

IMPORTANT NOTICE

Sterling-denominated Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the "Perpetual Capital Securities") issued by Newcastle Building Society (the "Society")

The Society has undertaken an offering of the Perpetual Capital Securities on the terms set out in the attached offering circular dated 4 December 2024 (the "**Offering Circular**") produced by the Society. The offering, which has now concluded, was conducted on the basis of, and subject to, the provisions of the following letter:

This letter contains important information relating to restrictions with respect to the offer and sale of the Perpetual Capital Securities.

Prohibition on marketing and sales of the Perpetual Capital Securities to retail investors

1. The Perpetual Capital Securities discussed in the Offering Circular are complex financial instruments with high risks. They are not a suitable or appropriate investment for all investors, especially retail investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Perpetual Capital Securities. Potential investors in the Perpetual Capital Securities should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Perpetual Capital Securities (or any beneficial interests therein), including COBS (as defined below).
2.
 - (a) In the United Kingdom ("**UK**"), the Financial Conduct Authority ("**FCA**") Conduct of Business Sourcebook ("**COBS**") requires, in summary, that the Perpetual Capital Securities should not be offered or sold to retail clients (as defined in COBS 3.4 and each a "**retail client**") in the UK.
 - (b) NatWest Markets Plc as sole lead manager (the "**Sole Lead Manager**") and the Society are required to comply with COBS.
 - (c) By purchasing, or making or accepting an offer to purchase, any Perpetual Capital Securities (or a beneficial interest in such Perpetual Capital Securities) from the Society and/or the Sole Lead Manager, you represent, warrant, agree with and undertake to the Society and the Sole Lead Manager that:
 - (i) you are not a retail client in the UK; and
 - (ii) whether or not you are subject to COBS, you will (a) not sell or offer the Perpetual Capital Securities (or any beneficial interest therein) to retail clients in the UK; or (b) communicate (including the distribution of the Offering Circular) or approve an invitation or inducement to participate in, acquire or underwrite the Perpetual Capital Securities (or any beneficial interest therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the UK.
 - (d) In selling or offering the Perpetual Capital Securities or making or approving communications relating to the Perpetual Capital Securities you may not rely on the limited exemptions set out in COBS.
3. The obligations in paragraph 2 above are in addition to the need to comply at all times with all other applicable laws, regulations and regulatory guidance (whether inside or outside the UK or the European Economic Area) relating to the promotion, offering, distribution and/or sale of the Perpetual Capital Securities (or any beneficial interests therein), whether or not specifically mentioned in the Offering Circular, including (without limitation) any requirements under Directive 2014/65/EU (as amended, "**MiFID II**") or the FCA Handbook as to determining the appropriateness and/or suitability of an investment in the Perpetual Capital Securities (or any beneficial interests therein) for investors in any relevant jurisdiction.

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

You acknowledge that each of the Society and the Sole Lead Manager will rely upon the truth and accuracy of the representations, warranties, agreements and undertakings set forth herein and are entitled to rely upon this letter and are irrevocably authorised to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby. This letter is additional to, and shall not replace, the obligations set out in any pre-existing general engagement terms entered into between you and the Sole Lead Manager relating to the matters set out herein.

Capitalised but undefined terms used in this letter shall have the meaning given to them in the Offering Circular.

This document is not an offer to sell or an invitation to buy any Perpetual Capital Securities (or any beneficial interests therein).

Your offer or agreement to buy any Perpetual Capital Securities will constitute your acceptance of the terms of this letter and your confirmation that the representations and warranties made by you pursuant to this letter are accurate.

This letter and any non-contractual obligations arising out of or in connection with it are governed by English law. The courts of England have exclusive jurisdiction to settle any dispute arising out of or in connection with this letter (including a dispute relating to the existence or validity of this letter or any non-contractual obligations arising out of or in connection with this letter) or the consequences of its nullity. Notwithstanding the foregoing, the Sole Lead Manager may take proceedings relating to a dispute in any other jurisdiction. To the extent allowed by law, the Sole Lead Manager may take concurrent proceedings in any number of jurisdictions.

Should you require any further information, please do contact us.

Yours faithfully,

NatWest Markets Plc as Sole Lead Manager

cc: Newcastle Building Society

NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES OR ITS TERRITORIES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS OR OTHERWISE THAN TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED

*IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached document and you are advised to read this disclaimer carefully before reading, accessing or making any other use of the attached document. In reading, accessing or making any other use of the attached document you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from Newcastle Building Society (the "**Society**") or NatWest Markets Plc (the "**Sole Lead Manager**") as a result of such access.*

THE ATTACHED DOCUMENT (THE "**OFFERING CIRCULAR**") MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE PERPETUAL CAPITAL SECURITIES (THE "**PERPETUAL CAPITAL SECURITIES**") REFERENCED IN THE OFFERING CIRCULAR AND THE CORE CAPITAL DEFERRED SHARES INTO WHICH THEY MAY CONVERT UNDER THEIR TERMS MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" TO PERSONS OTHER THAN U.S. PERSONS AS DEFINED IN, AND AS PERMITTED BY, THE U.S. SECURITIES ACT OF 1933 (AS AMENDED, THE "**SECURITIES ACT**"). ANY FORWARDING, REDISTRIBUTION OR REPRODUCTION OF THE OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR THE SOLICITATION OF AN OFFER TO PURCHASE SECURITIES IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE PERPETUAL CAPITAL SECURITIES AND THE CORE CAPITAL DEFERRED SHARES INTO WHICH THEY MAY CONVERT UNDER THEIR TERMS 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, SOLD OR DELIVERED EXCEPT IN AN OFFSHORE TRANSACTION TO PERSONS OTHER THAN U.S. PERSONS IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Confirmation of your Representation: In order to be eligible to view the Offering Circular, you must comply with the following provisions. You have been granted access to the following document on the basis that, by accessing the Offering Circular, you shall be deemed to have confirmed to the Society and the Sole Lead Manager that:

- (1) (i) you are a person that is outside the United States (within the meaning of Regulation S under the Securities Act), (ii) you are not a U.S. person and/or acting on behalf of a U.S. person (within the meaning of Regulation S under the Securities Act), (iii) to the extent you purchase any Perpetual Capital Securities, you will be doing so pursuant to Regulation S under the Securities Act and (iv) you are not accessing the Offering Circular in or from the United States of America or its territories, its possessions and other areas subject to its jurisdiction; and
- (2) that you are either (a) a relevant person (as defined below) and not a retail client (as defined in part 3.4 of the Financial Conduct Authority Conduct of Business Sourcebook ("**COBS**")) if in the United Kingdom (the "**UK**") or (b) outside the UK.

In the United Kingdom, the attached document is directed only at: (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"); and (b) other persons to whom it may otherwise lawfully be communicated under the Order (all such persons together being referred to as "**relevant persons**"). Any investment or investment activity to which the document relates is available only in the United Kingdom to relevant persons and will be engaged in only with such persons.

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

You are granted access to this document on the condition that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located.

Prohibition on marketing and sales to retail investors: Manufacturer target market (UK MiFIR product governance) is eligible counterparties and professional clients only (all distribution channels). No key information document required by Regulation (EU) No 1286/2014 or that Regulation as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA") has been prepared as the Perpetual Capital Securities will not be made available to retail investors in the European Economic Area or in the United Kingdom. Furthermore, the Perpetual Capital Securities may not be offered or sold to any retail client (as defined in COBS 3.4).

Neither this electronic transmission nor the attached document constitutes or contains any offer to sell or invitation to subscribe or make commitments for or in respect of any securities in any jurisdiction where such an offer or invitation would be unlawful. This document has been accessed by you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Society nor the Sole Lead Manager, nor any affiliate of either of them or any person who controls any of the foregoing, nor any director, officer, employee or agent of any of the foregoing, accepts any liability or responsibility whatsoever in respect of any difference between this document transmitted to you in electronic format and the original version.

No representation or warranty, expressed or implied, is made or given by or on behalf of the Sole Lead Manager, nor any of its affiliates or any person who controls the Sole Lead Manager or any of its affiliates, nor any director, officer, employee or agent of any of the foregoing, as to the accuracy, completeness, verification, sufficiency or fairness of the information or opinions contained in the Offering Circular and such persons do not accept responsibility or liability for any such information or opinions.

OFFERING CIRCULAR dated 4 December 2024



Newcastle Building Society

(incorporated in England under the Building Societies Act 1986)

£40,000,000

Perpetual Contingent Convertible Additional Tier 1 Capital Securities

Issue price: 100.000 per cent.

Newcastle Building Society (the "**Society**") will issue £40,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the "**Perpetual Capital Securities**") on or about 6 December 2024 (the "**Issue Date**") at an issue price of 100.000 per cent. of their nominal amount.

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

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

The ISM is a market designated for professional investors. Perpetual Capital Securities admitted to trading on the ISM are not admitted to the Official List of the Financial Conduct Authority (the "FCA"). The London Stock Exchange has not approved or verified the contents of this Offering Circular. This Offering Circular comprises 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, in accordance with the conditions of issue of the Perpetual Capital Securities (the "**Conditions**", and references to a particularly numbered "**Condition**" shall be construed accordingly), on their outstanding nominal amount from (and including) the Issue Date at the applicable Interest Rate described below. Subject to cancellation as set out in the Conditions, interest shall be payable on the Perpetual Capital Securities semi-annually in arrear in equal instalments on 6 June and 6 December in each year (each an "**Interest Payment Date**"), commencing on 6 June 2025. For each Interest Period which commences prior to 6 June 2030 (the "**First Reset Date**"), the Interest Rate shall be 14.000 per cent. per annum. For each Interest Period which commences on or after the First Reset Date, the Interest Rate shall be the sum of: (a) the Benchmark Gilt Reset Reference Rate in relation to that period; and (b) 10.096 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 (as defined in the Conditions) available for paying interest or for other reasons required by the Capital Regulations (as defined in the Conditions).

If at any time any applicable CET1 Ratio (calculated on either an individual consolidated basis or any other Applicable Prudential Basis (as defined in the Conditions), and as further defined in the Conditions) of the Society falls below 7.00 per cent. (the "**Conversion Trigger**"), the Society will: (a) cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date (as defined in the Conditions) (whether or not such interest has become due for payment); (b) irrevocably (without the need for the consent of holders of the Perpetual Capital Securities (the "**Securityholders**")) write down the Perpetual Capital Securities by reducing the nominal amount of each Perpetual Capital Security to zero; and (c) (subject as provided in the Conditions) issue to each Securityholder such number of Core Capital Deferred Shares ("**CCDS**") as is equal to the aggregate nominal amount of that Securityholder's Perpetual Capital Securities divided by the prevailing Conversion Price (such write-down and issue of CCDS being referred to as a

"**Conversion**", and "**Converted**" being construed accordingly). Such cancellation of interest, write-down of the Perpetual Capital Securities and (subject as provided in the Conditions) issue of CCDS to Securityholders shall occur on the Conversion Date specified in the Conversion Notice (as defined in the Conditions). Once the nominal amount of a Perpetual Capital Security has been written down, the nominal amount will not be restored in any circumstances, including where the relevant Conversion Trigger ceases to continue.

The CCDS will be consolidated and form a single series with the CCDS (if any) of the Society which are outstanding on the Conversion Date. The indicative terms of, and other provisions relating to, the CCDS which the Society would expect to issue in the event of a Conversion are set out in the Annex to this Offering Circular. As at the date of this Offering Circular, no CCDS have been issued by the Society.

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

The Perpetual Capital Securities have no fixed repayment date. The Society may, subject as provided herein, elect to repay all, but not some only, of the Perpetual Capital Securities at their nominal amount together with accrued but unpaid interest thereon up to (but excluding) the date of repayment (excluding interest which has been cancelled in accordance with the Conditions): (i) on any date during a Par Call Period (as defined in the Conditions); or (ii) on any date if 75 per cent. or more of the aggregate nominal amount of the Perpetual Capital Securities originally issued (and, for this purpose, any Further Perpetual Capital Securities (as defined in the Conditions) issued pursuant to Condition 16(a) shall be deemed to have been originally issued) has been repaid or purchased and cancelled; or (iii) at any time following the occurrence of certain tax events described herein or in the event that the entire nominal amount of the Perpetual Capital Securities or any part thereof ceases (or would cease) to be part of the Society's Tier 1 Capital (as defined in the Conditions) (whether on an individual consolidated basis or any other Applicable Prudential Basis).

UK MiFIR professionals and ECPs-only/No UK/EU PRIIPs KID/FCA CoCo Restriction - In addition to the restrictions described in the section headed "*Prohibition on marketing and sales of Perpetual Capital Securities to retail investors*" below, pursuant to the FCA's Conduct of Business Sourcebook ("COBS**") the Perpetual Capital Securities are not intended to be offered, sold or otherwise made available, and should not be offered, sold or otherwise made available, to retail clients (as defined in COBS 3.4) in the United Kingdom. The Perpetual Capital Securities are generally not suitable for retail investors. The Perpetual Capital Securities are not intended to be offered, sold or otherwise made available, and should not be offered, sold or otherwise made available, to retail clients in the UK or to retail clients, as defined in MiFID II, in the European Economic Area (the "**EEA**"). Prospective investors are referred to the section headed "*Prohibition on marketing and sales of Perpetual Capital Securities to retail investors*" below for further information.**

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

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

The Perpetual Capital Securities will not be rated on issue.

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*".

Sole Lead Manager

NatWest Markets

IMPORTANT NOTICES

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 1 Cobalt Park Way, Wallsend, NE28 9EJ, United Kingdom) accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Society (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

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

No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not contained in this Offering Circular must not be relied upon as having been authorised by the Society or the Sole Lead Manager (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 and the CCDS into which they may convert under their terms have not been and will not be registered under the United States Securities Act of 1933 (the "**Securities Act**") or any other U.S. State securities laws and may not be offered or sold in the United States of America (the "**United States**" or "**U.S.**") or to, or for the account or 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 UK in circumstances where section 21(1) of the FSMA would not, if the Society was not an authorised person, apply to the Society.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Society or the Sole Lead Manager 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 Sole Lead Manager 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 the Sole Lead Manager 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 the Sole Lead Manager to any person to subscribe for or to purchase any Perpetual Capital Securities.

Neither the Sole Lead Manager nor any of its affiliates have authorised the whole or any part of this Offering Circular and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Offering Circular or any responsibility for the acts or omissions of the Society or any other person (other than the Sole Lead Manager and its affiliates) in connection with the issue and offering of the Perpetual Capital Securities. Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Perpetual Capital Security shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Society since the date of this Offering Circular.

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

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

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

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

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

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

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

1. it is not a retail client (as defined above) in the UK; and

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

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

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

FORWARD-LOOKING STATEMENTS

This Offering Circular includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Offering Circular and include, but are not limited to, statements regarding the intentions of the Society and beliefs or current expectations concerning, or scenario planning for, among other things, the business, results of operations, financial position and/or prospects of the Society.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the financial position and results of operations of the Group, and the development of the markets and the industries in which members of the Group operate, may differ materially from those described in, or suggested by, the forward-looking statements contained in this Offering Circular. In addition, even if the Group's results of operations and financial position, and the development of the markets and the industries in which the Group operates, are consistent with the forward-looking statements contained in this Offering Circular, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements. See "*Risk Factors*" below.

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 (including but not limited to, the effect or likelihood of cancellation of interest payments (in whole or in part) and of the occurrence of a Conversion Trigger for the Perpetual Capital Securities which results in loss absorption by investors), the merits and risks of investing in the Perpetual Capital Securities and any CCDS into which they may convert, the information contained or incorporated by reference in this Offering Circular or any applicable supplement and 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 any CCDS into which they may convert, and the impact such investment 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 and any CCDS into which they may convert, including where such potential investor's financial activities are principally denominated in a currency other than pounds sterling, and the possibility that interest payments (in whole or in part) could be cancelled, no distributions may be paid on any CCDS, and the entire investment in the Perpetual Capital Securities or any CCDS could be lost, including following the exercise by the UK resolution authorities of any recovery and resolution powers under the Banking Act 2009;
- (iv) understands thoroughly the terms of the Perpetual Capital Securities and any CCDS into which they may convert, such as the provisions governing interest cancellation or non-payment of distributions, repayment and purchase rights, and Conversion (including, in particular, calculation of each applicable CET1 Ratio, as well as under what circumstances a Conversion Trigger will occur), and be familiar with the behaviour of any relevant indices and financial markets and with the resolution regime applicable to the Society and the Group, including the possibility that the Perpetual Capital Securities or any CCDS into which they may convert may become subject to write down or conversion by the UK resolution authorities in certain circumstances;
- (v) is able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and
- (vi) understands the accounting, legal, regulatory and tax implications of a purchase, holding and disposal of an interest in the relevant Perpetual Capital Securities and any CCDS.

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 advisers or the appropriate regulators to determine the appropriate treatment of Perpetual Capital Securities under any applicable risk-based capital or similar rules.

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

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

Non-IAS UK Financial Measures

The Society presents certain key performance measures that are not defined under UK adopted international accounting standards ("**IAS UK**") but that it finds useful in analysing its results and that it believes are widely used by investors to monitor the results of banks and building societies generally. These measures (generally referred to as 'alternative performance measures') include underlying profit before tax, net interest margin, cost to income ratio, common equity tier 1 ratio and total capital ratio. Some of these measures are defined by, and calculated in compliance with, applicable banking regulations, but these regulations often provide the Society with certain discretion in making its calculations.

Because of the discretion that the Society and other banks or building societies have in defining these measures and calculating the reported amounts, care should be taken in comparing these various measures with similar measures used by other banks or building societies. These measures should not be used as a substitute for evaluating the performance of the Society based on its audited balance sheet and results of operations.

Rounding

Certain numerical data, financial information and market data in this Offering Circular has been rounded in accordance with commercial rounding. Unless otherwise indicated, percentage changes and ratios in the text and tables of this Offering Circular are calculated based on the underlying numbers as presented in this Offering Circular, i.e., after rounding of such underlying numbers, and then commercially rounded to a whole percentage or to one digit after the decimal point. In some instances, such rounded figures and percentages may not add up to 100 per cent. or to the totals or subtotals contained in this Offering Circular. Furthermore, totals and subtotals in tables may differ slightly from unrounded figures contained in this Offering Circular due to rounding in accordance with commercial rounding. A dash ("–") signifies that the relevant figure is not available or equal to zero, while a zero ("0") or nil signifies that the relevant figure has been rounded to zero.

Market and Industry Data

Unless the source is otherwise stated, the market and industry data in this Offering Circular constitutes the Society's estimates, using underlying data from independent third parties. Such data includes market research, consultant surveys, publicly available information, reports of governmental agencies and industry publications and surveys.

The Society confirms that all third-party data contained in this Offering Circular has been accurately reproduced and, so far as the Society is aware and able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Where third-party information has been used in this Offering Circular, the source of such information has been identified. While industry surveys, publications, consultant surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, the accuracy and completeness of such information is not guaranteed.

The Society has not independently verified any of the data obtained from third-party sources (whether identified in this Offering Circular by source or used as a basis for the Society's beliefs and estimates), or any of the assumptions underlying such data.

Certain Defined Terms and Conventions

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

- the "**Act**" are to the Building Societies Act 1986;

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

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

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

This Offering Circular may be used only for the purposes for which it has been published.

Websites

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

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OVERVIEW OF THE PERPETUAL CAPITAL SECURITIES

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

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

Issuer of the Perpetual Capital Securities:	Newcastle Building Society (the " Society ")
Society's Legal Entity Identifier (LEI):	549300T1JIP3LZ5TZ694
Description of the Perpetual Capital Securities:	£40,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the " Perpetual Capital Securities ") to be issued by the Society on 6 December 2024 (the " Issue Date ").
Sole Lead Manager:	NatWest Markets Plc
Registrar and Principal Paying Agent:	Citibank, N.A., London Branch
Issue Date:	6 December 2024
Status of the Perpetual Capital Securities:	The Perpetual Capital Securities will constitute direct, unsecured and subordinated investments in the Society (subordinated in the manner set out below) and, on a winding up or dissolution of the Society, rank <i>pari passu</i> and without any preference among themselves, and are subject to conversion as provided under " <i>Conversion</i> " below. No security or guarantee has been, or will at any time be, provided by the Society or any other person to the Securityholders in respect of their rights under the Perpetual Capital Securities.
Subordination of the Perpetual Capital Securities:	<p>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 in the Conditions)), the rights and claims of Securityholders in respect of their Perpetual Capital Securities (including claims for any damages awarded in respect thereof) shall, subject to applicable insolvency law, rank:</p> <ul style="list-style-type: none">(i) junior to:<ul style="list-style-type: none">(A) the claims of all creditors (including all subordinated creditors) and Shareholding Members (as regards the principal of and interest due on such Shareholding Members' Shares) of the Society, including, (without limitation) claims in respect of obligations of the Society which constitute Tier 2 Capital, but excluding claims in respect of Deferred Shares which are (or the claims in respect of which are) Parity Obligations or Junior Obligations; and

- (B) the claims of all Shareholding Members (as regards the principal of and interest due on such Shareholding Members' Shares) of the Society in respect of:
 - (1) (for so long as any of the same remain outstanding) the Existing PIBS; and
 - (2) any other Deferred Shares in the Society except for Deferred Shares which are (or the claims in respect of which are) Parity Obligations or Junior Obligations,
 - (claims preferred under this subparagraph (i) being, collectively, "**Senior Obligations**");
- (ii) *pari passu* among themselves and with any other claims ranking, or expressed by their terms to rank, *pari passu* with claims in respect of the Perpetual Capital Securities ("**Parity Obligations**"); and
- (iii) senior to all claims under any Core Capital Deferred Share of the Society and any other claims ranking, or expressed by their terms to rank, junior to the claims in respect of the Perpetual Capital Securities or any Parity Obligations ("**Junior Obligations**").

