equivalent cash value) in respect

of which such CCDS is issued and allotted less the £1 Nominal Amount of such CCDS. The Nominal Amount and Premium Amount of each such CCDS shall be included in any calculation of the Core Capital Contribution Proportion and Average Principal Amount as if such Nominal Amount and Premium Amount had been paid to the Society in cash.

4.7 Entitlement to Surplus capped

The entitlement of CCDS holders to share in the Surplus shall be capped at the Average Principal Amount per CCDS. Accordingly, following payment to the holders of CCDS, by way of distribution of Surplus, of an amount equal to the Average Principal Amount in respect of each CCDS, the holders of the CCDS shall have no further entitlement to share in any remaining or further distribution of Surplus, and any such remaining or further Surplus shall be distributed amongst the persons and in the manner specified in Conditions 4.3(b), (c) and (d) only, or otherwise as provided in the Rules.

4.8 Declared and unpaid Distributions

On a winding-up or dissolution of the Society, the CCDS holders shall, in respect of any declared, unconditional (which term shall, for these purposes, include any conditional Distribution (as described in Condition 5.3) or part thereof in respect of which the relevant conditions have been satisfied) and unpaid Distributions, be entitled to prove in the winding-up or dissolution of the Society, as the case may be, for the amount of such Distributions but only if, and subject to the condition that, all sums due from the Society in respect of Liabilities in the winding-up or dissolution have been paid in full, and accordingly the claims of the CCDS holders in respect thereof shall rank (a) *pari passu* amongst themselves and with any other claims ranking or expressed to rank *pari passu* therewith and (b) junior to all Liabilities of the Society. Accordingly, such claims shall constitute the most junior claim in the winding-up or dissolution of the Society other than a claim to participate in any Surplus.

4.9 Set-off

By acceptance of the CCDS, each CCDS holder will be deemed to have waived any right of set-off or counterclaim that such CCDS holder might otherwise have against the Society in respect of or arising under the CCDS whether prior to or in a winding-up or dissolution. Notwithstanding the preceding sentence, if any of the rights and claims of any CCDS holder in respect of, or arising under, the CCDS are discharged by set-off, such CCDS holder will immediately pay an amount equal to the amount of such discharge to the Society or, if applicable, the administrator, receiver, liquidator or other insolvency official appointed with primary responsibility for the winding-up or dissolution of the Society and, until such time as payment is made, will hold a sum equal to such amount on trust for the Society or, if applicable, such administrator, receiver, liquidator or other insolvency official (as the case may be). Accordingly, such discharge will be deemed not to have taken place.

5. DISTRIBUTIONS

5.1 Declaration of Distributions

The Board may, in its sole and absolute discretion, from time to time declare Periodic Distributions (as defined in the Rules, and referred to herein as “**Distributions**”, which term shall include any Interim Distribution and any Final Distribution each as defined below) in respect of the CCDS. With respect to any given financial year of the Society, the Board may declare an interim Distribution (an “**Interim Distribution**”) during such financial year and/or a final Distribution (a “**Final Distribution**”) in respect of such financial year.

A Distribution (or any part thereof) may be declared unconditionally or subject to satisfaction of such conditions as the Board may determine (which may include, without limitation, any consents or approvals which may be necessary for distribution of reserves of the Society).

If an Interim Distribution is declared during any financial year, it will (subject to satisfaction of the relevant conditions to payment, if any) be paid on [*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 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 2018 is £16.14. 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 2019 to the prevailing Cap of £16.14.

5.6 Distribution due and payable following declaration

Once declared, a Distribution will be due and payable by the Society on the relevant Distribution Payment Date, provided that any Distribution (or any part thereof) that is stated to be conditional as aforesaid will become due and payable on the relevant Distribution Payment Date only if the relevant conditions are satisfied on or prior to such Distribution Payment Date.

5.7 Non-declaration not default

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

5.8 Notice of Distribution

Following determination by the Board whether any Interim Distribution or Final Distribution shall be declared, the Society will publish an announcement confirming (a) the amount (if any) of such Distribution, expressed as an amount per CCDS and (b) whether the Distribution (or any part thereof) is conditional and, if so, the relevant condition(s).