As used herein, "**Core Capital Deferred Share**", "**Deferred Share**", "**Share**" and "**Shareholding Member**" have the respective meanings ascribed thereto in the Rules, and "**Existing PIBS**" has the meaning given in the Conditions.

Claim on a winding up or dissolution:

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

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

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

Solvency Test:

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

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

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

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

Conversion:

If, at any time, the Society, the Regulator or any agent appointed for such purpose by the Regulator determines that any applicable CET1 Ratio has fallen below 7.00 per cent. (the "**Conversion Trigger**"), the Society shall immediately notify the Regulator (unless the relevant determination was made by the Regulator or its agent) and promptly notify the Securityholders (in accordance with Condition 17) of the occurrence of the Conversion Trigger and, without delay and by no later than one month (or such shorter period as the Regulator may require) following the determination that the Conversion Trigger has occurred: (a) cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date (whether or not such interest has become due for payment); (b) irrevocably (without the need for the consent of Securityholders) write down the Perpetual Capital Securities by reducing the nominal amount of each Perpetual Capital Security to zero; and (c) (subject as provided in Condition 8) issue to each Securityholder such number of CCDS as is equal to the aggregate nominal amount of that Securityholder's Perpetual Capital Securities divided by the prevailing Conversion Price (such write-down under (b) and issue of CCDS under (c) being referred to as a "**Conversion**", and "**Converted**" being construed accordingly).

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

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

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

Core Capital Deferred Shares (CCDS):

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

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

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

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

- in Part I: the indicative Overview of Certain Provisions of the Rules of the Society and the Act relating to the Core Capital Deferred Shares;
- in Part II: the indicative Conditions of Issue of the Core Capital Deferred Shares; and
- in Part III: the indicative Overview of Provisions Relating to the CCDS while represented by the Global CCDS Certificate.

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

Repayment, Substitution, Variation and Purchase:

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

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

Society's Option to Repay

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

Optional Repayment for Tax Reasons or Regulatory Reasons

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

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

Purchases

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

Substitution and Variation

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

Conditions to Repayment, Substitution, Variation and Purchase

Any repayment, substitution, variation or purchase of the Perpetual Capital Securities by the Society (or, in the case of a purchase of the Perpetual Capital Securities, any of the Society's Subsidiaries) is subject to:

- (i) (A) the Society providing such notice to the Regulator and obtaining such approval, permission or consent from the Regulator as is required under the then prevailing Capital Regulations and (B) the Society obtaining such other approval, permission or consent (if any) as is then required under the laws and regulations applicable to deferred shares of the Society;
- (ii) in the case of any repayment or purchase, the Society having demonstrated to the satisfaction of the Regulator that either: (A) the Society has (or by no later than the time of settlement of such repayment or purchase will have) replaced the Perpetual Capital Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Society; or (B) the own funds and eligible

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

- (iii) in respect of a repayment or purchase prior to the fifth anniversary of the Reference Date, (A) in the case of repayment upon the occurrence of a Tax Event, the Society having demonstrated to the satisfaction of the Regulator that (1) the change in tax treatment is material and (2) the relevant Tax Law Change was not reasonably foreseeable as at the Reference Date, or (B) in the case of repayment upon the occurrence of a Regulatory Event, the Society having demonstrated to the satisfaction of the Regulator that the change (or pending change) in the regulatory classification of the Perpetual Capital Securities is sufficiently certain and was not reasonably foreseeable as at the Reference Date, or (C) otherwise, either (1) in the case of any repayment or purchase, the Society having demonstrated to the satisfaction of the Regulator that the Society has (or by no later than the time of settlement of such repayment or purchase will have) replaced the Perpetual Capital Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Society, and the Regulator having permitted such action on the basis of the determination that it would be beneficial from a prudential point of view and justified by exceptional circumstances or (2) in respect of any purchase only (and subject to the Society or the relevant Subsidiary then being permitted to conduct market-making activity under the Act), the Society (or the relevant Subsidiary) having purchased the Perpetual Capital Securities for market-making purposes,

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

Impact of Solvency Test and Conversion Trigger on Repayment

Notwithstanding any other provision of the Conditions:

- (x) if the Society has elected to repay the Perpetual Capital Securities but the Solvency Test is not satisfied in respect of the relevant payment on the date scheduled for repayment, the relevant repayment notice shall be automatically rescinded and shall be of no force and effect and, accordingly, no repayment of the nominal amount of the Perpetual Capital Securities or any interest thereon will be due and payable on the scheduled repayment date, and the

Perpetual Capital Securities will continue to remain outstanding on the same basis as if no repayment notice had been given; and

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

Further, if the Society has elected to repay, substitute or vary the terms of the Perpetual Capital Securities or if the Society or any of its Subsidiaries has entered into an agreement to purchase any Perpetual Capital Securities but, prior to (as the case may be) the repayment of the nominal amount, the substitution of the Perpetual Capital Securities, the variation of the terms of the Perpetual Capital Securities or the settlement of the purchase of the Perpetual Capital Securities, a Conversion Trigger occurs, the relevant repayment, substitution or variation notice or, as the case may be (and as acknowledged and agreed by the relevant Securityholder by virtue of its holding of any Perpetual Capital Security), the relevant purchase agreement shall be automatically rescinded and shall be of no force and effect, no repayment of the nominal amount of the Perpetual Capital Securities or any interest thereon will be due and payable on the scheduled repayment date, no substitution or variation will be effected and no purchase shall be made, as applicable, and, instead, a Conversion shall occur in respect of the Perpetual Capital Securities as described in "*Conversion*" above.

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

Interest:

The Perpetual Capital Securities will bear interest on their outstanding nominal amount from (and including) the Issue Date, in accordance with the provisions of Condition 5:

- (i) for each Interest Period which commences prior to the First Reset Date, at the Initial Interest Rate of 14.000 per cent. per annum; and
- (ii) for each Interest Period which commences on or after the First Reset Date, at the applicable Reset Interest Rate, as calculated by the Principal Paying Agent.

"Reset Interest Rate" means, in relation to a Reset Period, the sum of:
(a) the Benchmark Gilt Reset Reference Rate in relation to that Reset Period; and (b) the Margin of 10.096 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 (subject as provided in Condition 9.5) each Interest Payment Date as provided in Condition 5.

Interest Payment Dates:

6 June and 6 December in each year, starting on (and including) 6 June 2025.

Interest Cancellation:

Optional Cancellation of Interest

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

Mandatory Cancellation of Interest

- (i) The Society shall cancel any interest payment, in whole or in part, if so directed by the Regulator.
- (ii) To the extent required under then prevailing Capital Regulations, the Society shall not pay any interest payment otherwise due on any date if and to the extent that the amount of such interest payment otherwise due (together with any Additional Amount payable thereon pursuant to Condition 10, if applicable), together with any interest payments or distributions which have been paid or made or which are required to be paid or made during the then current Financial Year on the Perpetual Capital Securities and on other own funds items (but excluding any such interest payments or other distributions which (i) are not required to be made out of Distributable Items or (ii) have already been provided for, by way of deduction, in the calculation of Distributable Items), shall, in aggregate, exceed the amount of Distributable Items of the Society as at such payment date.
- (iii) To the extent required under then prevailing Capital Regulations, the Society shall not pay any interest payment otherwise due on any date, and the relevant payment will be cancelled and will not be made, if and to the extent that payment of such interest payment (together with any Additional Amounts payable thereon pursuant to Condition 10, if applicable), when aggregated together with the amounts of any distributions of the kind referred to in rule 4.3(2) of Chapter 4 (*Capital Conservation Measures*) of the Part of the PRA Rulebook entitled "Capital Buffers" (as the same may be amended or replaced from time to time) and/or referred to in any other applicable provisions of the Capital Regulations which require a maximum distributable amount to be calculated if the Society is failing to meet any relevant requirement or any buffer relating to any such requirement (in each case to the extent then applicable to the Society), would cause any Maximum Distributable Amount (if any) then applicable to the Society to be exceeded.

"Distributable Items" means, in respect of any interest payment, those profits and reserves (if any) of the Society which are available, in

accordance with applicable law and regulation (including the then-prevailing Capital Regulations) for the time being, for payment of such interest payment (on the basis that the Perpetual Capital Securities are intended to qualify as Additional Tier 1 Capital).

As at the date of this Offering Circular, Article 4(1)(128) of the Capital Requirements Regulation provides as follows: "distributable items" means the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose, before distributions to holders of own funds instruments, less any losses brought forward, any profits which are non-distributable pursuant to national law or the institution's by-laws and any sums placed in non-distributable reserves in accordance with the law of the United Kingdom, or any part of it, or of a third country or the statutes of the institution, in each case with respect to the specific category of own funds instruments to which the law of the United Kingdom, or any part of it, or of a third country, institutions' by-laws, or statutes relate; such profits, losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts'.

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

See further the risk factor entitled *"The Capital Regulations provide for capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Society from making interest payments on the Perpetual Capital Securities in certain circumstances, in which case the Society will automatically cancel such interest payments"* in this Offering Circular.

Consequences of Interest Cancellation

Any interest payment (or part thereof) not paid on any relevant payment date by reason of Condition 4.4, 6.1, 6.2 or 8 shall be cancelled and shall not accumulate and will not become due or payable at any time thereafter. Non-payment of any interest payment (or part thereof) in accordance with any of Condition 4.4, 6.1, 6.2 or 8 will not constitute an event of default by the Society for any purpose, and the Securityholders shall have no right thereto whether in a winding up or dissolution of the Society or otherwise. The Society may use such cancelled amounts of interest without restriction and the cancellation of such interest amounts will neither impose any restrictions on the Society nor prevent or restrict the Society from declaring or making any distributions or interest payments on any of its shares or other instruments or obligations.

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

Enforcement:

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

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

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

See also "*Conversion*", "*Repayment, Substitution, Variation and Purchase*", "*Claim on a winding up or dissolution*" and "*Interest Cancellation*" above.

Additional Amounts:

All payments in respect of the Perpetual Capital Securities shall be made free and clear of, and without withholding or deduction for, or on account of, any Taxes imposed, levied, collected, withheld or assessed by or on behalf of any Relevant Tax Jurisdiction (as defined in Condition 10), unless such withholding or deduction is required by law.

If any such withholding or deduction for or on account of any Taxes is required by law, additional amounts will be payable by the Society in respect of payments of interest (but not of principal or any other amount) subject to certain exceptions as are more fully described in Condition 10 of "*Conditions of Issue of the Perpetual Capital Securities*". See also "*Repayment, Substitution, Variation and Purchase – Optional Repayment for Tax Reasons or Regulatory Reasons*" above.

Form:

The Perpetual Capital Securities will be initially 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.
Acknowledgement of Bail-in Power:	As further provided in Condition 19, notwithstanding and to the exclusion of any other term of the Perpetual Capital Securities or any other agreements, arrangements or understandings between the Society and any Securityholder (or any person holding any interest in any Perpetual Capital Security), by its acquisition of any Perpetual Capital Security (or any interest therein), each Securityholder, and each holder of a beneficial interest in any Perpetual Capital Security, will acknowledge and accept that the Amounts Due under the Perpetual Capital Securities may be subject to the exercise of the Bail-in Power by the Resolution Authority. See Condition 19 for details.
Ratings:	The Perpetual Capital Securities will not be rated on issue.
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:	<p>Condition 13 contains provisions applicable to the Perpetual Capital Securities upon an amalgamation by the Society with another building society under section 93 of the Act, a transfer of all or substantially all of its engagements to another building society under section 94 of the Act or a transfer by the Society of the whole of its business in accordance with section 97 of the Act (including, where relevant, as amended pursuant to an order made under section 3 of the Mutual Societies Transfers Act) to a company.</p> <p>Those provisions enable (in the context of such amalgamation or transfer only, and subject to certain conditions and restrictions) certain amendments to be made to the terms of the Perpetual Capital Securities without the consent of the Securityholders, or the Securityholders may receive, in place of their Perpetual Capital Securities, new securities issued by the Successor Entity or, where applicable, its Qualifying Parent (each as defined in Condition 13). Such provisions could potentially result in amendments to (<i>inter alia</i>) 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.</p>
Selling Restrictions:	<p>The United States (Regulation S, Category 2), the United Kingdom, the EEA and Italy (see below).</p> <p>The Perpetual Capital Securities and the CCDS into which they may convert under their terms have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold in 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</p>

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 UK in circumstances where section 21(1) of the FSMA would not, if the Society was not an authorised person, apply to the Society.

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

UK MiFIR Product Governance:

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

EU PRIIPs Regulation/UK PRIIPs Regulation

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

FCA CoCo Restriction:

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

Use of Proceeds:

The net proceeds of the issue of the Perpetual Capital Securities will be used by the Society to strengthen its regulatory capital base 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 or the persons shown in the records of the Clearing Systems (such persons, subject as described herein, the "**Accountholders**"). An Accountholder (and an investor holding interests in the Perpetual Capital Securities via an Accountholder) will not be a member of the Society by virtue of its

investment in the Perpetual Capital Securities and (without prejudice to any rights or obligations that such person may have as a member of the Society in some other capacity) will be only indirectly subject to the Rules, the Memorandum and the Act with respect to its holding of Perpetual Capital Securities in the manner provided above. The persons shown in the records of the Clearing Systems (other than a Clearing System) shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of that Clearing Systems.

ISIN: XS2925943305

Common Code: 292594330

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

RISK FACTORS

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

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

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

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

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

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

Words and expressions defined in "Conditions of Issue of the Perpetual Capital Securities" (or, where applicable in the section "Factors which are material for the purpose of assessing the market risks associated with CCDS, in the event that any are issued", as defined in "Conditions of Issue of Core Capital Deferred Shares") shall have the same meanings in this section.

FACTORS THAT MAY AFFECT THE SOCIETY'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE PERPETUAL CAPITAL SECURITIES

Risks related to the Society's business, financial condition and financial performance

The Group is subject to risks arising from macro-economic conditions in the UK or globally

The Group's business is directly and indirectly subject to inherent risks arising from macro-economic conditions in the UK. In particular, levels of retail borrowing are heavily dependent on consumer confidence, the UK property and mortgage market, wage and employment trends, the level of inflation, including energy price inflation, adverse cost of living, customer demographics, market interest rates and the broader state of the UK economy.

As the Group's customers are predominantly based in the UK, it will be significantly exposed to the condition of the UK economy. In particular, factors such as UK house prices, levels of employment, inflation, interest rates and change in consumers' disposable income can each have a material impact on customers. Should macro-economic conditions in the UK deteriorate or should there be uncertainty and/or volatility in relation to these factors, this could adversely impact the Group's business, results of operations, financial condition and prospects.

The Group's operations are focused in its core regions in the UK, including Scotland. These operations could be adversely affected by a lack of legal harmonisation across the UK, including through the further devolution of powers to the Scottish Parliament. For example, differences in regulatory regimes or differing tax legislation between Scotland and England may result in additional compliance and other costs for the Group or adversely impact the financial performance and prospects of its customers. Following a pro-independence majority in the Scottish parliamentary elections in May 2021, a referendum on Scottish independence which results in Scotland leaving the UK may exacerbate these issues and impact the Group's associated costs, business, results of operations, financial condition and prospects.

In addition, changes in global economic conditions or circumstances (in particular in the Eurozone) may have secondary consequences that adversely impact the Group's results of operations and financial condition.

The evolution of the geopolitical environment including the conflicts in Ukraine and the Middle East, adverse changes in global growth, a further slowdown in the UK's principal export markets and continued uncertainties around the ongoing impact of the UK's withdrawal from the European Union (the "EU") may affect the future performance of the UK economy. This could subsequently affect the banking industry and may have a material impact on the business performance of the Group.

The extent to which any individual event or a combination of these events will have an impact on the performance of the economy will evolve over the medium term.

The historical results of operations and financial condition of the Group have been, and future results of operations and financial condition are likely to continue to be, affected by these factors which, should they have an adverse effect on consumer confidence, spending or demand for credit, could have a material adverse effect on the Group's business, capital position, financial condition, results of operations and prospects.

The Group's results may be adversely affected by the impacts of inflation and cost of living pressures

A widespread and rapid increase in the cost of living across the UK has the potential to significantly impact the short- to medium-term performance of the Group's credit exposures. The Group considers that an environment with high inflation, a lag in wage growth and rising costs for business and retail customers alike (including the increasing pressure this places on customers' resilience and debt affordability) could have an adverse effect on the Group's results, business, operations and financial condition.

The Group's customers and business activities are predominantly based in the UK. Its operating results, financial performance and prospects are largely driven by the UK residential mortgage and savings markets, which in turn are driven by the prevailing economic conditions in the UK and the economic confidence of borrowers and savers. Base rate increases by the Bank of England since November 2021, concerns over energy and commodity prices, and the effects of higher inflation will continue to have an impact on household incomes and all of these factors have cumulatively resulted in a significant level of uncertainty in the Group's operating environment and market conditions.

Such market volatility could result in reduced demand for the Group's products, resulting in a material adverse impact on the Group's business growth, and also lead to existing customers being unable to meet their financial obligations, thereby increasing customer defaults, which in turn could lead to material arrears, credit losses and impairments. There is also a risk to the Group's portfolio growth aspirations should consumer confidence deteriorate, or affordability pressures heighten, which could negatively impact the Group's performance.

Although the Group is working to support customers with increases in the cost of living, additional capital may be required by the Group to absorb the heightened levels of credit risk and any increase in impairment levels over time as a result of

the current cost of living crisis, which could have a material adverse impact on the Group's business and financial condition.

Concentration of credit risk could increase the Society's potential for significant losses

Substantially all of the Group's assets and business is related to customers in the UK. The UK residential mortgage market performance may also be subject to concentration risks within certain regions as each geographic region within the UK has different economic features and prospects. Any downturn in a local economy or particular industry may adversely affect future regional employment levels and consequently the repayment ability of borrowers in respect of mortgages or other loans in a region that relies to a greater extent on that industry. In the event of adverse economic conditions, including interest rates and levels of unemployment, in regions within the UK where the Group has significant business or assets, concentrations of credit risk could cause it to experience greater losses than some competitors.

The Group cannot predict when or where such regional economic declines may occur or to what extent or for how long such conditions may continue.

In addition, any natural disasters or widespread health crises or the fear of such crises in a particular region may weaken economic conditions and/or reduce the value of affected mortgaged properties and/or negatively impact the ability of affected borrowers to make timely payments on mortgage loans. This may result in a loss being incurred upon the sale of the property and/or otherwise affect receipts on mortgage loans.

Borrowers' ability to make payments in respect of buy-to-let loans is likely to depend on the borrowers' ability to let the relevant properties on appropriate terms. This may be affected by the condition of the private residential rental market in the UK. The condition of the market will influence both the ability of borrowers to find tenants and the level of rental income which may be achieved in letting. There have been various tax-related changes to UK legislation in recent years which may affect the ability of borrowers to repay their buy-to-let loans due to the increased tax costs associated with buy-to-let mortgages. There has also been the introduction of energy efficiency regulations related to the energy performance of relevant domestic rental property. There may also be further legislative changes in the future, such as broader rent control or proposals for a fairer private residential rental sector, which may impact individual borrowers of buy-to-let loans to meet their obligations under those loans which may in turn adversely affect the ability of the Society to make payments on the Perpetual Capital Securities.

The Group will continue to be adversely affected by the economic and social impact of UK Government and Bank of England policies

The outlook for the UK economy is uncertain, particularly in the short- and medium-term and geopolitical tensions, prolonged inflation and higher interest rate risks may lead to increased market volatility and economic uncertainty for the Group and its customers.

Interest rates, which are impacted by factors outside of the Group's control, including the fiscal and monetary policies of governments and central banks, can adversely affect cost and availability of funding, impairment levels and net interest income and margins. If the Group is unable to manage its exposure to interest rate volatility, whether through hedging, product pricing, monitoring of borrower credit quality or other means, such volatility could have a material adverse effect on its business, financial condition, results of operations and prospects.

After more than a decade of an accommodative monetary policy of ultra-low interest rates and quantitative easing to support the recovery, the UK is going through a period of tightening policy. The Bank of England has to balance the risks related to higher interest rates combined with quantitative easing to bring inflation under control without derailing further economic recovery and this has seen the Bank of England increase interest rates from historical lows for the UK. At the date of this Offering Circular, the Bank of England's base rate is 4.75 per cent., having been raised a significant number of times from 0.10 per cent in November 2021 to a high of 5.25 per cent. in August 2023 and subsequently reduced by 0.25 per cent. in August 2024 and again in November 2024.