If the Board declares a Distribution which is, in whole or in part, conditional and one or more relevant conditions have not been satisfied on or before the relevant Distribution Payment Date, the Society will promptly publish an announcement confirming that such condition(s) have not been satisfied and that, accordingly, the Distribution (or the relevant part thereof) subject to such condition(s) is not, and shall not become, due and payable.

5.9 Distribution Policy

The Society will from time to time publish on its website a distribution policy (the “**Distribution Policy**”) setting out the Board’s expectations as regards the declaration of Distributions and certain factors which the Board may consider when determining whether or not to declare a Distribution and, if so, the amount of such Distribution. Upon any change in the policy, the Society shall promptly publish the revised Distribution Policy on its website.

The Distribution Policy may give an indication of the Board’s current expectations with respect to declaration of Distributions (the “**Indication**”). Any Indication will not be binding on the Board or the Society and the Board shall (subject to there being available sufficient Distributable Items) have absolute discretion to declare a Distribution which is higher (subject to the Cap) or lower than the Indication or to determine that no Distribution shall be declared in respect of the relevant period. The Board will have regard to a range of factors including those set out in the Distribution Policy and must satisfy itself that the declaration of any Distribution is consistent with maintaining the financial strength of the Society.

The Society does not intend to publish a Distribution Policy until such time as it has any CCDS in issue.

6. PAYMENTS

6.1 Payment by cheque or transfer

Subject as follows, all payments in respect of the CCDS will be made by sterling cheque drawn on a bank or building society in the United Kingdom, posted on the Business Day immediately preceding the relevant due date for payment and made payable to the CCDS holder appearing in the CCDS Register in respect of the CCDS of which it is the holder at the close of business on the fifteenth day before the relevant due date (the “**Record Date**”) at the addresses shown in the CCDS Register on the Record Date, or in such other manner as the Principal Paying Agent shall agree with the Society.

Upon application of the CCDS holder to the Society, in the form from time to time prescribed by the Society, not less than 10 days before the due date for any payment in respect of its CCDS, the payment may be made by transfer on the due date for payment or, if such date is not a Business Day, on the immediately following Business Day, to a sterling account maintained by the relevant CCDS holder with a bank or building society in the United Kingdom.

Notwithstanding this Condition 6.1, all payments in respect of CCDS held through Clearing System accounts will be credited to the cash accounts of Accountholders in each Clearing System in accordance with the relevant Clearing System’s rules and procedures. Each investor holding beneficial interests in the CCDS through a Clearing System must look solely to the relevant Accountholder through which it holds its CCDS for its share of each payment so made. 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 means 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 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 or warrant has been cashed and no payment claimed shall cease to be payable after 12 years from the due date and shall revert to the Society.

8. NO REDEMPTION; PURCHASES

8.1 No redemption

The CCDS constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no maturity date. The Society has neither an obligation nor any right to redeem or, save following a purchase as referred to in Condition 8.2, cancel the CCDS and CCDS holders do not have any right to require the Society to redeem, purchase or cancel the CCDS.

8.2 Purchases

The Society may, in its sole discretion but subject to Condition 8.3, at any time purchase CCDS in the open market or otherwise at any price. CCDS so purchased may, at the option of the Society, be held, re-issued and/or re-sold or surrendered to the Registrar for cancellation.

Subsidiaries of the Society shall not be permitted to purchase and hold CCDS for their own account or that of the Society, and any such purchase shall be deemed to be a purchase by the Society for immediate cancellation. Nothing in the previous sentence shall prohibit a subsidiary of the Society from purchasing or holding CCDS in its capacity as personal representative, agent or trustee for or on behalf of, or for the benefit of, a person other than the Society or a subsidiary of the Society, and any such purchase shall not be deemed to be a purchase by the Society (for immediate cancellation or otherwise).

8.3 Purchases subject to supervisory consent

Any purchase of CCDS by the Society will, if so required by the Supervisory Authority, the prudential rules applicable to the Society or any laws or regulations applicable to deferred shares of the Society at the relevant time, be conditional upon the Society having duly notified the Supervisory Authority of its intention to purchase the CCDS and the Supervisory Authority having 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**”), having such terms and conditions as are necessary to ensure that both the CCDS and any other deferred shares which, prior to such amalgamation or transfer, constituted Common Equity Tier 1 Capital of the other society, shall constitute Common Equity Tier 1 Capital of the Resulting Society and, subject thereto, in all material respects identical to the terms of the CCDS, all as determined by an independent financial adviser (having regard to such factors as it considers appropriate) appointed by the Society in its sole discretion.

It may be necessary, upon an amalgamation by the Society with another building society or a transfer of all or substantially all of its engagements to another building society as envisaged by Condition 10.1, for the terms of the CCDS and/or the rules of the Resulting Society to be amended in certain respects and/or for certain adjustments to be made to the prevailing Core Capital Contribution Proportion, Average Principal Amount and/or Cap on Distributions and, where applicable, the formulae for calculating the same. With a view to minimising the financial impact of such amendments and adjustments on CCDS holders, it is the intention of the Society that, if and to the extent that the Society has control over such matters, any such amendments and adjustments should be limited to the minimum necessary in order to ensure that the CCDS and any other deferred shares of the other society which, prior to such amalgamation or transfer, constituted Common Equity Tier 1 Capital of the other society, shall constitute Common Equity Tier 1 Capital of the Resulting Society.

10.2 Transfer of business under section 97 of the Act

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

shares (which may or may not carry voting rights) in the Successor Entity or, if appropriate, any direct or indirect parent company of the Successor Entity, ranking *pari passu* in all respects with the then existing ordinary shares of such Successor Entity or such parent, as applicable, as have an aggregate market value immediately following such subscription as near as practicable to, but not less than, the market value of the CCDS immediately prior to the time of transfer of the business of the Society to the Successor Entity, as determined by an independent financial adviser (having regard to such factors as it considers appropriate, including recent trading prices if available) appointed by the Society in its sole discretion.

10.3 Basis of appointment of independent financial adviser

Any independent financial adviser appointed pursuant to Condition 10.1 or 10.2 shall act as an expert and not as an arbitrator, and all fees, costs and expenses in connection with such appointment shall be borne by the Society. Any determination made in good faith by such independent financial adviser pursuant to Condition 10.1 or 10.2 shall be binding on the Society, the Registrar and the CCDS holders. No independent financial adviser appointed pursuant to Condition 10.1 or 10.2 shall have any responsibility or liability whatsoever to any CCDS holder or to any other person in connection with any determination made by it in good faith pursuant to Condition 10.1 or 10.2.

10.4 Failure to obtain a determination by independent financial adviser

If, in circumstances which require an independent financial adviser to make any determination pursuant to Condition 10.1 or 10.2, the Society is unable to appoint such independent financial adviser, or the appointed independent financial adviser fails to make any necessary determination and the Society is unable to appoint an alternative or additional independent financial adviser to make such determination, the Society shall convene a meeting of the CCDS holders in accordance with Condition 12 in order for such holders to approve by resolution those determinations which remain to be made. Such approval may alternatively be obtained by way of a written resolution in accordance with Condition 12.7.

10.5 Undertakings

- (a) The Society undertakes to procure that any amalgamation or transfer referred to in Condition 10.1 or 10.2 will comply with the provisions of Condition 10.1 or, as the case may be, 10.2. The Society undertakes to use all reasonable endeavours to enter into such agreements, and to take such other reasonable steps, as are necessary to give effect to the provisions of this Condition 10 (including, but not limited to, the appointment, if applicable, of an independent financial adviser).
- (b) In connection with any amalgamation by the Society with another building society under section 93 of the Act or a transfer of all or substantially all of its engagements to another building society under section 94 of the Act as provided in Condition 10.1, the Society:
 - (i) shall, and shall use all reasonable endeavours to procure that the Resulting Society shall, comply with the rules of any competent authority, stock exchange and/or quotation system by or on which the CCDS are, for the time being, listed, traded and/or quoted; and
 - (ii) shall pay, or shall use all reasonable endeavours to ensure that Resulting Society pays, any taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties payable in the United Kingdom arising on the issue and initial delivery of such deferred shares, but will not pay (and each CCDS holder as to itself will be required to pay) any other taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on or following the issue and initial delivery of such deferred shares pursuant to Condition 10.1.