In addition, a cut in interest rates (in particular the Bank of England base rate) and any subsequent period of very low interest rates may have the effect of reducing the net interest margin of the Society, and so adversely impacting the

profitability of the Society. If these circumstances prevail for a significant period of time, this may have an impact on the Society's results of operations, financial condition and prospects.

Typically, it takes 18 to 24 months for higher rates to impact the economy as changes in the Bank of England's base rate do not affect economic activity directly. Instead, the effect on the real economy (households and firms) comes via their impact on four channels: market interest rates, asset prices, expectations/confidence and the exchange rate. These changes in financial conditions and economic sentiment then affect the real economy. For example, higher longer-term rates raise household and business borrowing costs, which weaken consumer spending, business investment and residential investment, while a stronger pound boosts imports and reduces exports.

Some channels are currently very responsive to changes in interest rates, such as new housing activity. Higher interest rates have a much slower influence on outstanding debt. Floating-rate mortgages accounted for 71 per cent. of all mortgages in 2012 but that is now markedly different. In 2023, 89 per cent. of gross lending in the mortgage market was on a fixed rate (with five year fixed rate accounting for just over half), followed by base rate trackers which accounted for 8.5 per cent. (*source: Mortgage Clarity: 2023 total gross lending*), indicating borrowers have tended to lock in for longer terms than previously seen. Therefore, the impact on homeowners refinancing will be staggered. Any increase in interest rates, without a comparable increase in customer income or business revenues and profits, could lead to an increase in default rates among customers who can no longer afford their repayments, in turn leading to increased impairment charges and lower profitability for the Group.

Interest rates also affect the cost and availability of the principal sources of the Group's funding, which is largely provided by customer deposits supported by a small amount of wholesale market funding. A sustained low interest rate environment reduces the incentives for consumers to save. However, higher interest rates in response to increased inflationary pressures may result in customers increasing their deposit balances in higher rate products, which could result in increased interest expense for the Group.

Despite central government support schemes (such as furlough and payment deferral schemes) tapering through 2021 and, more recently, the introduction of the 'Mortgage Charter' in 2023 (being a set of commitments signed by the UK Government, the FCA and the Society (amongst others) which introduces extra measures of support for those experiencing mortgage payment difficulties), the pressure of sustained inflationary costs and increased mortgage interest rates experienced through 2022, 2023 and into 2024 could continue to have adverse effects on household disposable income. There remains a risk that the additional cost associated with the maturity of fixed rate mortgage terms, the transition to higher interest rates from historically low rates over a sustained period, coupled with sustained inflationary costs which are not matched by wage growth, could have the cumulative effect of placing increased pressure on the ability of households to maintain monthly mortgage payments.

These pressures on households may lead to an increase in arrears in the Group's residential mortgage book, and an associated increase in retail impairment. There can be no assurance that the Group will not have to further increase its provisions for loan losses in the future as a result of increases in non-performing loans and/or for other reasons beyond its control. Material increases in the Group's provisions for loan losses and write-offs/charge-offs could have an adverse effect on the Group's operating results, financial condition and prospects.

The Group's (in particular, the Society and Newcastle Strategic Solutions Limited ("**NSSL**")) operating results, financial condition and prospects, may also be adversely impacted, directly or indirectly from the Society's support for the Mortgage Charter or from any future widening of regulatory or government intervention measures, affecting it and its affected customers, such as, but not restricted to, introduction of codes of conduct or rules in respect of savings or mortgage rates, transitional measures regarding climate change, measures impacting customer behaviour or the private rental market or any other measures that could negatively impact the business models of the Group (in particular, of the Society or NSSL).

Additionally, the Society's support of the Mortgage Charter and associated forbearance options available to borrowers thereunder (such as temporarily switching to interest only payments or extension of a mortgage term to reduce monthly repayments), which could fall outside of the Society's original loan underwriting approval, may delay or mask underlying credit performance which could ultimately have a negative impact the Group's operating results, financial condition and prospects.

The Society will be subject to risks related to UK house prices

The Society's primary activity is providing banking services to retail customers, including mortgage lending in the UK secured against residential property. The value of that security is influenced by UK house prices. A substantial proportion of the Group's net interest income is derived from interest paid on its mortgage portfolio.

Any deterioration in the quality of the Society's mortgage portfolio could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Historically, downturns in the UK economy have had a negative effect on the UK housing market. A fall in property prices could result in borrowers having insufficient equity to refinance their mortgage loans or being unable to sell the mortgaged property at a price sufficient to repay the amounts outstanding on the mortgage loan, which could lead to an increase in customer defaults. Increased defaults could lead to higher impairment provisions and losses being incurred by the Society. Higher impairment provisions could reduce its capital and its ability to engage in lending and other income-generating activities. As a result, any decline in house prices could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

In addition, a significant increase in house prices could have a negative impact on the Society by reducing the affordability of homes for first-time buyers or those looking to purchase more expensive properties and, if such increases were to result in a decrease in the number of customers that could afford to purchase houses, a reduction in demand for new mortgages.

Sustained volatility in UK house prices could also discourage potential homebuyers from committing to a purchase, thereby limiting the Society's ability to grow its mortgage portfolio in the UK.

Borrowers of buy-to-let mortgages have benefited in recent years from a combination of low interest rates, rising house prices and increasing rents. The current interest rate environment has placed pressure on the buy-to-let market with landlords less able to meet regulatory affordability hurdles for the increased interest payments required for new mortgages. This may lead to a reduction in buy-to-let income for the Group but may also lead to a decrease in asset quality as investors look to purchase lower quality assets with better returns, but with a lower quality of tenant. If rental rates were to decrease or remain stagnant, interest rates were to increase, further tax changes were to reduce the post-tax return on buy-to-let investments and/or the economy were to weaken and place pressure on employment, consumer incomes and/or house prices, the credit performance of the Society's buy-to-let mortgage book could deteriorate, which in turn could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group is exposed to risks relating to the supply and affordability of property in the UK

The Society's owner-occupied and buy-to-let mortgage lending is and will be dependent on a number of factors related to the supply and affordability of property in the UK.

The Prudential Regulation Authority (the "PRA") rules and the FCA guidance limit the volume of new mortgage lending for owner-occupied housing for loans with a loan-to-income ratio of over 4.5 times to no more than 15 per cent. of new loans. For the Society to maintain and grow its mortgage portfolio, the prices of new and existing properties must be at levels, relative to the income of purchasers, to allow them to borrow within the parameters of these regulatory restrictions on lending. If house prices are at too high a multiple of customer income, whether as a result of rising house prices and/or low customer income growth, potential customers will be unable to borrow, and the supply of mortgages will decrease.

The Society's owner-occupied mortgage lending requires a supply of newly built or developed property coming to the market that relies on mortgage lending for financing, as well as transaction volumes within the market for existing property being at a sufficiently high level to support a profitable level of owner-occupied mortgage lending. A decrease in housing transaction volumes could lead to a reduction in demand for owner-occupied mortgages and a fall in related mortgage revenues, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Average house prices in the UK have generally been on an upward trend since February 2009 and, in particular, surged during the Government's stamp duty holiday in 2020 and 2021. However, if UK average house prices were to follow a

falling trend or if house prices in a number of UK regions that the Society has more significant exposure follow a falling trend, this may result in an increase in the Society's residential mortgage loan impairment charges as the value of the security underlying its mortgage loans is eroded.

Higher impairment charges could reduce the Group's profitability, capital and its ability to engage in lending and other income generating activities and, therefore, could have a material adverse effect on the Group's business and potentially on its ability to implement its medium-term growth strategy.

The Group is exposed to the risk that customers who have interest-only owner-occupied mortgage loans are unable to repay their loans in full at maturity

The Society provides mortgages to customers to enable them to purchase property for owner occupation. Such mortgages may be provided on a capital repayment basis, where the loan is repaid during its life, or on an interest-only basis, in which case the customer pays interest during the term of the mortgage loan with the principal balance being required to be repaid in full at maturity. In respect of owner-occupied interest-only mortgage customers, assessments of capital repayment strategies may be incomplete or out-of-date and, consequently, the Group may lack information to accurately evaluate the related repayment risk. As a result, it may have reduced visibility of future repayment issues in respect of its interest-only residential mortgages, which could limit the Group's ability to estimate and establish provisions to cover exposures resulting from these mortgages.

While property sale is an acceptable method of repayment for buy-to-let mortgages, owner-occupied mortgage customers taking out interest-only mortgages are required by regulation to have capital repayment strategies. Where such repayment strategies are inadequate or have not been executed as planned, the Group is exposed to the risk that the outstanding principal balance on interest-only loans for owner-occupied mortgages is not repaid in full at the contractual maturity date. The Group provides a variety of solutions to support customers in such instances, but these solutions may not always result in customers being able to repay their loans or to continue to service the interest payments where the capital sum remains outstanding. Where the solutions are unsuccessful there may be increased impairment charges on the Society's owner-occupied mortgage portfolio which could have a material adverse effect on its profitability and, therefore, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. The risk increases if, at the maturity of the loan, the customer is no longer in paid employment and is relying on reduced sources of income, such as pension income or unemployment benefits, to continue to meet the loan interest payments and agreed capital repayments.

The Group faces risks associated with the implementation of its medium-term growth strategy

Risks associated with the Society's strategy to drive growth in its loan portfolio and deposit base

The Group's operating environment is expected to remain highly competitive, and further increases in competition would increase the level of business risk for the Group. A significant reduction in the demand for the Group's products and services could negatively impact the Group's business and financial condition.

Factors such as the entry of new participants, surplus liquidity from the ring-fencing of retail banks, the impact of both Covid-19 and the cost-of-living crisis and new technological developments have led to increased market volatility in recent years and may have an impact on the ability of the Group to maintain or grow its market share. A high interest rate environment may also reduce demand for mortgages generally, as individuals and business customers may be less likely or less able to borrow when interest rates are high.

Mortgage rates have risen significantly since September 2022, leading to a drop in market size in 2023. While the market has stabilised in 2024, market size still remains below averages in recent years across both residential and buy-to-let lending. Negative house price inflation exhibited since the mini-budget delivered by the UK Government in September 2022 has also slightly reduced the availability of mortgages for borrowers with higher loan-to-value ratios.

The activities of challenger banks and fintech firms, as well as rapidly accelerating digital transformation of direct competitors, continues to gather momentum which could increase the risk of the Society failing to attract depositors and borrowers. The Society is actively pursuing a strategy of product and service differentiation across both its assets and

liabilities to mitigate the impact of increased price competition across retail markets. However, there can be no assurance that the Society will be able to continue to attract the necessary retail and wholesale funding, and volumes of mortgage originations, required to maintain and grow its business.

In seeking to grow its mortgage book, the Society is susceptible to the risk of reduced asset quality and increased impairment losses in its customer loan portfolio due to it broadening its target market or loosening its underwriting or lending criteria in order to attract additional customers, or applying a broader interpretation of existing underwriting or lending criteria. The Society is also subject to the risk of increased competition, including competition based on price, in seeking to grow its customer loan portfolio, which could adversely affect the Group's net interest margin and returns. Furthermore, banks and building societies seeking growth through increased lending volumes may also incur higher impairments and increased conduct risks, in particular those relating to the mis-selling of products or lending that is deemed irresponsible and/or services that are either poorly matched with, or superfluous to, customer needs. If the Society fails to manage these risks adequately, it could result in legal or regulatory action against the Society, reputational damage to its brand and adverse impacts on the implementation of its medium-term growth strategy.

The Society's continued ability to maintain and grow its customer loan portfolio depends on continued access to customer deposits and other sources of funding in quantities sufficient to finance and refinance the portfolio at costs that the Group considers to be commercially acceptable. A key component of the Group's medium-term growth strategy is to grow its retail and business deposits and diversify its wholesale market funding in order to fund the growth of its business and maintain the loans-to-customer-deposits ratio ("**LDR**") at its targeted level. Access to customer deposits is subject to competition and market factors that are outside of the Group's control, and accordingly it may need to increase the interest rates it offers to customers in order to attract deposits, which may result in increased interest expense, reduced net interest income and reduced net interest margin. The Society may not be able to obtain and maintain access to sufficient customer deposits, or other sources of funding at costs which are commercially acceptable, to finance its planned medium-term growth.

Execution and other risks associated with the Group's medium-term growth strategy

The Group's ability to implement its medium-term growth strategy and any future strategy successfully is subject to execution risks, including those relating to the management of its cost base and limitations in its management and operational capacity. The implementation of its medium-term growth strategy will require management to make complex judgements, including anticipating customer needs and customer behaviour across a wide range of retail and products, and anticipating competitor activity, legal and regulatory changes and the likely direction of a number of macro-economic factors regarding the UK economy and the retail and business banking sector. In addition, the Group may fail to achieve management's guidance, targets or expectations in respect of the Group's net interest margin, operating and administrative expenses, return on equity, growth in mortgage lending, growth in mortgage market share, or in the development of the Group's asset quality, cost-to-income, common equity tier 1 ("**CET1**") capital and/or LDR, or other financial or key performance indicators.

The risk that some or all of these targets and expectations may fail to be achieved may be a consequence of internal factors, such as a failure by the Group to effectively manage its cost base. The risk may also be caused or exacerbated by a number of external factors, including a downturn in the UK, European or global economy, increased competition in the UK retail banking sector and/or significant or unexpected changes in the regulation of the financial services sector in the UK or Europe. A failure to successfully manage the implementation of its medium-term growth strategy for the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group could be negatively affected by deterioration in the soundness or a perceived deterioration in the soundness of other financial institutions and counterparties

Given the high level of interdependence between financial institutions, the Group is and will continue to be subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of other financial services institutions. Within the financial services industry, the default of any one institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, as was the case after the bankruptcy of Lehman Brothers in 2008, because the commercial and financial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or

other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by the Society or by other institutions. This risk is sometimes referred to as 'systemic risk' and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, other building societies, securities firms and exchanges with whom the Group interacts on a daily basis. Systemic risk could have a material adverse effect on the Group's ability to raise new funding, retain existing funding and on its business, financial condition, results of operations, liquidity and/or prospects.

The Group routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks and other institutional counterparties, resulting in large daily settlement amounts that may give rise to significant credit exposure. In particular, the Group interacts with these financial institutions through a variety of interbank electronic payments systems that underpin clearing and settlement amongst financial institutions. As a result, the Group faces concentration risk with respect to specific counterparties including payment system participants and operators. In addition, the Group has counterparty and operational risk with LCH Limited which acts as a clearing provider, on an arm's-length basis, for central clearing of derivative transactions. A default by, or concerns about, the creditworthiness of counterparties or one or more other financial services institutions could therefore have a material adverse effect on the Group's ability to raise new funding, financial condition, results of operations, liquidity or business prospects.

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

Market risk is the risk that the net value or income arising from the Group's assets and liabilities is impacted mainly as a result of market prices or changes in interest rates and foreign exchange rates. The most significant market risks the Group faces relate to interest rate risk. Interest rate risk can occur where there is a re-pricing mismatch risk where the value of, or income derived from, the Group's assets and liabilities changes unfavourably due to movements in interest rates. This risk arises from the different re-pricing characteristics of the Group's assets and liabilities. Interest rate risk can also occur due to basis risk which arises from possible changes in spreads where assets and liabilities re-price at the same time but move in differing amounts causing unfavourable impacts to earnings.

On 1 July 2023, the Society acquired the engagements of Manchester Building Society by way of a merger under the Act. The total assets acquired on this transfer of engagements were £162.2 million and this included euro denominated balances in relation to Spanish lifetime loans with a fair value of £26.0 million. The acquisition of this Spanish portfolio (which is in run-off and closed to new business) introduces uncertainty and risk arising from the Spanish economy, foreign exchange rate volatility, Spanish property values and any behavioural impacts in respect of Spanish lifetime mortgage borrowers. The operational risk in relation to the servicing of this loan book is limited.

Foreign exchange risk is where changes in currency rates (particularly sterling-euro exchange rates) affect the value of assets and liabilities denominated in foreign currencies and may affect income from assets and liabilities denominated in foreign currency on the Group's balance sheet.

It is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on interest rates, foreign exchange risk, and the impact these could have the Group's financial performance and business operations.

The Group is subject to risks associated with customer and counterparty non-performance

Credit risk is the risk of financial loss arising from the failure of a customer or counterparty to meet contractual obligations as they fall due. Retail and commercial lending activities account for most of the Group's credit risk. The Group has exposures to many different products, counterparties and obligors of varying credit quality and other sources of credit risk include, but are not limited to, the holding of investments for liquidity purposes (including UK gilts), inter-bank transactions, derivative transactions entered into for hedging purposes, foreign exchange transactions and the settlement of transactions. A failure of one or more of the counterparties could have a significant adverse impact on the Group's business, results of operations, financial condition and prospects.

Less favourable business or economic conditions, whether generally or in a specific industry, sector or geographic region, could cause counterparties and customers (especially those concentrated in areas experiencing less favourable business or economic conditions) to experience an adverse financial situation. This exposes the Group to the increased risk that those customers will fail to meet their payment obligations in accordance with agreed terms. A deterioration in the economic conditions in the UK could have an adverse impact on the Group's financial performance and position. Other factors that could have an adverse impact include further financial market dislocation, which could lead to falling confidence, increasing refinancing risk and contagion risk amongst market participants, counterparties and customers.

In the ordinary course of its operations, the Group estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures. This process, which is critical to the Group's results and financial condition, requires complex judgements, including forecasts of how changing macro-economic conditions might impair the ability of customers to repay their loans. The Group may fail to adequately identify the relevant factors or accurately estimate the impact and/or magnitude of identified factors, which could materially adversely affect its business, results of operations, financial condition and prospects.

Further, there is a risk that, despite the Group's belief that it conducts an accurate assessment of customer credit quality, customers are unable to meet their commitments as they fall due as a result of customer-specific circumstances, macro-economic factors or other external factors. The failure of customers to meet their commitments as they fall due may result in higher impairment charges or a negative impact on fair value in the Group's lending portfolio. A deterioration in customer credit quality and the consequent increase in impairments could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Failures in the design or effectiveness of models could have a material adverse effect on the Group's business, financial condition and/or reputation risk

Model risk is the risk that the Group's models that are used to manage the business are inaccurate, perform inadequately or are incorrectly used and as a result of weaknesses or failures in the design or use of a model, a financial loss occurs or a poor business or strategic decision is made. To mitigate this risk, model risk is managed within the framework set out in the Group's Model Risk Policy, which includes governance, assurance, oversight and reporting requirements for the use of models within the Group relative to their inherent risk. Any failure to manage this risk adequately could adversely affect the Group's business, financial condition and results of operations and could damage its relationships with its regulators.

The Group is subject to risks relating to the availability of liquidity and funding at a commercially acceptable cost

Funding risk is the risk that the Group is unable to raise funding at a commercially acceptable cost to support the delivery of its strategic plan or sustain lending commitments. Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due.

The Group's primary liquidity risk exposure arises through the redemption of retail deposits where customers have the ability to withdraw funds with limited or no notice. Exposure also arises from the refinancing of customer and wholesale funding at maturity.

The Group is subject to regulation that requires it to hold levels of surplus liquidity that ensure it maintains liquid assets to meet potential stressed outflows in addition to its expected cash flows, along with sufficient levels of stable funding relative to its long-term assets. These requirements may be subject to change as part of amendments to regulation or regulatory review of the Group.

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. The Group is exposed to liquidity risk where it cannot maintain surplus liquid resources to cover cash flow imbalances and fluctuations in funding. If the Society fails to manage and control these risks the Society could become unable to meet its obligations, including those under the Perpetual Capital Securities, as they fall due.

Failure to meet the regulatory requirement for liquidity or stable funding could result in actions or sanctions, which may have a material adverse effect on the Group's business, including its operating results, financial condition and its prospects. This, in turn, may affect the Group's capacity to continue its business operations or pursue strategic opportunities and may have an impact on future growth potential.

Volatility in wholesale funding markets and reduction in access to government schemes designed to support lending may reduce the availability or increase the cost of the Group's sources of funding, and may have an adverse effect on the Group's business and financial condition

The Group's business is subject to risks concerning liquidity, which are inherent in financial institutions' operations. If access to liquidity is constrained for a prolonged period of time, this could affect the Group's business and financial condition.

The Group currently utilises short term wholesale funding markets for liquidity. Under exceptional circumstances, the Group's ability to fund its financial obligations could be negatively impacted if it is unable to access funding on commercially acceptable terms, or at all. While the Group expects to have sufficient liquidity to meet its funding requirements, even in a combined stress scenario, under extreme and unforeseen circumstances a prolonged and severe restriction on its access to liquidity (including as a result of the withdrawal of government and central bank funding and liquidity support, or a change in the structure, term, cost, availability or accessibility of any such funding or liquidity support) could increase the Group's cost of funding, resulting in a material adverse effect on its financial condition or results of operations, and/or could affect the Group's ability to: (i) meet its financial obligations (including those under the Perpetual Capital Securities) as they fall due; (ii) meet its regulatory minimum liquidity requirements; or (iii) fulfil its commitments to lend.