- (c) In connection with any transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company as provided in Condition 10.2, the Society:
 - (i) shall, and shall use all reasonable endeavours to procure that the Successor Entity shall, comply with the rules of any competent authority, stock exchange and/or quotation system by or on which the CCDS are, for the time being, listed, traded and/or quoted; and
 - (ii) shall pay, or shall use all reasonable endeavours to ensure that the terms upon which its business is transferred to the Successor Entity shall require the Successor Entity to pay, any taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties payable in the United Kingdom arising on the issue and initial delivery of such ordinary shares, but will not pay (and each CCDS holder as to itself will be required to pay) any other taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on or following the issue and initial delivery of such ordinary shares pursuant to Condition 10.2.

11. VARIATIONS OF THESE CONDITIONS

- 11.1 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, 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, be conditional upon the Society having duly notified the Supervisory Authority of its intention to vary the terms of the CCDS and the Supervisory Authority 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 as the Society may approve.

At least 21 clear days' notice specifying the hour, date and place of the meeting shall be given to the CCDS holders entered in the CCDS Register 35 days prior to the date specified for the meeting, such notice to be given in accordance with Condition 14. The notice shall specify generally the nature of the business to be transacted at the meeting and the terms of any resolution to be proposed to alter these Conditions.

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

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

12.2 Adjournment

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

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

Notice of any adjourned meeting shall be given in the same manner as notice of an initial meeting but as if 10 were substituted for 21 in Condition 12.1.

12.3 Conduct of business of the meeting

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

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

At any meeting every CCDS holder or proxy who is present shall have one vote for each CCDS held or, as the case may be, in respect of which it is a proxy.

12.4 Proxies

A CCDS holder entitled to attend a separate meeting of the CCDS holders:

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

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

12.5 Effect of resolution

Any resolution passed at a meeting duly convened and held in accordance with the provisions of this Condition 12 shall be binding upon all the CCDS holders whether or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution.

12.6 Other matters

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

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

12.7 Written resolution

A resolution may also be passed, without the need for a meeting of CCDS holders, by way of a resolution in writing signed by or on behalf of CCDS holders holding in aggregate not less than three-quarters of the number of CCDS for the time being Outstanding. Such written resolution may be contained in one document or several documents in like form each signed by or on behalf of one or more such CCDS

holders. Any written resolution passed shall be binding upon all the CCDS holders whether or not signing the written resolution and each of them shall be bound to give effect to the resolution accordingly.

12.8 Notice

Notice of any resolution duly passed by the CCDS holders, whether at a meeting of CCDS holders or by written resolution, shall be given in accordance with Condition 14 by the Society within 14 days of the passing of the resolution, provided that failure to give such notice shall not invalidate the resolution.

13. FURTHER ISSUES

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.

16. GOVERNING LAW

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

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

17. DEFINITIONS

For the purpose of these Conditions:

“**Act**” has the meaning given in Condition 1.2(a).

“**Additional CCDS**” has the meaning given in Condition 13.

“**Agency Agreement**” has the meaning given in the preamble to these Conditions.

“**Average Principal Amount**” has the meaning given in Condition 4.5.

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

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

“**Cap**” has the meaning given in Condition 5.5.

“**Capital Rules**” means, 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/or any other laws, regulations, rules, requirements, guidelines or policies relating, in each case, to capital adequacy or prudential requirements, to which the Society and its group are subject at such time, and shall include (without limitation, and if and for so long as the same are applicable to the Society and its group) the rules and regulations contained in EU Directive 2013/36/EU and Regulation (EU) No 575/2013, as amended or superseded, and implementing or associated laws, regulations and requirements.

“**CCDS**” has the meaning given in the preamble to these Conditions.

“**CCDS Certificate**” has the meaning given in Condition 2.3.

“**CCDS holder**” means a person whose name and address is entered in the CCDS Register as the holder of CCDS, and references to a “**holder**” of CCDS shall be construed accordingly.

“**CCDS Register**” means the records of the Society, for the purposes of the Deferred Shares Register (as defined in the Rules), maintained by the Registrar constituting the register of the CCDS.

“**Common Equity Tier 1 Capital**”, at any time, has the meaning ascribed thereto (or to any equivalent term) at such time in the Capital Rules.

“**Conditions**” means these conditions of issue of the CCDS, and references to a numbered Condition shall be construed accordingly.

“**Conversion Benefits**” has the meaning given in Condition 1.3.

“**Core Capital Contribution Proportion**” has the meaning given in Condition 4.4.

“**Core Capital Contribution Share**” has the meaning given in Condition 4.4.

“**Core Capital Deferred Shares**” has the meaning given in the Rules and, where the context admits, means or includes the CCDS.

“**Determination Time**” or “**DT**” has the meaning given in Condition 4.4.

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

As at the date of this Offering Circular, Article 4(1)(128) of Regulation (EU) No 575/2013 provides as follows: “‘distributable items’ means the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution’s bye-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of the institution, those losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts.”

“**Distribution Payment Dates**” has the meaning given in Condition 5.1, and “**Distribution Payment Date**” shall be construed accordingly.

“**Distribution Policy**” has the meaning given in Condition 5.9.

“**Distributions**” has the meaning given in Condition 5.1, and “**Distribution**” shall be construed accordingly.

“**Final Distribution**” has the meaning given in Condition 5.1.

“**Interim Distribution**” has the meaning given in Condition 5.1.

“**Liabilities**” means (i) the claims of all creditors (including, without limitation, creditors in respect of subordinated liabilities) of the Society and (ii) the claims of all other Shareholding Members (as defined in the Rules) of the Society (including, without limitation, holders of permanent interest bearing shares (if any)) in respect of the amounts paid up on their shares (other than Core Capital Deferred Shares (within the meaning of the Rules)), in each case including any principal amount, any interest (including post-petition interest) thereon and any other amounts owing thereon, but excluding (x) any actual, prospective or contingent claims to participate in a distribution of Surplus of the Society and (y) any claims in respect of declared, unconditional and unpaid Distributions in accordance with Condition 4.8 and claims ranking or expressed to rank *pari passu* therewith.

“**Minimum Transfer Amount**” has the meaning given in Condition 2.2.

“**Nominal Amount**” has the meaning given in Condition 2.1.

“**Outstanding**” means, in relation to the CCDS, all the CCDS issued other than:

- (a) those CCDS which have been cancelled in accordance with Condition 8; and
- (b) any global CCDS Certificate to the extent that it shall have been exchanged for definitive CCDS Certificates pursuant to its provisions;

PROVIDED THAT for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of the CCDS holders or any of them or to pass a resolution by way of written resolution in place of a meeting and any direction or request by CCDS holders;
- (ii) the determination of how many and which CCDS are for the time being Outstanding for the purposes of Condition 12 and paragraphs 8, 9, 21 and 22 of Schedule 3 to the Agency Agreement;
- (iii) 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 (or any successor or other authority having primary supervisory authority with respect to prudential matters in relation to the Society).

“**Surplus**” has the meaning given in Condition 4.2.

PART III

OVERVIEW OF PROVISIONS RELATING TO THE CCDS WHILE REPRESENTED BY THE GLOBAL CCDS CERTIFICATE

This Part III would be expected to apply to CCDS represented by a Global CCDS Certificate and cleared in the Clearing Systems. If the Society issues any CCDS, it intends that all such CCDS would be so represented and cleared whilst the Clearing Systems remain open for business, provided the Clearing Systems accept the CCDS for clearing.

The following is a summary of the provisions to be contained in the Agency Agreement and in the global certificate representing all the CCDS upon issue (the “**Global CCDS Certificate**”) which will apply to, and in some cases modify the effect of, the Conditions while the CCDS are represented by the Global CCDS Certificate:

1. EXCHANGE OF THE GLOBAL CCDS CERTIFICATE AND REGISTRATION OF TITLE

Registration of title to CCDS in a name other than that of the Nominee will be permitted only if all Clearing Systems have closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or do in fact do so.