In extreme circumstances the Group may not be in a position to continue to operate without additional funding support. Inability to access such support could have a material impact on the Society's solvency. These risks can be exacerbated by many enterprise-specific factors, including an over-reliance on a particular source of funding or market-wide phenomena such as market dislocation and pandemics (such as Covid-19) and major disasters. There is also a risk that the funding structure employed by the Group may prove to be inefficient, giving rise to a level of funding cost that is not sustainable in the long-term for the Group to grow its business or even maintain it at current levels. The Group's ability to access retail and wholesale funding sources on satisfactory economic terms is subject to a variety of factors, including a number of factors outside of the Group's control, such as liquidity constraints, general market conditions, regulatory requirements and loss of confidence in the UK banking system.

The Bank of England's Term Funding Scheme with additional incentives for small- and medium-sized enterprises (the "TFSME") opened in March 2020 for a period of 12 months as support during the Covid-19 pandemic. In December 2020, it was announced that the drawdown period was to be extended to 31 October 2021 (from 30 April 2021) and the reference period would run from 31 December 2019 to 30 June 2021 (extended from 31 December 2020).

The TFSME scheme was designed to support banks and building societies which were finding it difficult to reduce deposit rates much further in a low interest rate environment. The continuation and extension of government schemes designed to support lending may increase or perpetuate competition in the retail lending market, resulting in sustained or intensifying downward pricing pressures and consequent reductions in net interest margins. The Society participated in the TFSME scheme and continues to have outstanding balances under such scheme.

The withdrawal of government support could increase funding costs for those institutions which have previously utilised that support. In addition, other financial institutions that have relied significantly on government support to meet their funding needs will also need to find alternative sources of funding when that support is reduced or withdrawn and, in such a scenario, the Society expects to face increased competition in the retail savings market on which the Society is reliant. This competition could further increase its funding costs and so adversely impact its results of operations and financial position and potentially impact upon its ability to make payment on the Perpetual Capital Securities.

The Group is subject to risks associated with its hedging and treasury operations, including potential negative fair value adjustments

The Group faces risks related to its hedging and treasury operations. The Group engages in hedging activities, for example in relation to interest rate risk, to limit the potential adverse effect of interest rate fluctuations on its results of operations. The Group's treasury operations have responsibility for managing the interest rate risk that arises through its customer facing business, management of its liquid asset buffer and investment of free reserves and interest rate insensitive deposit balances. Interest rate hedges for both customer assets and liabilities are calculated using a behavioural model. However, the Group does not currently hedge all of its interest rate, foreign exchange and other risk exposures and cannot guarantee that its hedging strategies will be successful because of factors such as behavioural risk, unforeseen volatility in interest rates or other market prices or, in times of market dislocation, the decreasing credit quality, or unavailability, of hedge counterparties. If its hedging strategies are not effective, the Group may be required to record negative fair value adjustments. Material losses from the fair value of financial assets would also have an adverse impact on the Group's capital held.

Through its treasury operations, the Group holds liquid assets portfolios potentially exposing the Group to interest rate risk, basis risk and credit spread risk. To the extent that volatile market conditions occur, the fair value of the Group's liquid assets portfolios could fall and cause the Group to record mark-to-market losses. In a distressed economic or market environment, the fair value of certain of the Group's exposures may be volatile and more difficult to estimate because of market illiquidity. Valuations in future periods, reflecting then-prevailing market conditions, may result in significant negative changes in the fair value of the Group's exposures, which could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group may not achieve targeted profitability or efficiency savings, which could have an adverse impact on its capital planning and/or results of operations

As a mutual organisation, the Society does not have external shareholders (as that term would be understood in the context of a company limited by shares incorporated under the Companies Act 2006), so the Group's profitability targets are set to ensure that it continues to be financially sustainable, enabling it to continue creating value for its stakeholders in the future. It is important to the Group that the level of income it generates covers the cost of running the organisation and delivering its products and services. Any additional profit is invested in:

- (i) protecting its financial position and supporting its growth by building its capital strength;
- (ii) its future, through the delivery of better products and services; and
- (iii) its people, local communities and other social or environmental responsibilities through its Purpose (as defined in "Description of the Society – Purpose and strategy" below) and strategy.

The help the Society offers to its savers has to be balanced against the rates it offers to its mortgage borrowers in order to protect its profitability and assure its longer-term stability.

In light of strong competition in the market and downward pressure on mortgage margins, the Society has shifted the focus of its lending strategy from a volume-based approach to one based on both volume and value, through utilising its enhanced pricing capabilities. It has also embarked on a programme of digital transformation to enable strong growth. Given the margin pressures in both the mortgage and savings markets, the Group has to continue to focus on reducing costs, where it makes good sense to do so, and improving efficiency, so it can provide its members with value for money. However, notwithstanding the above, there can be no assurance that targeted levels of income and cost savings will be achieved. Any failure by the Group to meet its targeted financial performance could adversely impact its capital ratios and the results of operations of the Group.

The Group may be exposed to losses if critical accounting judgements or estimates are subsequently found to be incorrect or inaccurate

The preparation of the Group's financial statements require management to make estimates and assumptions and to exercise judgement in selecting and applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses, to ensure compliance with international accounting standards as adopted by the UK Endorsement Board (or, before 1 October 2021, International Financial Reporting Standards ("IFRS"))

as endorsed in the EU). Some areas involving a higher degree of judgement, or where assumptions are significant to the financial statements, include the fair value of the equity release mortgage assets, fair value of derivative and financial assets, impairment provisions on credit exposures, deferred tax, retirement benefit obligations and effective interest rate assumptions. For information on the Group's critical accounting estimates and judgements, see note 1 to the financial statements in the 2023 Financial Statements (as defined in "*Documents Incorporated by Reference*"), which are incorporated by reference into this Offering Circular.

If the judgements, estimates and assumptions used by the Group in preparing its consolidated financial statements are subsequently found to be incorrect, there could be a significant loss recognised beyond that anticipated or provided for or an adjustment to those consolidated financial statements, which could have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, the concept of an expected credit loss ("**ECL**") under IFRS 9 (either a 12-month or lifetime ECL) involves increased complexity and judgement, with the potential for ECLs to be more volatile, which could adversely impact the Group's results of operations, financial condition or prospects.

The Group faces risks associated with a failure to manage changes in taxation rates or applicable tax laws, or from a misinterpretation of such tax laws

The Group faces risks associated with changes in taxation rates or applicable tax laws, or misinterpretation of such tax laws, any of which could result in increased charges, financial loss, including penalties, and reputational damage. Any misinterpretation of tax laws that creates the perception that the Group is avoiding or evading tax, or if it is associated with customers that do so, could adversely affect its reputation. Future actions by the UK Government to adjust tax rates or to impose additional taxes (including particular taxes and levies targeted at the banking industry) could reduce the Group's profitability. Revisions to tax legislation or to its interpretation might also affect the Group's results of operations and financial condition in the future. In addition, the UK has a predominantly self-assessment system for filing of tax returns. All tax returns have been filed by the Group within statutory deadlines, but HM Revenue & Customs ("**HMRC**") has the right to enquire into those returns post filing. It is possible that an enquiry may result in a further liability to tax, which, if material, could have a material adverse effect on the Group's business, financial condition, results of operation and prospects.

Further details on recent changes to tax laws and tax rates and their impact on the Group is given in notes 8, 19 and 45 to the financial statements in the 2023 Financial Statements, which are incorporated by reference into this Offering Circular.

Ratings downgrades in respect of the UK

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

As at the date of this Offering Circular, the UK's long-term ratings are "Aa3" from Moody's and "AA-" from Fitch. Any downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur could destabilise the markets, impact the Society's borrowing costs and its ability to fund itself and have a material adverse effect on the Society's operating results and financial condition. In addition, a UK sovereign downgrade, or the perception that such a downgrade may occur, would be likely to depress consumer confidence, restrict the availability, and increase the cost, of funding for individuals and companies, depress economic activity, increase unemployment and/or reduce asset prices. These risks are exacerbated by concerns over general market turmoil, slowing global growth, and trade tensions. Instability within global financial markets might lead to instability in the UK, which could have a materially adverse impact on the Society's performance.

The Group faces risk from the impact of climate change

The Group is exposed to physical and transition risks arising from climate change. Physical risks from climate change arise from a number of factors and relate to specific climate and weather-related events and longer-term shifts in the climate such as heatwaves, droughts, floods, storms, sea level rise, coastal erosion and subsidence. The nature and timing of

extreme weather events are uncertain but they are increasing in frequency and their impact on the economy is predicted to be more acute in the future. The potential impact on the economy includes, but is not limited to, lower gross domestic product growth, higher unemployment and significant changes in asset prices and profitability of industries. Damage to the properties and operations of borrowers could impair asset values and the creditworthiness of customers leading to increased default rates, delinquencies, write-offs and impairment charges in the Group's portfolios and financial losses for the Group. In addition, the Group's premises may also suffer physical damage due to weather events leading to increased costs for the Group.

Transition risks arise from the process of adjustment towards a low-carbon economy. As the economy transitions to a low-carbon economy, financial institutions, including the Group, may face significant and rapid developments in policy, law and regulation, technology and sentiment, which could prompt a reassessment of the value of a large range of assets of the Group and creating credit exposures for lenders, including the Group, as compliance costs and opportunities become apparent. As sentiment towards climate change shifts and societal preferences change, the Group may face greater scrutiny of the type of business it conducts, adverse media coverage and reputational damage from a failure to meet the changing societal, customer, or investor demands as well as failure to comply with governmental and regulatory requirements. This may in turn impact customer demand for the Group's products, returns on certain business activities, cost of funding and the value of certain assets resulting in impairment charges. A failure by the Group to identify and adapt its business to meet new rules or evolving expectations, or any perception that it is under-performing relative to its peers, could result in reputational damage and/or risk of legal claims.

If the Group does not adequately embed the management of risks associated with climate change into its risk framework to appropriately measure, manage and disclose the various financial and operational risks it faces as a result of climate change, or fails to adapt its strategy and business model to the changing regulatory requirements and market expectations on a timely basis, such circumstances may have a material and adverse impact on the Group's trading performance, financial condition, competitiveness, results of operations and prospects.

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

The Group's reputation is one of its most important assets and its ability to attract and retain customers and conduct business with its counterparties could be adversely affected where the Group's reputation is damaged. Failure to address, or appearing to fail to address, issues that could give rise to reputational risk could cause harm to the Group and the Group's business prospects.

Reputational issues include, but are not limited to: appropriately addressing potential conflicts of interest; cyber security; legal and regulatory requirements; ethical issues; adequacy of anti-money laundering processes; customer privacy and data protection issues; customer service issues; information technology ("IT") failures and outages; colleague wellbeing; recordkeeping; sales and trading practices; proper identification of the legal, reputational, credit, liquidity and market risks inherent in products offered; and generally poor business 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 reputation of the Group and its brands may be damaged by the actions, behaviour or performance of numerous persons

Any event or circumstance that causes damage to the Group or its brands could have a material adverse effect on its business, results of operations, financial condition and prospects.

The Group's brands may be damaged by the actions, behaviour or performance of its employees, affiliates, suppliers, counterparties, regulators, customers and/or other activists, or the financial services industry generally. A risk event, such as compliance breaches, cyber-enabled crime and fraud, data protection breaches (including mishandling, misuse, loss or corruption of customer data), a significant operational or technology failure, a fall in customer service levels, or demonstrations by customers and/or other activists, may cause business disruption or adversely affect the perceptions of the Group held by the public, investors, customers, employees or regulators. A risk event itself may expose the Group to

direct losses as a result of litigation, fines and penalties, remediation costs or loss of key personnel. There is also a risk that customers may not support the ongoing use of the Group's brands (including the newly acquired Manchester Building Society brand), which may adversely impact the Group's business, results of operations, financial condition and prospects.

The Group may fail to attract or retain executives, senior managers or other key employees

The Group's success depends on the continued service and performance of its key employees, particularly its executives and senior managers, and its ability to attract, retain and develop high calibre talent. The Group may not succeed in attracting new talent and retaining key personnel for a variety of reasons, including if such personnel do not identify or engage with the Group's purpose, brand and values, which represents a major component of its overall strategy. The Group competes for talented personnel with skills that are in relatively short supply and it may not have sufficient scale to offer employees rates of compensation or opportunities to advance within the organisation comparable to its larger competitors, particularly at more senior levels. The Group may also allocate resources improperly or in ways which could create operational inefficiencies and risks and/or lead to de-motivated senior employees. Each of these factors could have an adverse effect on the Group's ability to recruit new personnel and retain key employees, which could, in turn, adversely affect the Group's business. In addition, external factors such as changing labour market dynamics including higher levels of job vacancies, macro-economic conditions, the regulatory environment developing to increase direct liabilities for bank employees, regulatory restrictions on incentivisation and/or continued negative media attention on the financial services industry may adversely affect employee retention, sentiment and engagement. Any failure to attract and retain key employees, including executives and senior managers, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Regulatory and Conduct Risks

The Group's business is subject to ongoing regulation and associated regulatory risks, including the effects of new and changing laws, rules, regulations, policies, voluntary codes of practice and interpretations of such in the UK. These laws, rules, and regulations include: (a) prudential regulatory developments; (b) increased regulatory oversight in respect of conduct issues; and (c) industry-wide codes, guidance and initiatives. Each of these regulatory areas have costs associated with it, may significantly affect the way that the Group does business and may restrict the scope of its existing businesses, limit its ability to expand its product offerings or make its products and services more expensive for clients and customers. Developments across any of these three regulatory areas, discussed in greater detail below, could materially adversely affect the Group's access to liquidity, increase its funding costs, increase its compliance costs, delay, limit or restrict its strategic development and have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group is subject to risks associated with compliance with a wide range of laws and regulations

The Group's operations are heavily regulated, and it must comply with numerous laws and regulations and may face enforcement action from regulators and others for any failure to comply. Regulatory compliance risk arises from a potential failure or inability to comply fully with the laws, regulations and codes applicable to the financial services industry.

Regulatory enforcement actions pose a number of risks to the Group, including substantial monetary damages or fines, the amounts of which are difficult to predict and may exceed the amount of provisions set aside to cover such risks. In addition, the Group and/or its employees may be subject to censure, other penalties and injunctive relief, civil or private litigation arising out of the same subject matters as a regulatory investigation, the potential for criminal prosecution in certain circumstances and regulatory restrictions. All of these issues could have a negative effect on the Group's reputation and the confidence of its customers in the Group, as well as taking a significant amount of management time and resources away from the execution of the Group's strategy and the operation of its business. In an extreme scenario, the regulators could also revoke the licences and authorisations necessary for the Society and its Group to conduct their business.

The Group may settle litigation or regulatory proceedings prior to a final judgment or determination of liability to avoid the cost, diversion of management time and effort or negative business, regulatory or reputational consequences of continuing to contest liability or when the potential consequences of failing to successfully contest liability would be disproportionate to the costs of settlement. Furthermore, the Group may, for similar reasons, reimburse counterparties for

their losses even in situations where there are no litigation proceedings and the Group does not believe that it is legally compelled to do so. Failure to manage these risks adequately could have a material adverse effect on the Group's reputation, business, results of operations, financial condition and prospects.

The Group faces risks relating to complaints and redress issues from sales of historic financial products, which may not be covered by any existing provisions

The Group faces conduct, financial and reputational risks as a result of legal and regulatory proceedings, and complaints made to it directly, to the Financial Ombudsman Service or other relevant regulatory bodies both against the Group and against members of the UK banking industry more generally.

In addition, the Group may also face financial and reputational risks as a result of customer complaints, which might arise from matters such as inadequate communications or historic or current customer treatment in relation to certain products offered by the Group.

It is possible that the Group will be subject to further claims relating to historic or future conduct matters, which amount to a material capital exposure for the Group. Exposure to such claims may exceed any provisions of the Group which could have a material adverse effect on the Group's balance sheet. Such claims could therefore have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group is subject to substantial and changing prudential regulation which could have a material adverse effect on the Group

The Group faces risks associated with an evolving prudential regulatory environment, pursuant to which it is required, among other things, to maintain adequate capital resources and to satisfy specified capital ratios at all times.

Any future prudential regulatory developments could have a material adverse effect on the Group's business, results of operations and financial condition.

EU Exit

Following its departure from the EU in 2020, the UK will in future enact its own regulation rather than adopt EU regulation. Whilst the UK has committed to ensuring that prudential standards are updated in line with international Basel III standards, there are nevertheless some areas where UK regulation may diverge from the regulation that is in force in the EU. The Group cannot predict the direction or extent of any future changes or the extent of any future divergence between the UK and EU regulatory regimes. This may increase uncertainty and compliance costs for the Group.

Capital

A market perception or actual shortage of capital issued by the Group could result in regulatory actions, including requiring the Society to issue additional CET1 or other own funds instruments. This may affect the Group's capacity to continue its business operations, generate a return on capital, pursue acquisitions or other strategic opportunities, affecting future growth potential.

In addition, any increase in the Pillar 1 requirements, Pillar 2 requirements, the combined buffer requirement or the PRA buffer (all as further described below) would increase the capital requirements of the Group which could have a material adverse effect on the Group's business, results of operations and financial condition.

Recovery and Resolution

If the Bank of England, as resolution authority, were to exercise recovery or resolution powers in respect of the Group then existing holders of the Society's securities, including holders of the Perpetual Capital Securities, may experience dilution of, or losses on, their holdings and may not receive any compensation for their losses – see *"The Banking Act confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK banks and UK building societies which are considered to be at risk of failing. The exercise of any of these actions in*

relation to the Society or the Perpetual Capital Securities could materially adversely affect the value of the Perpetual Capital Securities and/or the rights of Securityholders". In addition, in a resolution situation, financial public support will only be available to the Group as a last resort after the resolution authorities have assessed and exploited, to the maximum extent practicable, the resolution tools, including the bail-in tool. The Society's resolution plan anticipates that it could be resolved by takeover and/or managed wind-down; accordingly, the Society anticipates that the Bank of England's preferred resolution strategy for the Society would be modified insolvency (although this remains to be confirmed).

Future legislative, accounting 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 and prospects

The Group conducts its business subject to ongoing regulation and supervision by the FCA and the PRA. The regulatory regime requires the Group to be in compliance with a range of different requirements, including rules relating to capital, liquidity, leverage, provisions for expected credit losses, consumer credit, mortgage provision and data protection measures, as well as regulations impacting many aspects of its activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. The Group may also be impacted by new regulation in the future, for example relating to open banking, new payment architecture, setting of rates for certain customers, money laundering, climate change, consumer duty, capital, liquidity and leverage measures. In addition, the Group is subject to accounting, fiscal and other rules, which are also subject to change. If the Group fails to comply with any relevant regulations or rules, there is a risk of an adverse impact on its business due to sanctions, fines or other action imposed by the regulatory authorities. 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. See also "*The Group is subject to regulatory capital requirements that are subject to change and may result in additional capital requirements for the Group*" below.

As at the date of this Offering Circular, it is impossible to predict the effect that any of the proposed or recent changes in the laws and regulations applicable to the Group will have on the Group's operations, business, financial condition or prospects or how any of the proposals discussed above will be implemented. 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, accounting, fiscal or legislative changes that may be proposed will not have a material adverse effect on its operations, business, results, financial condition or prospects.

The Group is subject to regulatory capital requirements that are subject to change and may result in additional capital requirements for the Group

The Group is subject to capital requirements that could have an impact on its operations. Changes to the capital requirements under which the Group operates could hinder growth by prescribing more stringent requirements than those with which it currently complies. UK regulators and international policymakers have reviewed a number of areas of the regulatory capital framework, with a view to making changes as appropriate.

The Basel Committee on Banking Supervision (the "**BCBS**") approved significant changes to the Basel regulatory capital and liquidity framework in December 2010, January 2011, January 2014 and December 2017 (such changes being referred to by the BCBS as "**Basel III**", and the reforms finalised on or following 7 December 2017 are referred to, colloquially, as "**Basel 3.1**") including additional capital requirements, higher capital ratios, more stringent eligibility requirements for capital instruments, a new leverage ratio and liquidity requirements.

The Basel III reform package has been largely implemented in the EEA through a series of regulations and directives, which establish a single set of harmonised prudential rules which apply directly to all credit institutions in the EEA, with certain provisions required to be transposed into national law. The regime gives express recognition for CET1 capital instruments for mutual and co-operative entities and permits the use of a cap or restriction on distributions to safeguard the interests of members and reserves. Full implementation began from 1 January 2013, with particular elements being phased in over a period of time.

The EU prudential framework as at the end of the transition period relating to the UK's exit from the EU (31 December 2020), has broadly been assimilated into UK law, with some adjustments. The Financial Services and Markets Act 2023,

which received Royal Assent on 29 June 2023, implements important changes to the UK's regulatory framework for financial services, including paving the way for regulatory reform. It gives HM Treasury, the PRA and the FCA new powers to reshape how regulation is made and maintained. This includes full control over the process of moving retained EU law from the statute books into the regulators' own rulebooks, resulting in gradual amendments to UK regulation.

On 30 November 2022, the PRA issued *Consultation Paper 16/22 (CP16/22) – Implementation of the Basel 3.1 standards ("CP16/22")*. The consultation paper set out the PRA's proposed rules and expectations with respect to the implementation of the Basel 3.1 standards. The consultation proposed changes to the frameworks for credit risk (Standardised and Internal Ratings Based/ IRB), credit risk mitigation techniques, operational risk, market risk and credit valuation adjustment (CVA) risk, and output floors, with a proposed original implementation commencement date in the UK of 1 January 2025 and a transitional period resulting in full implementation by 1 January 2030. On 12 December 2023, the PRA published near-final policy statement *PS17/23 - Implementation of the Basel 3.1 standards near-final part 1*, which set out the near-final policies on market risk, credit valuation adjustment risk and counterparty credit risk and operational risk, and extended the proposed implementation commencement date for the Basel 3.1 standards in the UK to 1 July 2025. Further to that, on 12 September 2024 the PRA published a near-final policy statement *PS9/24 - Implementation of the Basel 3.1 standards near-final part 2*, which further extended the proposed implementation commencement date for the Basel 3.1 standards in the UK to 1 January 2026, with a transitional period of 4 years to ensure full implementation by 1 January 2030. The Society uses the standardised approach for calculating its Risk Weighted Assets for all exposures. Due to the more risk-sensitive nature of the new rules (which reduce risk weightings in particular for low loan-to-value ("LTV") lending), the Society considers that, based on its asset portfolio as at 30 June 2024 and had the Basel 3.1 standards (in the form currently proposed) been implemented as at that date, it would have resulted in a reduction of its Risk Weighted Assets with a corresponding positive impact on its capital ratios. However, the actual impact of the implementation of the new rules remains to be seen.

The PRA is expected to consult further on the implementation of the Pillar 2 framework for capital requirements.

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

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

- (i) the Group may experience a depletion of its capital resources through increased costs or liabilities incurred as a result of the crystallisation of any of the other risk factors described elsewhere in this section; and
- (ii) the Group may experience an increased demand for capital. For example, the Group is subject to extensive regulation and regulatory supervision in relation to the levels of capital in its business. New or revised minimum and buffer capital requirements could be applied and/or the manner in which existing regulatory requirements are applied to the Group could be changed.

The Group manages its capital taking account of market expectations as well as regulatory requirements. If market expectations increase, driven by, for example, the capital levels or targets amongst peer banks or building societies, then the Group may experience pressure to increase its capital and leverage ratios.

Risk of an increase in levies on the Group to fund payments 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. Based on its share of protected deposits, the Group pays levies to the FSCS to enable the scheme to meet claims against it.

In common with other financial institutions which are subject to the FSCS, the Group also has a potential exposure to future levies resulting from the failure of other financial institutions and consequential claims which arise against the FSCS as a result of such failure.

There can be no assurance that there will be no further actions taken under the Banking Act that may lead to further claims against the FSCS, and concomitant increased FSCS levies payable by the Group. Any such increases in the Group's costs and liabilities related to the levy may have a material adverse effect on its results of operations. Further costs and risks may also arise from discussions at governmental levels around the future design of financial services compensation schemes, such as increasing the scope and level of protection and moving to pre-funding of compensation schemes.

Risk that the Group fails to satisfy compliance requirements in respect of Consumer Duty

The intention of the recently-implemented consumer duty principle in the UK (the "**Consumer Duty**") is to deliver higher levels of consumer protection in UK retail financial markets. It aims to do so by encouraging firms to compete in the interests of consumers, as well as driving a healthy and successful financial services system, where firms thrive and consumers can make informed choices about their financial products and services.

This is an evolution of the cultural and behavioural shift that has been a theme in FCA work such as the senior managers and certification regime and its work on vulnerable customers. Culturally, it means moving to an outcome-focused stance where firms are preventing harm proactively, rather than having to remediate when harm is caused.

The Consumer Duty aims to bring about a fairer, more consumer-focused and level playing field in which:

- firms are consistently placing consumers' interests at the centre of their businesses and extending their focus beyond ensuring narrow compliance with specific rules to focus on delivering good outcomes for consumers;
- competition is effective in driving market-wide benefits, with firms competing to attract and retain customers based on high standards and innovate in pursuit of good consumer outcomes; and
- consumers get products and services which are fit for purpose, provide fair value, that they understand how to use and are supported in doing so.

The scope of the Consumer Duty includes all retail clients, including prospective clients. Complying with this regulation is likely to lead to an increase in costs as it requires firms to:

- review their existing products and services, including closed book products;
- review and update, where appropriate, processes for introducing new products and services to ensure compliance with the new expectations; and
- ensure they can evidence how they achieve good outcomes.

It is the responsibility of all senior management to ensure good outcomes for consumers in line with the Consumer Duty, and for evidencing that this is happening. An annual report will be signed off by the board to confirm compliance with the duty and agree any actions that need to be taken to gain or maintain compliance.

The costs to the financial services sector as a whole, in terms of both compliance and ongoing annual direct costs, are likely to be significant. However, the individual costs for each firm will differ from organisation to organisation and, at this stage, remain difficult for the Group to predict.

The Group must comply with anti-money laundering, counter terrorist financing, anti-bribery, tax evasion and sanctions regulations, and a failure to prevent or detect any illegal or improper activities fully or on a timely basis could negatively impact customers and expose the Group to liability

The Group is subject to financial crime related regulation and legislation regarding money laundering, the financing of terrorism, sanctions, tax evasion and in respect of bribery. Monitoring compliance with financial crime related regulation, legislation and industry guidance can put a significant financial burden on building societies and other financial institutions and requires significant technical capabilities and the appropriate level of skill, knowledge and experience. In recent years, enforcement of these laws and regulations against financial institutions has increased, resulting in several landmark

finances against UK financial institutions. In addition, the Group cannot predict the nature, scope or effect of future regulatory requirements to which it might be subject or the manner in which existing laws might be administered or interpreted. Although the Group believes that its current policies and procedures are sufficient to comply with applicable financial crime related regulation and legislation, it cannot guarantee that such policies and procedures completely prevent situations of financial crime, including actions by the Group's employees, mortgage intermediaries or third party service providers, for which it might be held responsible. Any such events may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Operational and Technology Risk

The Group is exposed to risks associated with its IT systems

The Group's IT systems are critical to the operation of its business and the delivery of products and services to its customers (including the provision of services to NSSL's clients and their customers). Any disruption in a customer's access to account information, delays in making payments, or a failure of online or mobile banking platforms could have a significant negative effect on its reputation and could also lead to potentially large costs both to rectify the issue and to reimburse losses incurred by customers. In addition, any defect in the Society's standard documentation or defect in its electronic banking applications or mainframe could be replicated across a large number of transactions before the defect is discovered and corrected. This could significantly increase the cost of remediating the defect.

A range of standard form documentation and automatic banking systems are widely used in the Group's business to process transactions. The Group focuses on the resilience and scalability of the IT systems that underpin online or mobile traffic and transactional volumes. However, there is a risk that the Group's IT systems may not be able to service significantly increased demand. In the future, the Group plans to upgrade its IT systems and staffing to meet such demand, which may cause delays to customers and adversely affect its customer service.

As the Group depends on a number of third-party providers for a variety of functions, including payment service provider systems, any disruption in such systems could have a disruptive effect on the Group's operations.

Further, the Group regularly conducts IT system upgrades. Should these upgrades not be completed as planned, or become subject to significant delays or suffer from cost overruns, operational performance may suffer. Delays or cost overruns could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Any disruption to the Group's IT systems, including, but not limited to those highlighted above, could have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group may be subject to data privacy or data protection failures

The Group collects and processes large amounts of personal data as an integral part of its business and must therefore comply with data protection and privacy laws and regulations (including, in particular, the UK General Data Protection Regulation). If the Group or any of the third party service providers on which it relies fails to appropriately collect, store, handle or transmit personal data in compliance with relevant laws and regulations or if any damage to or loss or inadvertent deletion of personal data were otherwise to occur and/or an actual or perceived breach of the Group's network security occurs, it may expose the Group to litigation, including litigation that may originate from other financial services clients of the Group for whom NSSL provides outsourced savings management services directly to their customers, regulatory liability and damage to its reputation, which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group is exposed to risks associated with cyber-enabled crime and fraud

The Group is subject to the risk of actual or attempted cyber and information security attacks and breaches from parties with criminal or malicious intent. Should the Group's layered controls fail to detect, prevent or mitigate a cyber-attack or data breach, or should an incident occur in a system for which there is limited resilience, or should the Group's response

to any breach fail to conform fully to its legal requirements or customer or regulator expectations, there may be a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group continues to invest in its cyber and information security controls in response to emerging threats, such as cyber-enabled crime and fraud, and to seek to ensure that controls for known threats remain robust. The risks associated with cyber-attacks, where an individual or group seeks to exploit vulnerabilities in IT systems for financial gain or to disrupt services, are a material risk to the Group and the UK financial system, which has a high degree of interconnectedness between market participants, centralised market infrastructure and in some cases complex legacy IT systems. The Group cannot be certain that its infrastructure and controls will prove effective in all circumstances and any failure of the controls could result in significant financial losses and a material adverse effect on the Group's operational performance and reputation. The Group's strategy to increase its digital presence may expose the Group to increased risks associated with cyber-enabled crime and fraud.

Any breach in security of the Group's systems, including from increasingly sophisticated attacks by cyber-crime groups or fraudulent activity in connection with customer accounts, could disrupt its business, result in the disclosure of confidential information, create significant financial and/or legal exposure and damage its reputation and/or brands, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group is exposed to operational risks related to inadequate or failed internal processes, people and systems and from external events

The Group's business is exposed to operational risks related to inadequate or failed internal processes, people and systems and from external events. Operational risks are inherent in the day-to-day operational activities of the Group, which may result in direct or indirect losses and could adversely impact the Group's business, financial condition, results of operations and prospects. These losses may result from both internal and external events, and risks.

Internal risks include, but are not limited to, process error or failure, inadequate process design, poor product development and maintenance, poor change management, ageing infrastructure and systems, system failure, failure of security and physical protection (including the health and safety of employees), fraud, deficiencies in employees' skills, or the Group's ability to attract the skills required or manage poor performance or human error, or other idiosyncratic components of operational risk that are related to the Group's particular size, nature and complexity.

External events include, but are not limited to, operational failures by third-party providers, actual or attempted external IT security breaches from parties with criminal or malicious intent, natural disasters, epidemics, pandemics, extreme weather events, political, security and social events and failings in the financial services industry. The Group is exposed to extreme but plausible events that are unpredictable and may result in a material or systemic loss, business interruption or significant reputational damage.

The Group is dependent on its information systems and technology from a system stability, data quality and information security perspective. The Group is dependent on payments systems and technology that interface with wider industry infrastructure; for example, the Group is, in common with other building societies, dependent on various industry payment systems and schemes (including CHAPS, BACS, Faster Payments and SWIFT) for making payments between different financial institutions on behalf of customers. Internal or external failure of these systems and technology (including if such systems cannot be restored or recovered in acceptable timeframes or be adequately protected) could adversely impact the Group's ability to conduct its daily operations and its business, financial condition, results of operations and prospects.

In addition, financial models are used extensively in the conduct of the Group's business; for example, in calculating capital requirements and measuring and stressing exposures. If the models used prove to be inadequate or are based on incorrect or invalid assumptions and judgements, this may adversely affect the Group's business, financial condition, results of operations and prospects – see "*Failures in the design or effectiveness of models could have a material adverse effect on the Group's business, financial condition and/or reputation risk*".

The Group may look to implement new operational processes and systems to assist in responding to market developments, such as reflecting changes in regulations. Due to the scale and complexity of such projects, the Group may be required to invest significant management attention and resources, which may divert attention away from normal business activities

and other ongoing projects. Additionally, where changes are undertaken in an environment of economic uncertainty and increased regulatory activity and scrutiny, operational and compliance risks are magnified, which may impact the reputation and financial condition of the Group. There is also a risk that implementation may not be completed within expected timeframes or budget, or that such changes do not deliver some or all of their anticipated benefits.

Additionally, while the Group takes steps designed to ensure that it is operationally resilient, and has IT disaster recovery and business continuity plans in place, these are not, and are not intended to be, a full duplication of the Group's operational systems and premises. The occurrence of a serious disaster resulting in interruptions, delays, the loss or corruption of data or the cessation of the availability of systems or premises could also have a material adverse effect on the Group's business.

The Group is also exposed to risks associated with an increase in the cost or lack of available insurance provision for the Group, which could have an adverse impact on profitability.

Any actual or perceived inadequacies, weaknesses or failures in the Group's systems or processes could also have a material adverse effect on its business, financial condition, results of operations and prospects.

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

The Group has an Enterprise Risk Management Framework in place that sets out a summary of the Group's risk management activities to be undertaken across all business areas within the Group. This framework defines Operational Risk as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. These include but are not limited to business continuity risk, information technology risk, information security risk, change risk, payments risk, people risk and third party risk. There can be no assurance that the Group's risk control and loss mitigation procedures will 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 condition.

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

The ageing and diverse IT infrastructure, software, applications, satellite IT and use of third party packages present within institutions across the UK financial services sector, including at the Group, expose firms to increasing operational risks. As IT components age, their fit and value often deteriorate whilst cost and risk often conversely grow. Moreover, future digitalisation and modernisation initiatives may force firms, including the Group, to use old technology in ways for which they were not designed. Over the last couple of years, the Group has embedded an approach to managing and mitigating its legacy IT risks. The Group has an ongoing change programme designed to keep pace with developments in the industry. Despite the above and although the Group continues to undertake significant investment in the upgrade of its core IT infrastructure, 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.

Failure or delay in delivering the Group's change agenda successfully, including an increase in the costs, complexity or implementation time, could have a material adverse effect on the Group's business and financial condition.

Failure by the Group to control operational resilience risk could have a material adverse effect on the Group's business, financial condition and/or reputation

The increasing use of technology and the pace of technological change expose the UK financial services sector, including the Group, to ever increasing, more sophisticated and evolving cyber security threats – including ransomware and other malware, data breaches and weaknesses in the supply chain. Resilience to such threats and an ability to respond effectively in the event of an attack are essential in order to protect the Group, maintain the trust of its customers and the confidence of its regulators. The Group continues to invest in operational resilience and legacy IT risk mitigation as part of its Group-wide security programme, however, any disruption caused by such an event could result in the Group being unable to carry out its operations, which could have an adverse effect on the Society and could damage the Group's reputation with customers, depositors, investors and regulators.

The Group's risk management policies and procedures may not be effective in protecting it against all the risks faced by its business, and any failure to manage properly the risks that it faces could harm the Group and its prospects

The management of risks requires, among other things, robust policies and procedures for the accurate identification and control of a large number of transactions and events. Such policies and procedures may not always prove to be adequate in practice against the wide range of risks that the Group faces in its business activities.

There is a risk that the Group's existing policies may not adequately cover the nature of the Group's operations due to the introduction of processes or practices that are not currently part of the Group's operating model, thereby leading to losses or a deterioration in performance, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group has a range of systems designed to measure and manage the various risks which it faces. Some of these methods are based on historic market and portfolio behaviour and may therefore prove to be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historic experience.

Historical data may also not adequately allow prediction of circumstances arising due to UK Government interventions and stimulus packages, which increase the difficulty of evaluating risks.

Other methods for risk management are based on evaluation of information regarding markets, customers or other information that is publicly known or otherwise available to the Group. Such information may not always be correct, updated or correctly evaluated. In addition, even though the Group constantly measures and monitors its exposures, there can be no assurance that its risk management methods will be effective, including in unusual or extreme market conditions. It is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Group's business, financial condition, results of operations and prospects.

The Society may be required to increase its contributions to the Newcastle Building Society Pension and Assurance defined benefit pension scheme to fund deficits

The Society operates a UK registered trust-based pension scheme, 'Newcastle Building Society Pension and Assurance Scheme' (the "**Scheme**") that provides defined benefits. The Scheme was closed to new entrants in 2000 and closed to the future accrual of benefits in 2010. Pension benefits are linked to the members' final pensionable salaries and service at their retirement (or date of leaving if earlier) and are inflation linked (subject to a cap of no more than 5 per cent. per annum). The Society is the sole sponsoring employer of the Scheme. The assets and liabilities of the Scheme are managed by an independent trustee board and are operated completely separately from the Society and the wider Group. Risk to the Group could arise from the Scheme where a significant liability may occur to the Society if the value of the assets was materially insufficient to cover the ongoing liabilities of the Scheme over time. In the case of such a material Scheme deficit, the Society would be obliged by legislation and the governing documents of the Scheme, to ultimately ensure that the Scheme liabilities are met in a reasonable time frame. This could have an adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group is subject to risks associated with its dependence on mortgage intermediaries and third-party service providers for certain functions

The Group depends on a number of third-party providers for a variety of functions including, *inter alia*, for mortgage intermediation, IT software and platforms, payment system services, operational services, cheque processing services and fund management and custodial services. Consequently, the Group relies on the continued availability and reliability of these service providers. If the Group's contractual arrangements with any of these providers are terminated for any reason or any third-party service provider becomes otherwise unavailable or unreliable in providing the service to the required standard, it will be required to identify and implement alternative arrangements and it may not find an alternative third-party provider or supplier for the services, on a timely basis, on equivalent terms or without incurring a significant amount of additional costs or at all. These factors could cause a material disruption in the Group's operations and ability to service customers and could have a material adverse financial or reputational impact on it. It may result in a higher risk premium being applied to the Group and adversely impact the cost of funding its operations, or its financial condition and could give rise to claims by customers for financial loss experienced and/or regulatory sanctions.

In maintaining and growing its mortgage portfolio, the Society relies on a number of intermediaries in the mortgage lending market, which exposes it to the risk of deterioration of the commercial, financial or operational soundness of those organisations. If a major intermediary partner goes out of business or switches allegiance to other lenders, this may adversely affect the Society's lending volume. The Group is also exposed to the risk that its relationships with one or more intermediaries may deteriorate for a variety of reasons, including competitive factors. In addition, the intermediaries' incentives may not always align with the Group's, which could lead to a deterioration in the quality and performance of the Society's mortgage book. As the Society seeks to actively grow the volume of mortgages introduced by intermediaries, its exposure to those risks increases.

As noted above, the Group is dependent on payments systems and technology that interface with wider industry infrastructure; for example, the Group is, in common with other building societies, dependent on various industry payment systems and schemes (including CHAPS, BACS, Faster Payments and SWIFT) for making payments between different financial institutions on behalf of customers. Internal or external failure of these systems and technology (including if such systems cannot be restored or recovered in acceptable timeframes or be adequately protected) could adversely impact the Group's ability to conduct its daily operations and its business, financial condition, results of operations and prospects.

In addition, the structure of the intermediary market is also subject to change, for example, there may be a change in customer sentiment or regulation which favours customers dealing directly with financial institutions which would reduce the flow of business from intermediaries which may have an adverse impact on the Group if this business cannot be substituted. Also, there may be consolidation in the intermediary market which may change the behaviour of the residual intermediaries in ways which may adversely impact the Group. Any of these factors could have a negative impact on the Group's ability to meet its strategic objectives for its asset base and, consequently, its business, financial condition, results of operations and/or prospects.

In addition, if mortgage intermediaries are found to have violated applicable conduct regulations or standards in the sale of the Society's mortgage products, the Group's brands and/or reputation could be harmed as a result. Reputational damage to the Group's brands caused by the failure of a third-party supplier may also adversely impact the Group's ability to attract and retain customers or employees in the short and long-term and the ability to pursue new business opportunities.

Risks relating to the Special Resolution Regime under the Banking Act

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

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

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

In respect of UK building societies, the relevant tools include (i) modified property transfer powers which also refer to cancellation of shares and conferring rights and liabilities in place of such shares, (ii) modified share transfer powers, as

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

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

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

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

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

If powers under the SRR were to be exercised in respect of the Society, HM Treasury or the Bank of England may exercise extensive share transfer powers (applying to a wide range of securities) and (subject to certain protections) property

transfer powers (including powers for partial transfers of property, rights and liabilities) in respect of the Society and/or its securities, including the Perpetual Capital Securities. Exercise of these powers could involve taking various actions in relation to any securities issued by the Society, including the Perpetual Capital Securities, without the consent of the holders, including (among other things):

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

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

As noted above, the Banking Act contains a capital write-down tool which enables (and, if the institution enters into resolution, requires) the relevant Authorities permanently to write-down, or convert into common equity tier 1 instruments (which, in the case of the Society, could be core capital deferred shares), any Tier 1 capital instruments (including the Perpetual Capital Securities) and Tier 2 capital instruments at the point of non-viability of the relevant entity and before or together with the exercise of any stabilisation power. For the purposes of the application of such mandatory write-down and conversion power, the point of non-viability is the point at which (i) the relevant Authority determines that the relevant entity meets the conditions for resolution (but no resolution action has yet been taken), (ii) that the relevant Authority determines that the relevant entity or its group will no longer be viable unless the relevant capital instruments are written-down or converted or (iii) extraordinary public financial support is required by the relevant entity other than, where the entity is an institution, for the purposes of remedying a serious disturbance in the UK economy and to preserve financial stability.