Thereupon, the Nominee (acting on the instructions of one or more of the Accountholders (as defined below)) may give notice to the Society of its intention to exchange the Global CCDS Certificate for definitive CCDS Certificates on or after the Exchange Date (as defined below). References herein to “**Accountholders**” are to each person (other than a Clearing System) who is for the time being shown in the records of a Clearing System as the holder of a particular number of CCDS (in which regard any certificate or other document issued by that Clearing System as to the number of CCDS standing to the account of any person shall be conclusive and binding for all purposes).

On or after the Exchange Date, the Nominee may surrender the Global CCDS Certificate to or to the order of the Registrar. In exchange for the Global CCDS Certificate, the Registrar will deliver, or procure the delivery of, definitive CCDS Certificates printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. On exchange of the Global CCDS Certificate, the Society will procure that it is cancelled and, if the Nominee so requests, returned to the Nominee together with any relevant definitive CCDS Certificates.

For these purposes, “**Exchange Date**” means a day specified in the notice requiring exchange falling not less than 10 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Registrar is located.

2. PAYMENTS

Payments due in respect of CCDS represented by the Global CCDS Certificate shall be made by the Registrar or the Principal Paying Agent to or to the order of the Nominee. A record of each payment made in respect of CCDS represented by the Global CCDS Certificate will be endorsed on the appropriate part of the schedule to the Global CCDS Certificate by or on behalf of the Registrar, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the CCDS.

Payment by the Registrar or the Principal Paying Agent to or to the order of the Nominee as aforesaid will discharge the obligations of the Society in respect of the relevant payment under the CCDS. Each Accountholder must look solely to its Clearing System for its share of each payment made to or to the order of the Nominee, and each Beneficial Owner (as defined in paragraph 4 below) who is not itself an Accountholder must look solely to the relevant Accountholder through which it holds its CCDS for its share of each payment made to such Accountholder.

3. TRANSFERS

Transfers of book-entry interests in the CCDS will be effected through the records of the Clearing Systems and their respective direct and indirect participants in accordance with their respective rules and procedures.

The Minimum Transfer Amount prevailing from time to time, as determined in accordance with Condition 2.2, shall apply *mutatis mutandis* to transfers of book-entry interests in the CCDS. Accordingly, a transfer of book-entry interests in the CCDS will only be effected by the Clearing Systems if such transfer is in respect of a whole number of CCDS equal to or greater than the Minimum Transfer Amount prevailing at the time of the transfer.

The CCDS will be transferable 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 Article 48 of EU Directive 2001/34/EC as amended] 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 and Beneficial Owners in substitution for despatch and service as required by Condition 14. Such notice shall be deemed to have been given on the date of delivery of the notice to the relevant Clearing Systems for such communication.

6. MEETINGS; MEMBERSHIP RIGHTS WHILST THE CCDS ARE HELD THROUGH CLEARING SYSTEMS

Save as permitted in paragraph 1 above, investors will hold their CCDS directly or indirectly through Accountholders with the Clearing Systems and will not themselves be entered on the CCDS Register as holder of the relevant CCDS. Instead, the holder entered on the CCDS Register for such CCDS shall be the Nominee and the relevant Accountholder's holding of interests in such CCDS will be recorded in the internal records of the relevant Clearing Systems.

This means that Accountholders and Beneficial Owners will not themselves be members of the Society and, accordingly, will not be entitled to vote at any general meeting of the members of the Society or in a postal ballot or electronic ballot or to any other similar membership rights. Instead, the members' rights attaching to the CCDS held through the Clearing Systems will be held by the Nominee. Such Nominee will be entered in the CCDS Register as the holder of such CCDS, and will be entitled to exercise the voting and other members' rights attributable to such CCDS. Each member of the Society has one vote at any general meeting of the members of the Society. Accordingly, the Nominee will be entitled to exercise one vote at any such meeting, regardless of the number of CCDS held by it (and regardless also of the size and number of other relevant investments or interests (if any) conferring membership rights which the Nominee may have in the Society).

Given the difficulty of casting the single vote at a general meeting of the members of the Society in a manner which reflects the views of all Beneficial Owners of CCDS and the insignificance of that vote in the context of all the votes which may be cast by members of the Society, it is expected that the Nominee will not exercise its vote insofar as it relates to its holding of CCDS.