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

If the Society were made subject to the SRR and, notwithstanding that the Society anticipates that the Bank of England's preferred resolution strategy for the Society would be modified insolvency, a partial transfer of its business to another entity were effected, the quality of the assets and the quantum of the liabilities not transferred and remaining with the Society (which may include the Perpetual Capital Securities) may result in a deterioration in the creditworthiness of the Society and, as a result, increase the risk that it may be unable to make payments in respect of the Perpetual Capital Securities and/or eventually become subject to administration or insolvency proceedings pursuant to the Banking Act.

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

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH THE PERPETUAL CAPITAL SECURITIES

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

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

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

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

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

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

- transferring the Perpetual Capital Securities and/or any such CCDS out of the hands of the holders;
- de-listing the Perpetual Capital Securities and/or the CCDS;

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

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

The Society will have no control over how the UK resolution authorities elect to use the powers afforded to them under the Banking Act in respect of the Society, the Perpetual Capital Securities, the CCDS or any other securities or obligations of the Society, and the SRR could be revised or replaced from time to time. Accordingly, while the SRR is presently premised on the principle that, in the event of any such action being taken by the UK resolution authorities, losses should be borne by investors in line with the hierarchy of claims in an ordinary insolvency of the Society, there can be no assurance that this will continue to be the case or that the SRR will operate as intended, which could result in holders of Perpetual Capital Securities or CCDS receiving less favourable treatment than they would have received in ordinary insolvency proceedings.

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

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

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

Although the exercise of the capital write-down or conversion powers and bail-in resolution powers under the Banking Act is subject to certain pre-conditions, there remains uncertainty regarding the specific factors (including, but not limited

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

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

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

Investors may lose all or part of their investment in the Perpetual Capital Securities if the Common Equity Tier 1 ratio of the Society calculated on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation or any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society) or the Common Equity Tier 1 ratio of the Society calculated on any other Applicable Prudential Basis (each such ratio, a "**CET1 Ratio**") falls below 7.00 per cent. (a "**Conversion Trigger**", and see further the definitions of such terms set out in Condition 20), all as further described in Condition 8. Upon the occurrence of a Conversion Trigger, the Society shall: (a) cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date (whether or not such interest has become due for payment); (b) irrevocably (without the need for the consent of Securityholders) write down the Perpetual Capital Securities by reducing the nominal amount of each Perpetual Capital Security to zero; and (c) (subject as provided in Condition 8) issue to each Securityholder such number of CCDS as is equal to the aggregate nominal amount of that Securityholder's Perpetual Capital Securities divided by the prevailing Conversion Price.

A Conversion shall be deemed to be effective with effect from the relevant Conversion Date stated in the Conversion Notice to be given by the Society and without the requirement for any further formality. Once the nominal amount of a Perpetual Capital Security has been written down, the nominal amount of such Perpetual Capital Security will not be restored in any circumstances (including where the relevant Conversion Trigger ceases to continue), the Perpetual Capital Security will be cancelled and no further interest will accrue or be payable on such Perpetual Capital Security at any time thereafter. Any interest which is accrued and unpaid to the date of the relevant Conversion Trigger shall be immediately cancelled (whether or not such interest has become due for payment). A Securityholder will not be entitled to (i) receive, other than the relevant number of CCDS as is equal to the aggregate nominal amount of that holder's Perpetual Capital

Securities divided by the prevailing Conversion Price (rounded down to the nearest whole number of CCDS), any shares or other participation rights in the Society or be entitled to any other participation in the upside potential of any equity or debt securities issued by the Society or any other member of the Group or (ii) any subsequent re-transfer or any other compensation in the event of any change in any applicable CET1 Ratio. Any CCDS received upon Conversion may have a market value significantly below the nominal amount of the Perpetual Capital Securities held by a Securityholder. The Conversion Price at the time the CCDS are issued may not reflect the market price (if any) of the CCDS, which could be significantly lower than the Conversion Price. Furthermore, upon Conversion, Securityholders will no longer have a debt claim in relation to principal and any accrued but unpaid interest on the Perpetual Capital Securities shall be cancelled and shall not become due and payable at any time. Securityholders will not be entitled to any form of compensation in the event of the Society's potential recovery or improvement in any applicable CET1 Ratio.

In addition, the Conditions provide that, in certain circumstances, the Conversion feature of the Perpetual Capital Securities (or any replacement securities issued to Securityholders upon a transfer of the Society's business) may be replaced with a permanent write-down feature, such that if a Conversion Trigger were to occur the Perpetual Capital Securities (or such replacement securities) would be automatically written down to zero and cancelled without the delivery of CCDS or any other instrument to the Securityholders – see *"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 and/or the issue to Securityholders of Bonds or Qualifying Parent Securities in place of the Perpetual Capital Securities"* below. In such case, if a Conversion Trigger were to occur, investors in the Perpetual Capital Securities would lose their entire investment.

The occurrence of a Conversion Trigger is inherently unpredictable and depends on a number of factors, which may be outside the control of the Society. Furthermore, a determination that a Conversion Trigger has occurred can be made on any information available to the Society, the Regulator or any agent appointed for such purpose by the Regulator, as the case may be, whether or not published or otherwise publicly disclosed. Accordingly, investors may be unable to predict if and when a Conversion Trigger may occur. See *"The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect any applicable CET1 Ratio"* and *"CET1 Ratios may be affected by different factors"* below.

Furthermore, the Conditions provide that, in determining whether or not a Conversion Trigger has occurred under the Conditions, any applicable CET1 Ratio will be calculated in accordance with the then-prevailing Capital Regulations but without applying any transitional, phasing in or similar provisions if and to the extent the Regulator then requires them to be disregarded for the purpose of determining whether a Conversion Trigger has occurred. See *"For the purpose of determining whether a Conversion Trigger has occurred, any applicable CET1 Ratio may be calculated without applying any relevant transitional, phasing in or similar provisions, which will result in lower calculated CET1 Ratios than if applying any applicable transitional, phasing in or other similar provisions"* below.

Further, the Conditions provide that the Securityholders, and not the Society, shall be responsible for paying any taxes and capital, stamp, issue, registration and transfer taxes, charges and duties (or, where the same are payable by the Society under applicable law and regulation, an amount equal thereto) arising on Conversion as a consequence of any disposal or deemed disposal of their Perpetual Capital Securities (or any interest therein) and/or the issue and delivery to them of any CCDS (or any interest therein) upon Conversion. If a Securityholder fails to make payment of (or, as applicable, the amounts in respect of) all such taxes, duties and charges applicable to it by the date falling 12 years after the Conversion Date, the Securityholder shall forfeit its right to receive such CCDS, and shall not be entitled to any compensation or other amounts in respect thereof. In such event, the Society (in its sole discretion) may elect to cancel such CCDS, or to arrange for the sale of such CCDS, and any proceeds thereof shall revert to and be retained by the Society for its sole account (and, for the avoidance of doubt, the Securityholder shall have no subsequent claim against the Society or any other person for delivery of such CCDS to it or for any such proceeds or any other amounts).

Therefore, if a Conversion Trigger occurs, investors in the Perpetual Capital Securities should expect to lose all or some (which may be substantially all) of their investment.

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 Bank of England or other resolution authorities exercise their

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

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

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

Furthermore, the market price and liquidity of the Perpetual Capital Securities is expected to be affected by fluctuations in any applicable CET1 Ratio (including if the Applicable Prudential Basis on which the Society is regulated were to change) and, where applicable, the market price of any CCDS in issue. Fluctuations in any applicable 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 any other Applicable Prudential Basis, (and whether as a result of changes in the amount or composition of Society's own funds or Risk Weighted Assets or as a result of changes in the manner in which such metrics are required to be calculated under the prudential rules, with or without the application of transitional, phasing in or similar provisions), as well as changes to definitions under the capital adequacy standards, methods of calculating Risk Weighted Assets and guidelines of the relevant authority. Any indication that any applicable 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 any applicable CET1 Ratio falls. The level of any applicable 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 any applicable CET1 Ratio approaches 7.00 per cent.

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

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

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

The Perpetual Capital Securities constitute direct, unsecured and subordinated investments in the Society and, on a winding up or dissolution of the Society commencing prior to the Conversion Date (and save as otherwise provided in an Excluded Dissolution), will, subject to applicable insolvency law, rank:

- (i) junior to:
 - (A) the claims of all creditors (including all subordinated creditors) and Shareholding Members (as regards the principal of and interest due on such Shareholding Members' Shares) of the Society, including (without limitation) claims in respect of obligations of the Society which constitute Tier 2 Capital, but excluding claims in respect of Deferred Shares which are (or the claims in respect of which are) Parity Obligations or Junior Obligations; and
 - (B) the claims of all Shareholding Members (as regards the principal of and interest due on such Shareholding Members' Shares) of the Society in respect of: (1) (for so long as any of the same remain outstanding) the Existing PIBS; and (2) any other Deferred Shares in the Society except for Deferred Shares which are (or the claims in respect of which are) Parity Obligations or Junior Obligations;
- (ii) *pari passu* among themselves and with any Parity Obligations; and
- (iii) senior to all claims under any Core Capital Deferred Share (as defined in the Rules) of the Society and any other claims ranking, or expressed by their terms to rank, junior to the claims in respect of the Perpetual Capital Securities or any Parity Obligations,

all as more particularly described in Condition 4.

Subject to applicable law, no holder of any Perpetual Capital Security (or any interest therein) will be entitled to exercise, claim or plead any right of set-off (including, without limitation, compensation or retention), counterclaim or netting in respect of any amount owed to it by the Society in respect of, or arising under or in connection with, the Perpetual Capital Securities and each such holder shall, by virtue of its holding of any Perpetual Capital Security (or any interest therein), be deemed to have waived all such rights of set-off (including, without limitation, compensation or retention), counterclaim or netting.

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

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

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

Therefore, if a winding up or dissolution of the Society occurs following the Conversion Date, the claims of the Securityholders will rank even more junior than their claims would have ranked in respect of Perpetual Capital Securities had the winding up or dissolution occurred prior to the Conversion Date, and further the Securityholders will not have a claim for a fixed amount in the winding up or dissolution and there is an even greater risk that holders will lose all or some (which may be substantially all) of their investment.

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

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

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

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

Although the Society currently expects that beneficial interests in the Perpetual Capital Securities may be transferrable for a limited time following the occurrence of a Conversion Trigger and prior to the Conversion Date, there is no guarantee

that this will be the case, nor that an active trading market will exist for the Perpetual Capital Securities following the occurrence of a Conversion Trigger. Accordingly, the price received for any sale of beneficial interests in a Perpetual Capital Security, if capable of sale during this period, may not reflect the market price of such Perpetual Capital Security or the CCDS (if any) in issue.

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

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

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

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

Upon Conversion, CCDS may, at the election of the Society, be issued and delivered to a nominee for and on behalf of the Clearing Systems, or may be issued and delivered into another clearing or settlement system or in definitive registered form. In the case where the CCDS are issued into one or more Clearing Systems, investors will receive beneficial interests in the CCDS through their securities accounts and will only be entitled to the rights in respect of such beneficial interests in CCDS as prescribed by the rules of the Clearing Systems. Registration of book-entry interests in the CCDS would be effected through the records of the Clearing Systems and their respective participants in accordance with the rules and procedures of the Clearing Systems and their respective direct and indirect participants. There is no guarantee that such book-entry interests would be registered within any specific time period or that such method of issuance and delivery of CCDS will be adopted upon Conversion of the Perpetual Capital Securities.

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

Further, if the Society does elect to issue CCDS into the Clearing System, there can be no assurance that CCDS will be accepted for clearing in the Clearing Systems, in which case either the Society may issue the CCDS into an alternative clearance or settlement system or definitive certificates representing each holder's entitlement may be delivered directly to the holders or to their order – see "*Risks related to the listing and clearing of the CCDS to be issued upon Conversion*" below. The method of delivering CCDS to holders could result in different UK tax treatment upon issue and subsequent transfers of CCDS – see "*Dealings in the CCDS may in certain circumstances be liable to UK stamp taxes*" below.

Interest payments may be cancelled on a discretionary or mandatory basis

Payment of interest on any Interest Payment Date or other due date for payment is at the sole discretion of the Society. The Society may elect not to pay interest, in whole or in part, on any Interest Payment Date or other due date for payment.

The Society may make such election for any reason, and the making of such election and the non-payment of interest shall not constitute an event of default under the Conditions of the Perpetual Capital Securities or otherwise constitute a default by the Society for any purpose.

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

If the Society does not pay any interest payment (or any part thereof) on any scheduled payment date, such non-payment shall evidence the Society's exercise of discretion to cancel, or the requirement 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 and Securityholders will have no rights in respect of such cancelled interest payment (or the cancelled part thereof).

Additionally, the Regulator has the power to direct the Society to reduce or cancel payments of interest by the Society to holders of Additional Tier 1 capital instruments, or may otherwise outline its expectations that the Society will take steps to reduce or cancel payments (with potential regulatory action should the Society operate outside such expectations). It is also possible that such powers may be used in respect of the UK banking sector more generally with a view to encouraging institutions to preserve cash and/or increase or continue lending in the event of significant shocks to the UK economy. Any interest not paid will be cancelled, and Securityholders will have no right to receive such cancelled interest (or any amount in respect thereof) in any circumstances.

In addition, payment of interest on any date will be prohibited if and to the extent that (i) payment cannot be made in compliance with the Solvency Test, (ii) the Society has insufficient Distributable Items and the prevailing Capital Regulations require the Society to reduce or cancel interest payments on the Perpetual Capital Securities as a result, (iii) payment would result in a breach of any Maximum Distributable Amount then applicable to the Society and the Capital Regulations require the Society to reduce or cancel interest payments on the Perpetual Capital Securities as a result, and/or (iv) following the occurrence of a Conversion Trigger, each as further described below. The Society will also exercise its discretion, or otherwise may be required, to cancel interest payments (in whole or in part) on the Perpetual Capital Securities in any other circumstances in which the Capital Regulations or any other applicable laws or regulations in effect from time to time (or where its regulator or an applicable resolution authority acting pursuant to such Capital Regulations or other laws or regulations) require interest payments on securities such as the Perpetual Capital Securities to be so cancelled.

Solvency Test

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

If and to the extent that, on any date on which a payment of interest would otherwise fall due, the Society is unable to make such interest payment and still be solvent immediately thereafter, such interest payment shall not become due and will be cancelled.

Insufficient Distributable Items

To the extent required under then prevailing Capital Regulations, payments of interest due on any date will be prohibited and will not be paid if and to the extent that the amount of such interest payment (together with any Additional Amounts payable thereon pursuant to Condition 10, if applicable) otherwise due, together with any interest payments or distributions which have been paid or made or which are required to be paid or made during the then current Financial Year (as defined in Condition 20) on the Perpetual Capital Securities and on other own funds items (excluding any such interest payments or other distributions which (i) are not required to be made out of Distributable Items or (ii) have already

been provided for, by way of deduction, in the calculation of Distributable Items) shall, in aggregate, exceed the amount of Distributable Items (as defined in Condition 6.2(ii)) of the Society as at such payment date. See further "*The level of the Society's Distributable Items is affected by a number of factors and insufficient Distributable Items may restrict the Society's ability to make interest payments on the Perpetual Capital Securities*" below.

Maximum Distributable Amounts

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

On 12 September 2024, the PRA published consultation paper "*CP7/24 – The Strong and Simple Framework: The simplified capital regime for Small Domestic Deposit Takers (SDDTs)*" ("**CP7/24**"), with responses requested by 12 December 2024. The consultation paper builds on the 'strong and simple' regime introduced by the PRA with a view to simplifying the prudential regime for small, domestic-focused banks and building societies, while maintaining their resilience. CP7/24 proposes, amongst other things, that firms which are regulated within the Small Domestic Deposit Taker ("**SDDT**") regime would be required to maintain a simplified 'single capital buffer' (SCB) in place of the buffers currently required to be maintained under the Basel III regime, which would be implemented as part of the Pillar 2B capital framework and would be set at no less than 3.5 per cent. of risk weighted assets. In connection with this change, CP7/24 proposes that the automatic capital conservation measures currently associated with the usage of some buffers under the maximum distributable amount framework would be removed for such firms.

The Society expects to be eligible for the SDDT regime, although it is too early to determine whether the Society will elect to apply to be regulated under that regime. If the proposals in CP7/24 were to be implemented and if the Society were to become regulated under the SDDT regime in the future, the provisions of Condition 6.2(iii) (*Cancellation due to a Maximum Distributable Amount*) would cease to apply to the Perpetual Capital Securities if and to the extent that the payment restrictions thereunder were no longer required under the prevailing Capital Regulations then applicable to the Society. However, in such circumstances, the Society may still elect, or may be directed by the Relevant Regulator, to reduce or cancel interest payments on the Perpetual Capital Securities if it were to fail to meet its single capital buffer requirement.

Conversion Trigger

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

Consequences of cancellation

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

have no obligation to make payment of such interest or to pay interest thereon or any compensation or other amounts in respect thereof.

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

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

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

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

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

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

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

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

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

The Capital Regulations provide for capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Society from making interest payments on the Perpetual Capital Securities in certain circumstances, in which case interest payments may be required to be reduced or cancelled

The Group is subject to regulatory capital requirements comprising a Pillar 1 requirement, a Pillar 2A requirement, and additional buffer requirements.

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

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

The "**combined buffer requirement**" is the combination of the CCB, the CCyB, the SRB and the higher of the G-SII buffer and the O-SII buffer. The combined buffer requirement must be met with Common Equity Tier 1 capital, and the Common Equity Tier 1 capital used to satisfy the combined buffer requirement cannot also be used to satisfy the Pillar 1, Pillar 2A requirement or any minimum requirement for own funds and eligible liabilities ("**MREL**"), each of which must be met in full before Common Equity Tier 1 capital can be applied to meeting the combined buffer requirement. As at the date of this Offering Circular, the Society does not have an MREL requirement in excess of its own funds requirement. However, to the extent that any increases in the Society's Pillar 2A requirement, or any increase in the Society's MREL requirement above its own funds requirement, are, or are required to be, met with Common Equity Tier 1 capital, the amount of Common Equity Tier 1 capital available to meet the combined buffer requirement may be reduced.

As at the date of this Offering Circular:

- (i) The capital conservation buffer is set at 2.5 per cent. of risk weighted assets.
- (ii) The CCyB requirement is calculated based on the relevant exposures held in jurisdictions in which a buffer rate has been set. The Society's exposures as at the date of this Offering Circular are mostly based in the UK, with some exposures in Spain. As at the date of this Offering Circular, the Society's CCyB rate is 1.98 per cent., being the weighted average of the CCyB rates set by the competent authorities in the UK and Spain for exposures in their respective jurisdictions (being 2.0 per cent. and 0.0 per cent., respectively). The relevant competent authority generally reviews the CCyB rate it sets for exposures in its jurisdiction quarterly, and may elect to increase or decrease this rate at any time. Generally, any increase in any such CCyB rate will take effect one year after the decision to increase it, in order to give affected institutions time to raise the necessary additional capital if required. A decrease may take effect immediately. On 1 October 2024, the Banco de España announced the CCyB rate for exposures in Spain will increase to 0.5 per cent. with effect from 1 October 2025.
- (iii) The Society is not designated as G-SII or an O-SII, and, accordingly, the Society is not subject to a G-SII buffer or an O-SII buffer.
- (iv) The SRB is set at zero.

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

On 12 September 2024, the PRA published consultation paper CP7/24 relating to the SDDT regime, with responses requested by 12 December 2024. CP7/24 proposes, amongst other things, that firms which are regulated within the SDDT regime would be required to maintain a simplified 'single capital buffer' in place of the buffers currently required to be maintained under the Basel III regime, which would be implemented as part of the Pillar 2B capital framework and would be set at no less than 3.5 per cent. of risk weighted assets. The Society expects to be eligible for the SDDT regime, although it is too early to determine whether the Society will elect to apply to be regulated under that regime. If the proposals in CP7/24 were to be implemented and if the Society were to become regulated under the SDDT regime in the future, this could have a direct impact on the buffer requirements applicable to the Society.

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

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

As at 30 June 2024, the Society held Common Equity Tier 1 capital in excess of its combined buffer requirement equal to £28.3 million, or 1.2 per cent. of risk weighted assets (31 December 2023: £24.5 million or 1.1 per cent.; 31 December 2022: £29.1 million or 1.5 per cent.). The Society currently intends to maintain an internal management buffer comprising Common Equity Tier 1 capital over the combined buffer requirement. There can be no assurance, however, that the Society will continue to maintain such internal management buffer or that any such buffer would be sufficient to protect against a breach of the combined buffer requirement resulting in restrictions on payments on the Perpetual Capital Securities. See further "*Interest Payments may be cancelled on a discretionary or mandatory basis – Maximum Distributable Amount*" above.

The 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 1 or 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.

The Society's combined Pillar 1 requirement and Pillar 2A requirement as at 30 June 2024 was 8.5 per cent. of risk weighted assets, or £192.7 million (31 December 2023: 8.5 per cent. or £185.8 million; 31 December 2022: 8.6 per cent. or £163.4 million).

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

The Society's capital requirements and capital resources are subject to change as a result of a wide range of factors, including as a result of the performance of its business in general, changes in the size or mix of the Group's business and assets, major events affecting its earnings, acquisitions or disposals of businesses or assets, regulatory changes and other factors, many of which are outside of the Society's control. Any such changes could reduce the amount of Common Equity Tier 1 capital available to meet the Society's combined buffer requirements, which could result in the application of a Maximum Distributable Amount which requires the Society to reduce or cancel interest payments on the Perpetual Capital Securities. See further "*Interest Payments may be cancelled on a discretionary or mandatory basis – Maximum Distributable Amount*" above.

Furthermore, since the PRA may increase or decrease the Society's Pillar 2A requirement at any time, and the Society must meet any increased requirement in full before it can apply its available Common Equity Tier 1 capital to meeting its combined buffer requirements, investors in the Perpetual Capital Securities may not be able to assess or predict accurately the proximity of the risk of interest payments being prohibited from time to time as a result of the application of an MDA restriction under the Capital Regulations.

In addition to any Maximum Distributable Amount imposed as a result of a failure to meet combined buffer requirements calculated on a risk-weighted asset basis, it is possible that Maximum Distributable Amount restrictions on payments of interest on Additional Tier 1 capital instruments (such as the Perpetual Capital Securities) could in the future be introduced if an institution fails to meet capital requirements on an alternative basis, such as a leverage or MREL basis. If such restrictions were to be introduced and were to apply to the Society, Condition 6.2(iii) would operate to require reduction or cancellation of interest payments on the Perpetual Capital Securities in applicable circumstances.

While, under the Capital Regulations as at the date of this Offering Circular, failure to meet the PRA buffer or leverage ratios or buffers will not automatically trigger restrictions on distributions, the PRA may in such circumstances impose requirements which could have the effect of imposing such restrictions under its supervisory powers envisaged in the Capital Regulations and FSMA (as applicable). In addition, failure to meet the PRA buffer or leverage ratios or buffers could result in the preparation of a capital restoration plan. Such capital restoration plan may (but will not automatically) impose restrictions on discretionary payments, including under the Perpetual Capital Securities. In any event, if the Society were to fail to meet any applicable leverage ratio or PRA buffer requirement, it may elect to cancel interest payments under Condition 6.1, or may be directed by the Relevant Regulator to cancel interest payments as contemplated under Condition 6.2(i).

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

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

Condition 4.4 provides that no payment of principal, interest or any other amount in respect of the Perpetual Capital Securities shall become due and payable unless, and to the extent that, the Society is able to make such payment and still be solvent (as defined in Condition 4.4) immediately thereafter, in each case except in the winding up or dissolution of the Society.

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

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

As the holders of the Perpetual Capital Securities are (except in the circumstances provided in Condition 13.3 where the resulting entity does not have a viable convert-to instrument) expected to receive CCDS or (in certain circumstances following a business succession as provided in Condition 13) an alternative form of common equity tier 1 instrument 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 or relevant common equity tier 1 instrument, following a Conversion. Non-compliance with such disclosure and/or approval requirements may lead to the incurrance 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 or other common equity tier 1 instruments following a Conversion Trigger.

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

The market price of the Perpetual Capital Securities is expected to be affected by changes in any applicable CET1 Ratio (including if the Applicable Prudential Basis on which the Society is regulated were to change). 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 any other Applicable Prudential Basis may be caused by changes in the amount of Common Equity Tier 1 capital and/or Risk Weighted Assets (each of which shall be calculated in accordance with the then-prevailing Capital Regulations (but without applying any transitional, phasing in or similar provisions (if any) if and to the extent the Regulator then requires them to be disregarded for the purpose of determining whether a Conversion Trigger has occurred) and such calculations shall be binding on the holders of the Perpetual Capital Securities). See "*The circumstances surrounding or triggering a Conversion are unpredictable, and there are a number of factors that could affect any applicable CET1 Ratio*" and "*CET1 Ratios may be affected by different factors*" below.

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

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

Whilst the Society currently intends to publicly report its CET1 Ratio (calculated on an individual consolidated basis and, if applicable, on any other Applicable Prudential Basis) on at least a half-yearly basis, for so long as any Perpetual Capital Security remains outstanding, there can be no assurance that this will continue to be the case. The determination of whether a Conversion Trigger has occurred can be made at any time, and on the basis of any financial information (whether or not published or otherwise publicly disclosed) available to the Society, the Regulator or any agent appointed for such purpose by the Regulator, as the case may be. Therefore, there may be no prior warning of adverse changes in any applicable CET1 Ratio. However, any indication that any applicable 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 any applicable 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 any applicable CET1 Ratio

The occurrence of a Conversion Trigger is inherently unpredictable and depends on a number of factors, many of which are outside the control of the Society. A Conversion Trigger could occur at any time, and on the basis of any information available to the Society, the Regulator or any agent appointed for such purpose by the Regulator, as the case may be, whether or not published.

Any applicable CET1 Ratio can be expected to fluctuate on an ongoing basis. The calculation of such ratios could be affected by one or more factors, including, among other things, changes in the size or mix of the Group's business and assets, major events affecting its earnings, acquisitions or disposals of businesses or assets, distribution payments by the Society, regulatory changes (including changes to definitions and calculations of any applicable CET1 Ratio and its 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 any other Applicable Prudential Basis) and the Group's ability to manage Risk Weighted Assets in both its ongoing businesses and those which it may seek to exit. In addition, the Group may from time to time have capital resources and risk weighted assets denominated in foreign currencies, and changes in foreign exchange rates will result in changes in the pound sterling equivalent value of foreign currency denominated capital resources and risk weighted assets. As a result, any applicable CET1 Ratio may be exposed to foreign currency movements. The calculation of any applicable CET1 Ratio may also be adversely affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules. Even if changes in applicable accounting rules, or changes to regulatory adjustments which modify accounting rules, are not yet in force as at the relevant calculation date, the PRA could require the Society to reflect such changes in any particular calculation of any applicable CET1 Ratio.

In November 2022, the PRA published a consultation paper (CP16/22) on its implementation of the outstanding Basel III measures, referred to in the consultation paper as the "Basel 3.1 standards". The PRA consultation initially proposed that these changes would be effective from 1 January 2025, however on 27 September 2023 the PRA released a statement confirming that the implementation would be pushed back six months to 1 July 2025, and on 12 September 2024 the PRA announced a further postponement to 1 January 2026. The Basel 3.1 standards primarily relate to the measurement of risk weighted assets. The proposed changes affect existing approaches to calculation of risk weights and introduce new limits around the use of internal models ("IMs") to calculate risk weights, including an "output floor" limiting the benefit that IMs can provide in calculating risk weighted assets. The Basel 3.1 proposals, which are expected to be implemented on a gradual phase-in basis, with full implementation by 1 January 2030, may therefore lead to an increase in the amount of regulatory capital the Society is required to hold, and/or a reduction in its capital ratios (including the CET1 Ratio), as a result of changes to risk weighted asset calculations. The PRA published its second set of near-final Basel 3.1 rules on 12 September 2024. The Society uses the standardised approach for calculating its Risk Weighted Assets for all exposures. Due to the more risk-sensitive nature of the new rules (which reduce risk weightings in particular for low LTV lending), the Society considers that, based on its asset portfolio as at 30 June 2024 and had the Basel 3.1 standards (in the form currently proposed) been implemented as at that date, it would have resulted in a reduction of its Risk Weighted Assets with a corresponding positive impact on its capital ratios. However, the actual impact of the implementation of the new rules remains to be seen.

Further, the Society has no obligation to increase its Common Equity Tier 1 capital, reduce its Risk Weighted Assets or otherwise operate its business in such a way or take mitigating actions in order to prevent any applicable CET1 Ratio from falling below 7.00 per cent. or to maintain or increase any applicable CET1 Ratio. See also "*Any applicable CET1 Ratio will be affected by the Group's business decisions and, in making such decisions, the Group's interests may not be aligned with those of the holders of the Perpetual Capital Securities*" below.

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

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 any other Applicable Prudential 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 any other Applicable Prudential 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 any other Applicable Prudential Basis.

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

Any applicable 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 any applicable CET1 Ratio*" and "*CET1 Ratios may be affected by different factors*" above, any applicable CET1 Ratio could be affected by a number of factors. Any applicable 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 Society expects to have regard to 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, including (without limitation) if such decisions result in the cancellation of interest payments on the Perpetual Capital Securities or the occurrence of a Conversion Trigger, without holders having any claim against or recourse to the Society or any other member of the Group.

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

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

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

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

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

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

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

In order to comply with increasing regulatory capital requirements imposed by applicable regulations, the Society may need to raise additional capital. Further capital raisings by the Society could result in the dilution of the interests of the Securityholders.

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

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

In addition, the terms of the Perpetual Capital Securities do not contain any prohibition on the Society issuing other securities or incurring other obligations which are intended to qualify as Additional Tier 1 capital but on terms that such securities or obligations would be (i) written down or converted to CCDS at a CET1 Ratio which is lower than the 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 or incur any such Additional Tier 1 capital securities or obligations, the issue or incurrence of any such securities or obligations in the future may have a material adverse effect on the market price of the Perpetual Capital Securities, and could result in the Perpetual Capital Securities being converted into CCDS at a time when such other securities or obligations are not written down or converted (in whole or in part) and/or whilst such other securities or obligations 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 FSMA 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 UK 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 (including, for example, the Basel 3.1 reforms) could impact the application of the definitions of Common Equity Tier 1 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 any other Applicable Prudential Basis, and therefore the calculation of any applicable CET1 Ratio, as described in further detail above. Any change in law that affects the calculation of any applicable CET1 Ratio would also affect the determination of whether a Conversion Trigger may occur. Any such change which impacts the calculation of any of the aforementioned capital measures (or the anticipation of any such change), or any amendments or changes to the provisions of the PRA Rulebook (including,

without limitation, relating to capital buffers and the calculation of maximum distributable amounts) or Pillar 2A requirements (or any equivalent or similar law, rule or provision of the Capital Regulations, in each case to the extent then applicable to the Society) can be expected to have an adverse effect on the market value of the Perpetual Capital Securities or may affect the ability to make any interest payment. In addition, any change in law or regulation that would cause a Tax Event or a Regulatory Event (each as defined in Condition 7) may entitle the Society, at its option, to repay all, but not some only, of the Perpetual Capital Securities.

Furthermore, the financial services industry continues to be the focus of significant regulatory change and scrutiny (for example, the recent enactment in the UK of the Financial Services and Markets Act 2023 and the Retained EU Law (Revocation and Reform) Act 2023) which may adversely affect the Group's business, financial performance, capital and risk management strategies. Such regulatory changes, and the resulting actions taken to address such regulatory changes, may have an adverse impact on the Group's, and therefore the Society's, performance and financial condition. It is not yet possible to predict the detail of such legislation or regulatory rulemaking or the ultimate consequences to the Group or the holders of the Perpetual Capital Securities, which could be material.

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

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

The Perpetual Capital Securities constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no maturity date or fixed redemption date. The Society does not have an obligation to repay the Perpetual Capital Securities at any time and Securityholders do not have any right to require the Society to repay or purchase the Perpetual Capital Securities (but this is without prejudice to their rights to claim in a winding up or dissolution of the Society pursuant to, and in accordance with, Condition 4.3). The terms of the Perpetual Capital Securities do not provide for any events of default, and enforcement rights in respect of the Perpetual Capital Securities are limited (including as provided in Condition 4.6). The Society will have the option to repay the Perpetual Capital Securities in certain circumstances, as further described below, but any such repayment would be solely in the discretion of the Society, and subject to (among other requirements) obtaining regulatory approval and compliance with applicable law and regulation at the relevant time. As a result, an investor in the Perpetual Capital Securities should be prepared to hold its Perpetual Capital Securities in perpetuity or, if it wishes to exit its investment, may be required to sell its Perpetual Capital Securities in the secondary market. There can be no assurance that an investor will be able to sell its Perpetual Capital Securities in the market, or, if so, that the price of such sale will be equal to or above its initial investment, and the price could be substantially less.

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

- (a) the option to purchase or otherwise acquire the Perpetual Capital Securities in the open market or otherwise at any price;
- (b) the option, in its sole discretion, to repay the Perpetual Capital Securities at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions):
 - (i) on any date during a Par Call Period; or
 - (ii) on any date if 75 per cent. or more of the aggregate nominal amount of the Perpetual Capital Securities originally issued (and, for this purpose, any Further Perpetual Capital Securities

issued pursuant to Condition 16(a) shall be deemed to have been originally issued) has been repaid or purchased and cancelled; and

- (c) the option, in its sole discretion, to repay the Perpetual Capital Securities at any time upon the occurrence of a Tax Event or a Regulatory Event (each as defined in Condition 7), in each case at their nominal amount together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions).

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

In addition, the repayment features of the Perpetual Capital Securities are likely to limit their market value. During any period when the Society has the right to elect to repay the Perpetual Capital Securities, or if there is a perception in the market that any such right has arisen or may arise, the market value of the Perpetual Capital Securities will generally not be expected to rise substantially above the price at which they can be repaid.

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

If a Regulatory Event or a Tax Event has occurred and is continuing, the Society may, in its sole discretion, subject to obtaining any Relevant Regulator consents and to compliance with the prevailing Capital Regulations, elect to substitute all (but not some only) of the Perpetual Capital Securities for, or to vary the terms of the Perpetual Capital Securities so that they remain or, as appropriate, become, Compliant Securities, without any need for consent or approval by the Securityholders.

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

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

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

Subject also to the subordination of the Perpetual Capital Securities (as described in "*The obligations of the Society under the Perpetual Capital Securities are unsecured and deeply subordinated, and the rights of the holders of CCDS will be further subordinated*" above), holders of the Perpetual Capital Securities shall, in a winding up or dissolution of the Society (save as otherwise provided in an Excluded Dissolution) which commences prior to any Conversion Date determined in accordance with Condition 8, be entitled to claim for the nominal amount of their Perpetual Capital Securities together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions) and (if applicable) any damages awarded in respect thereof. Such claim shall be conditional upon all sums due in respect of claims in such winding up or dissolution in relation to Senior Obligations having first been paid in full. For the avoidance of doubt, on a winding up or dissolution of the Society which commences prior to the Conversion Date, the holders of the Perpetual Capital Securities shall have no claim in respect of the surplus assets (if any) of the Society remaining in any winding up or dissolution following payment of all amounts due in respect of Senior Obligations and Parity Obligations. The Conditions provide that references therein to "winding up or dissolution" shall, to the extent consistent with the classification of the Perpetual Capital Securities as deferred shares pursuant to section 119 of the Act

and the Deferred Shares Order, include any similar procedure (including building society insolvency, or a building society administration involving a distribution to creditors, pursuant to the Banking Act 2009) which has the effect of a winding up or dissolution. For the avoidance of doubt, should any such similar procedure not be consistent with the classification of the Perpetual Capital Securities as deferred shares pursuant to section 119 of the Act and the Deferred Shares Order, the holders of the Perpetual Capital Securities would not have a claim in such procedure.

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

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

Accordingly, investors holding beneficial interests in the Perpetual Capital Securities through an account in a Clearing System and the persons shown in the records of the Clearing Systems will not be members of the Society by virtue of their investment in the Perpetual Capital Securities and will not directly benefit from the Rules, the Memorandum or the Act. Such investors shall be entitled to rights in respect of their beneficial interest in the Perpetual Capital Securities, as prescribed by the rules of the relevant Clearing System and must rely on the procedures of such Clearing System to enforce its rights. The Society has no responsibility or liability for the records relating to beneficial interests in any Perpetual Capital Securities. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate. While the Perpetual Capital Securities are in global form, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg, as the case may be.

Upon Conversion, if the CCDS are delivered to a Clearing System or an alternative clearing or settlement system such investors would receive only beneficial interests in the CCDS through their account in the relevant system and will not, through their holding of CCDS, be members of the Society by virtue of their investment in the CCDS and will not directly benefit from the Rules, the Memorandum or the Act.

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

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

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

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

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

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

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

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

The Perpetual Capital Securities represent a new security for which no secondary trading market currently exists. Although the Perpetual Capital Securities are intended to be admitted to trading on the ISM upon issue, there can be no assurance that a trading market in the Perpetual Capital Securities will develop. Following admission to trading of the Perpetual Capital Securities on the ISM, if a secondary trading market does develop for the Perpetual Capital Securities, the trading price of the Perpetual Capital Securities may be subject to wide fluctuations in response to many factors, including those referred to in this risk factor, as well as stock market fluctuations and general economic conditions that may adversely affect the market price of the Perpetual Capital Securities. Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market, including in circumstances where a significant proportion of the securities are held by one or a limited number of initial investors. The risks of illiquidity and price volatility may be further exacerbated where (as is the case for the Perpetual Capital Securities) the aggregate principal amount of the relevant series of securities issued is below the amount generally recognised by the markets as 'benchmark' size. 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 any applicable 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 any applicable CET1 Ratio or other capital ratios and/or any application of any Maximum Distributable Amount restrictions under the Capital Regulations, which could arise as a result of a number of factors including changes in regulation or losses incurred by the Society;
- material decreases in the amount of available Distributable Items of the Society;
- variations in operating results in the Group's reporting periods;

- any announcement or anticipation that the UK resolution authorities have elected or may elect to exercise their recovery and resolution powers under the Banking Act 2009 in respect of the Society, the Perpetual Capital Securities or any of the Society's other securities;
- any shortfall in revenue or net profit or any increase in losses from levels expected by the market;
- increases in capital expenditure compared with market expectations;
- any perception that the Group's strategy is or may be less effective than previously assumed or that the Group is not effectively implementing any significant projects;
- changes in financial estimates by securities analysts, or any changes in any credit ratings assigned to the Society or any of its securities, or any such credit ratings being put on review for possible downgrade;
- changes in market valuations of similar entities;
- announcements by the Group of significant mergers, acquisitions, asset or business disposals, strategic alliances, joint ventures, new initiatives, new services or new service ranges, and any updates on the progress of any such transactions;
- regulatory matters, such as changes in regulatory regulations or PRA, UK Financial Policy Committee, FCA, HM Revenue & Customs or HM Treasury requirements;
- additions or departures of key personnel;
- future issues or sales of Perpetual Capital Securities or other securities; and
- events such as natural catastrophes, pandemic, man-made disasters, acts of terrorism or acts of war and any pre-emptive or reactive measures designed to prevent or contain such events.

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

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

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

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

Risks related to succession and transfer of the Society's business, including the potential replacement of the Conversion feature of the Perpetual Capital Securities with a permanent write-down feature and/or the issue to Securityholders of Bonds or Qualifying Parent Securities in place of the Perpetual Capital Securities

Condition 13 contains provisions applicable to the Perpetual Capital Securities upon an amalgamation by the Society with another building society under section 93 of the Act, a transfer of all or substantially all of its engagements to another building society under section 94 of the Act or a transfer by the Society of the whole of its business in accordance with section 97 of the Act (including, where relevant, as amended pursuant to an order made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (as amended, the "**Mutual Societies Transfers Act**") to a company (a "**Successor Entity**", which expression includes a subsidiary of a mutual society as referred to in the Mutual Societies Transfers Act).

Those provisions enable (in the context of such amalgamation or transfer only) certain amendments to be made to the terms of the Perpetual Capital Securities, or for the Perpetual Capital Securities to be replaced with Bonds issued by the Successor Entity or, in certain circumstances, Qualifying Parent Securities issued by a Qualifying Parent of the Successor Entity, in each case without the consent of the Securityholders. Any such amendments to, or replacement of, the Perpetual Capital Securities could be adverse to the interests of Securityholders.

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

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

Furthermore, in the event of a demutualisation of the Society, there can be no assurance that the business model, risk approach or strategic ambition of the Successor Entity or, as the case may be, its Qualifying Parent will be similar to that of the Society, and there can be no assurance that the holding of capital securities in a Successor Entity or a Qualifying Parent of the Successor Entity will offer a similar risk profile or return on investment when compared with the Perpetual Capital Securities. Building societies are organised under the provisions of the Act. The Act imposes a number of restrictions on the operation of a building society as compared to a bank, including (i) defining the principal purpose of a building society as "that of making loans which are secured on residential property and funded substantially by its

members"; (ii) restricting the ability of building societies to engage in certain wholesale banking activities (for example, acting as a market maker in securities, commodities or currencies, trading in commodities or currencies, entering into certain transactions involving derivatives and limiting the risks for which derivatives hedging may be used); (iii) specifying certain limitations on the amount of non-mortgage lending that a building society is able to write (a minimum of 75 per cent. of loan assets, excluding liquid assets and fixed assets, must be secured on residential property); and (iv) limiting the volume of wholesale funding a building society may raise (currently at least 50 per cent. of funding (calculated in accordance with the Act) is required to be raised from retail depositors). A Successor Entity or, as the case may be, a Qualifying Parent of the Successor Entity may not be constrained in these or similar respects under its governing legislation, and accordingly its business strategy could involve a greater degree of risk than that of the Society due to factors such as (but not limited to) increased risk appetite, a more aggressive approach to risk management, increased leverage, greater reliance on wholesale funding and/or unsecured lending and increased use of derivative investments or proprietary trading.