At a separate meeting of CCDS holders only, the Nominee will have one vote per CCDS and will act on the instructions of one or more Accountholders (who in turn will act on the direct or indirect instructions of Beneficial Owners holding through such Accountholders) received by it through the Clearing Systems. The Agency Agreement contains provisions relating to the convening and conduct of such meetings of CCDS holders. Those provisions include arrangements pursuant to which a Beneficial Owner will be able (i) to attend any such meeting and cast the votes attributable to its CCDS or (ii) otherwise to direct (including by way of electronic consents) how the votes attributable to its CCDS shall be cast at such meeting. For these purposes, notwithstanding the provisions of Condition 12.4(a), the Nominee shall be entitled to appoint one or more persons as its proxy or proxies to attend, speak and, on a resolution, vote at a meeting of CCDS holders. Each proxy shall be appointed in respect of such number of CCDS

specified by the Nominee (provided that no two proxies can be appointed in respect of the same CCDS). The Agency Agreement also contains provisions for the passing of resolutions, without the need for a meeting of CCDS holders, by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) by or on behalf of CCDS holders holding in aggregate not less than three-quarters of the number of CCDS for the time being Outstanding.

As Accountholders and Beneficial Owners will not be members of the Society, they will also not be entitled to any Conversion Benefits (including any rights to windfall payments) arising on a demutualisation or merger of the Society. Any Conversion Benefits arising on a demutualisation or merger of the Society will belong instead to the Nominee, as the registered holder of the CCDS in the CCDS Register.

It is expected that the Nominee will, on or prior to the date of issue of the CCDS, irrevocably agree to assign to Coventry Building Society Charitable Foundation (or other charities nominated by Coventry Building Society Charitable Foundation) any Conversion Benefits.

7. 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 Beneficial Owner at the time of such breach or, as the case may be, at the Relevant Time (each a “**Relevant Person**”) shall (for the purpose only of bringing an action for such breach of contract or, as the case may be, claiming in the winding up or dissolution of the Society in accordance with Condition 4) acquire against the Society all those rights (“**Direct Rights**”) which such Relevant Person would have had if, at the time of the relevant breach of contract or, as the case may be, at the Relevant Time, such Relevant Person had been identified in the CCDS Register as the registered holder of such number of CCDS (the “**Underlying CCDS**”) as is equal to the number of CCDS which are credited to such Relevant Person's securities account with a Clearing System (or, as the case may be, with any Intermediary) at such time.

The Relevant Persons will acquire such Direct Rights only in the circumstances and for the purposes described in the preceding paragraph and for no other purpose. Direct Rights will be acquired automatically at the time of the relevant breach of contract or, as the case may be, at the Relevant Time, without the need for any further action on behalf of any person. The Society's obligation hereunder shall be a separate and independent obligation to each Relevant Person by reference to each Underlying CCDS

of such Relevant Person, and the Society agrees that a Relevant Person may assign such Direct Rights in whole or in part.

The records of the Clearing Systems and (subject to the following proviso) each Intermediary (as applicable) shall be conclusive evidence of the identity of the Relevant Persons and the number of Underlying CCDS credited to the securities account of each Relevant Person; provided that the records of an Intermediary shall be conclusive evidence of the identity of any Relevant Persons only if accompanied by records of (i) the Accountholder (and any other Intermediary) through which such Intermediary holds the relevant CCDS and (ii) the relevant Clearing System, which records when taken together evidence a chain of ownership linking the records of such Intermediary and the records of the relevant Clearing System. For these purposes, a statement issued by a relevant Clearing System and/or a relevant Intermediary (as applicable) stating the name of the Relevant Person to which the statement is issued and the number of Underlying CCDS credited to the securities account of such Relevant Person as at the opening of business on the first business day following the time of the relevant breach of contract or the Relevant Time (as the case may be), shall be conclusive evidence of the records of the relevant Clearing System or (subject to the foregoing proviso) such Intermediary (as the case may be) at the time of the relevant breach of contract or the Relevant Time (as applicable).

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 Beneficial Owners as if those Beneficial Owners had, at the vesting date, held in definitive form the number of CCDS corresponding to their book-entry interest in the CCDS at that time.

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