Risks related to the Perpetual Capital Securities generally

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

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

The Perpetual Capital Securities will accrue interest at a fixed rate of interest, which will be reset on each Reset Date. Investment in fixed rate instruments involves the risk that if market interest rates subsequently increase above the rate paid on the Perpetual Capital Securities, this will adversely affect the value of the Perpetual Capital Securities.

Furthermore, the interest rate following any Reset Date may be less than the initial interest rate and/or the interest rate that applies immediately prior to such Reset Date, which would affect the amount of any interest payments under the Perpetual Capital Securities and so the market value of the Perpetual Capital Securities, and could have an impact on whether the Society decides to exercise its repayment rights.

Holdings of less than £200,000

The Perpetual Capital Securities are denominated in amounts of £200,000 and integral multiples of £1,000 in excess thereof. In the event that definitive Perpetual Capital Securities are required to be issued, a holder who holds a nominal amount which is less than £200,000 in its account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Perpetual Capital Securities at or in excess of £200,000 such that its holding amounts to at least £200,000. Further, a holder who, as a result of trading such amounts, holds an amount which is less than £200,000 in its account with the relevant Clearing System at the relevant time would need to purchase a nominal amount of Perpetual Capital Securities such that its holding amounts to at least £200,000 before it may receive a definitive Perpetual Capital Security in respect of such holding. Except in circumstances set out in the Global Certificate, investors will not be entitled to receive definitive Perpetual Capital Securities.

Limitation on gross-up obligation under the Perpetual Capital Securities

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

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

A specified majority of holders may bind the minority; the approval of Securityholders is not required prior to a Conversion; and the members of the Society are entitled to amend the Rules of the Society without the consent of the Securityholders

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

The agreement or approval of the holders of the Perpetual Capital Securities shall not be required in the case of any Conversion in accordance with Condition 8 (as described in further detail above).

Further, the Conditions do not limit the rights of members to change the Rules of the Society. Whilst, pursuant to Condition 14.2, the Society undertakes 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 Securityholders in that capacity, there can be no assurance that the members of the Society will not initiate and approve any such changes. Condition 14.2 provides that, in the event that there are changes to the Rules which are materially prejudicial to the holders of the Perpetual Capital Securities and are not approved or ratified by the requisite majority of Securityholders in accordance with Condition 15, this will not limit the rights of Securityholders to bring an action for (or as if there had been a) breach of contract against the Society (subject to the limitation set out in Condition 4.6 providing that (except in a winding up or dissolution of the Society, in which event the provisions of Condition 4.3 shall apply) in no event shall the Society, by virtue of the institution of any such action be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been due and payable by it pursuant to these Conditions). However, there can be no assurance that such rights will afford adequate protection to Securityholders in such circumstances and as a result holders of Perpetual Capital Securities may experience material losses if the Rules are amended.

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

Where the Society encounters, or is likely to encounter, financial difficulties that are affecting, or will or may affect, its ability to carry on business as a going concern, it may propose a Restructuring Plan (a "**Plan**") with its creditors under Part 26A of the Companies Act 2006 (introduced by the Corporate Insolvency and Governance Act 2020) to eliminate, reduce, prevent or mitigate the effect of any of those financial difficulties. Should this happen, creditors whose rights are affected are organised into creditor classes and can vote on any such Plan (subject to being excluded from the vote by the English courts for having no genuine economic interest in the Society and certain exclusions where the Plan is proposed within the 12 week period following the end of a moratorium). Providing that one class of creditors (who would receive a payment, or have a genuine economic interest in the Society) has approved the Plan, and in the view of the English courts any dissenting class(es) who did not approve the Plan are no worse off under the Plan than they would be in the event of the "relevant alternative" (such as, broadly, winding up or dissolution), then the English court can sanction the Plan where it would be a proper exercise of its discretion. A sanctioned Plan is binding on all creditors and members, regardless of whether they approved it. Any such sanctioned Plan in relation to the Society may, therefore, adversely affect the rights of Securityholders and the price or value of their investment in the Perpetual Capital Securities, as it may have the effect of modifying or disapplying certain terms of the Perpetual Capital Securities (by, for example, writing down the principal amount of the Perpetual Capital Securities, modifying the interest payable on the Perpetual Capital Securities, the duration of the Perpetual Capital Securities or the dates on which any payments are due or substituting the Society as principal debtor).

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

The Perpetual Capital Securities are deferred shares in the Society, and as such the Society expects that their transfer would be exempt from UK stamp duty and UK stamp duty reserve tax ("**SDRT**") under section 109 of the Act, which provides that the transfer of shares in a building society are exempt from all UK stamp duties.

However, the application of section 109 of the Act to deferred shares such as the Perpetual Capital Securities remains untested. If section 109 of the Act does not apply to the Perpetual Capital Securities, then transfers of Perpetual Capital Securities within the Clearing Systems should nevertheless 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 however to apply to the Perpetual Capital Securities, transfers of the Perpetual Capital Securities within the Clearing Systems could, unless another 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 if section 109 of the Act does not apply to them (and if a section 97A election applies or if definitive Certificates have been issued) should not apply if the Perpetual Capital Securities are "hybrid capital instruments" taxable under the hybrid capital instruments tax regime in Chapter 12, Part 5 of the Corporation Tax Act 2009 (the "**HCI Rules**"). The Perpetual Capital Securities will be taxable under the HCI Rules if at the time of the transfer or agreement to transfer the Perpetual Capital Securities: (a) the Society has made an election within six months of the date on which the Perpetual Capital Securities are issued for the HCI Rules to apply to them (an "**Election**"), and (b) the Society has not issued the Perpetual Capital Securities in connection with any arrangements which have as their main purpose or one of their main purposes securing a tax advantage for the Society or for any other person (a "**Tax Advantage Scheme**"). The Society intends to make an Election on or before the date of issue of the Perpetual Capital Securities and the Society does not consider that the Perpetual Capital Securities are being issued as part of a Tax Advantage Scheme.

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

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Perpetual Capital Securities (including but not limited to, the effect or likelihood of cancellation of interest payments (in whole or in part) and of the occurrence of a Conversion Trigger for the Perpetual Capital Securities which results in loss absorption by investors), the merits and risks of investing in the Perpetual Capital Securities and any CCDS into which they may convert, the information contained or incorporated by reference in this Offering Circular or any applicable supplement and emerging regulatory developments and future requirements regarding capital eligibility;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Perpetual Capital Securities and any CCDS into which they may convert, and the impact such investment will have on its overall investment portfolio;

- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Perpetual Capital Securities and any CCDS into which they may convert, including where such potential investor's financial activities are principally denominated in a currency other than pounds sterling, and the possibility that interest payments (in whole or in part) could be cancelled, no distributions may be paid on any CCDS, and the entire amount of an investment in the Perpetual Capital Securities or any CCDS could be lost, including following the exercise by the UK resolution authorities of any recovery and resolution powers under the Banking Act 2009;
- (iv) understand thoroughly the terms of the Perpetual Capital Securities and any CCDS into which they may convert, such as the provisions governing interest cancellation or non-payment of distributions, repayment and purchase rights, and Conversion (including, in particular, calculation of each applicable CET1 Ratio, as well as under what circumstances a Conversion Trigger will occur), and be familiar with the behaviour of any relevant indices and financial markets and with the resolution regime applicable to the Society and the Group, including the possibility that the Perpetual Capital Securities or any CCDS into which they may convert may become subject to write down or conversion by the UK resolution authorities in certain circumstances;
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and
- (vi) understands the accounting, legal, regulatory and tax implications of a purchase, holding and disposal of an interest in the relevant Perpetual Capital Securities and any CCDS.

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

Legality of purchase

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

Risks related to the market generally

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

Exchange rate risks and exchange controls

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

Credit ratings may not reflect all risks

The Perpetual Capital Securities will be unrated on issue. Rating agencies may from time to time assign credit ratings to the Society and/or the Perpetual Capital Securities, whether on a solicited or unsolicited basis. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency without notice. Similar ratings on different types of securities do not necessarily mean the same thing, and ratings do not address the likelihood that the interest or principal on the Perpetual Capital Securities will be paid on any particular date (or at all). Ratings also do not address the marketability of the Perpetual Capital Securities or any market price. Any assignment or withdrawal of, or change in, any credit ratings in respect of the Perpetual Capital Securities or the Society (including any unsolicited credit ratings) could adversely affect the price that a subsequent purchaser will be willing to pay for the Perpetual Capital Securities. The significance of any rating should be evaluated independently of any other rating. Ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Perpetual Capital Securities.

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

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

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

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH CCDS, IN THE EVENT THAT ANY ARE ISSUED

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

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

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

Issue prior to Conversion

Upon Conversion of the Perpetual Capital Securities, Securityholders are expected (subject as set out in the Conditions of the Perpetual Capital Securities) to receive CCDS. The Society has significant flexibility to issue CCDS, prior to and/or upon Conversion, with terms that differ from the indicative conditions of issue of the CCDS (the "**Indicative CCDS Conditions**") set out in the Annex to this Offering Circular. No assurance can be given as to the extent to which the Indicative CCDS Conditions and the actual conditions of the CCDS issued upon Conversion will be the same. Whilst it is not the intention of the Society to issue CCDS on substantively different terms to the Indicative CCDS Conditions in the event of a Conversion of the Perpetual Capital Securities, it may be necessary for the Society to do so in certain circumstances, including (but not limited to): (i) if required in order to ensure that such CCDS qualify as common equity tier 1 (or equivalent) capital of the Society at that time; (ii) to ensure that such CCDS are capable of being consolidated into a single class with other Core Capital Deferred Shares of the Society issued simultaneously or then outstanding at that time (if any); (iii) where the Society is unable to procure clearing of the CCDS in the Clearing Systems (either without the terms of the CCDS departing in certain respects from the indicative provisions contained in the Annex to this Offering Circular, or at all); or (iv) where the issue or transfer of the CCDS into or within the Clearing Systems may or would result in the Society suffering adverse tax consequences (including incurring any tax liabilities) which would not arise, or which would be reduced, if the CCDS were to be issued and held outside the Clearing Systems (including, for example, if the CCDS were issued into an alternative settlement system or in definitive certificated form). See further the introduction to the Annex to this Offering Circular.

As at the date of this Offering Circular and as at the Issue Date, no CCDS have been issued by the Society or listed or admitted to trading on any stock exchange. There may not be any CCDS in issue prior to Conversion, in which case the CCDS to be issued upon Conversion will be new securities which may not be widely distributed and which will not have an active trading market. There is no assurance that an active trading market in CCDS will develop nor as to the liquidity of any trading market for the CCDS. As no primary or secondary market price for the CCDS exists at the time of an investment in the Perpetual Capital Securities initially upon issue, 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 and Average Principal Amount are 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. Prior to the first issuance of CCDS, the Society will also need to obtain the approval of the PRA for their inclusion in the CET1 capital of the Society; if this has not been completed prior to Conversion, it could have an impact on the ability of the Society to deliver CCDS to holders on a timely basis. 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, with the consent or approval of the Society, listed, but the Conditions require the Society to do so only if and to the extent permitted by the Regulator and prevailing Capital Regulations, the Act and any other applicable laws and regulations and only to the extent that such requirement would not cause a Regulatory Event to occur. There can therefore be no certainty that the CCDS will be listed at all. In addition, any such listing would be made only as soon as the Society in its sole discretion (having regard to the interests of the Society's members, the financial condition of the Society and prevailing market conditions) considers practicable following the issue of such CCDS, and consequently there may be a significant delay of a number of months or years between Conversion and any such listing.

Although there is no assurance that the Society will be able to apply for any CCDS issued on Conversion to be admitted to trading on any stock exchange or other market, the Society expects that, if it were to apply for any CCDS to be listed in the FCA Official List and admitted to trading on the London Stock Exchange, such application would be made for the CCDS to be listed in the 'non-equity shares and non-voting equity shares' category (FCA Policy Statement PS24/6 expressly provides that 'non-equity shares' would include deferred shares). However, there can be no assurance that any such application would be granted, including if the Society would be unable to demonstrate compliance with any applicable listing requirements, including free-float requirements. Such a listing, if obtained, may afford investors a lower level of regulatory protection than that afforded to investors in securities listed in a different listing category (such as, for example, the 'equity shares (commercial companies)' category), which may be subject to additional continuing obligations under the rules set out in the UK Listing Rules Sourcebook. Furthermore, there may be reasons why it is not practicable to admit the CCDS to the regulated market of the London Stock Exchange, and the Society shall be entitled to seek a listing on any Relevant Stock Exchange in its discretion. There can be no assurance that any such listing would afford holders with similar rights or protections as a listing on the London Stock Exchange.

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

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

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

Core capital deferred shares are a financial instrument with complex features

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

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

- the CCDS are expected to be perpetual instruments. Holders of CCDS will have no right to have their CCDS redeemed and the Society will have no obligation or right to redeem the CCDS at any time;
- CCDS holders are expected not to have any right to receive Distributions (as defined in the Indicative CCDS Conditions) on the CCDS (or to any particular level or frequency of payment of such Distributions, if paid), the declaration of which by the Board will be wholly discretionary and may be restricted by applicable law and regulation. The Rules of the Society provide for an upper limit on the amount of Distributions which the Society is permitted to declare on each CCDS in respect of any Financial Year;
- the rights of CCDS holders to participate in the winding up or dissolution of the Society are expected to be limited to (i) a deeply subordinated claim in respect of any declared, unconditional and unpaid Distributions (if any) on the CCDS at the time of the winding up or dissolution, and (ii) a capped entitlement to share in surplus assets (if any) remaining in the Society after all depositors, creditors (including subordinated creditors) and Shareholding Members (as regards the principal and interest due on their Shares, other than Core Capital Deferred Shares) have been paid in full;
- the CCDS holders are expected to have no member voting rights at general meetings of the Society in respect of the CCDS which they hold whilst the CCDS are held through the Clearing Systems, and even if CCDS in definitive form are issued and held directly by holders outside any clearance or settlement system, their member voting rights at general meetings of the Society will be limited to a single vote (irrespective of the number of CCDS held) under the 'one member, one vote' principle, and will be wholly insignificant in the context of all the votes which Members of the Society will be able to cast; 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 Society and/or the financial sector generally approaches or enters into a period of financial stress. Such losses could be manifested in a number of ways, including (without limitation):

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

With respect to any given Financial Year of the Society, the Board may declare an Interim Distribution during such Financial Year and/or a Final Distribution in respect of such Financial Year. Interim Distributions and Final Distributions are independent, and accordingly whether or not the Board declares an Interim Distribution during any Financial Year will have no bearing on the Board's discretion to declare a Final Distribution in respect of that Financial Year (save that the amount of the Final Distribution (if any) declared in respect of a Financial Year shall not, when aggregated with any Interim Distribution paid in respect of that Financial Year, exceed the Cap referred to below). If at any time the Board elects to declare any Interim Distribution or Final Distribution, the amount of such Distribution will be at the discretion of the Board, subject to the restrictions on the maximum amount of any Distribution described below.

The Society may publish a distribution policy in respect of the CCDS which may set out an indication of the level of Distributions which the Board expects to declare on the CCDS. Any such indication shall not be binding on the Board or the Society, and an election by the Board not to declare a Distribution (whether an Interim Distribution or a Final Distribution) in line with any stated expectation (or at all) shall not constitute a default under the CCDS or for any purpose.

The Society will be entitled to amend any previously published distribution policy at any time, in which case the Society will promptly publish the revised policy on its website.

The Society currently expects that it will maintain a stable distribution policy, subject to such factors as the Board deems relevant, including (but not limited to) the Society's profitability, availability of distributable resources, business outlook, capital and liquidity and the adequate recognition of the value to the Society of investments in CCDS, as well as the duty of the Board to act in the best interests of the Society and to have regard to the interests of all categories of the Society's members (of which CCDS holders form only one such category).

If at any time the Board elects not to declare any Interim Distribution or Final Distribution, no Distribution or other amount in respect of the relevant period shall accumulate to CCDS holders or be payable at any time thereafter, and CCDS holders shall have no right to any Distribution or other amount in respect of such period. In addition, Distributions may be declared that are, in whole or in part, subject to the satisfaction of one or more conditions. In such circumstances, if any such condition is not satisfied on or prior to the scheduled date for payment, such Distribution (or, if applicable, the relevant part of such Distribution) shall not accumulate to CCDS holders or be payable at any time thereafter.

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

Distributions will only be permitted to be paid out of the aggregate of profits and reserves (if any) of the Society which are available, in accordance with applicable law and regulation for the time being, for the payment of such Distribution ("**Distributable Items**"). The Society will not be permitted to, and will not, declare a Distribution that is greater than the amount of Distributable Items available for payment of such Distribution. The Society's Distributable Items, and therefore its ability to make Distributions on the CCDS, may be affected by the performance of its business in general, factors affecting its financial position (including capital and leverage), acquisitions or disposals of businesses or assets, the economic environment in which the Group operates and other factors, many of which are outside of the Society's control. In addition, adjustments to earnings, as determined by the Board, may fluctuate significantly and may materially adversely affect Distributable Items.

Changes to applicable law and regulation, including changes to the Act, could potentially have an impact on what resources the Society may use for the purpose of paying Distributions. For example, the Capital Regulations require the Society to maintain additional capital buffers which may be varied by the PRA or the Financial Policy Committee from time to time comprising Common Equity Tier 1 capital on top of the minimum capital requirements. Pursuant to provisions of the Capital Regulations applicable as at the date of this Offering Circular, the Society will not be permitted to declare Distributions or certain other discretionary payments (such as discretionary employee bonuses), to the extent that such payments would decrease its Common Equity Tier 1 capital to a level where the combined buffer requirement is not met in full and, if at any point the Society fails to maintain sufficient Common Equity Tier 1 capital to meet the combined buffer requirement, it will not be permitted to pay any Distributions in excess of a Maximum Distributable Amount calculated in accordance with such provisions of the Capital Regulations. The Common Equity Tier 1 capital used to satisfy the combined buffer requirement cannot also be used to satisfy the Society's minimum capital requirement, Pillar 2A additional individual capital requirement or MREL requirement, each of which must be met in full before Common Equity Tier 1 capital can be applied to meeting the combined buffer requirement. As at the date of this Offering Circular, the Society does not have an MREL requirement in excess of its own funds requirement. However, to the extent that any increases in the Society's Pillar 2A requirement, or any increase in the Society's MREL requirement above its own funds requirement, 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.

On 12 September 2024, the PRA published consultation paper CP7/24 relating to the SDDT regime, with responses requested by 12 December 2024. CP7/24 proposes, amongst other things, that firms which are regulated within the SDDT regime would be required to maintain a simplified 'single capital buffer' in place of the buffers currently required to be maintained under the Basel III regime, which would be implemented as part of the Pillar 2B capital framework and would be set at no less than 3.5 per cent. of risk weighted assets. In connection with this change, CP7/24 proposes that the automatic capital conservation measures currently associated with the usage of some buffers under the maximum

distributable amount framework would be removed for such firms. The Society expects to be eligible for the SDDT regime, although it is too early to determine whether the Society will elect to apply to be regulated under that regime. If the proposals in CP7/24 were to be implemented and if the Society were to become regulated under the SDDT regime in the future, the automatic Maximum Distributable Amount restrictions referred to above would cease to apply to the declaration and payment of Distributions on the CCDS. However, in such circumstances, the Society may still elect, or may be directed by the Supervisory Authority, not to declare Distributions, or to reduce the amount of Distributions declared, on the CCDS if it were to fail to meet its single capital buffer requirement.

The Society's capital requirements and capital resources are subject to change as a result of a wide range of factors, including as a result of the performance of its business in general, changes in the size or mix of the Group's business and assets, major events affecting its earnings, acquisitions or disposals of businesses or assets, regulatory changes and other factors, many of which are outside of the Society's control. Any such changes could reduce the amount of Common Equity Tier 1 capital available to meet the Society's combined buffer requirements, which could result in the application of a Maximum Distributable Amount which requires the Society to reduce or cancel Distributions on the CCDS.

The Society's capital requirements (including Pillar 2A requirements) are, by their nature, calculated by reference to a number of factors any one of which or combination of which may not be easily observable or capable of calculation by investors. See also *"The Capital Regulations provide for capital requirements that are in addition to the minimum capital requirement. These additional capital requirements will restrict the Society from making interest payments on the Perpetual Capital Securities in certain circumstances, in which case interest payments may be required to be reduced or cancelled"* above for further information on potential Maximum Distributable Amount restrictions.

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

In addition, the total Distribution declared on each CCDS in respect of any given Financial Year of the Society (being the aggregate of the Interim Distribution (if any) and the Final Distribution (if any) declared in respect of such Financial Year) must not exceed the prevailing Periodic Distributions Cap (as defined in the Rules) (the "**Cap**") determined in accordance with the Rules. The Rules provide that the initial Cap, which would have been applicable to Distributions in respect of the Financial Year to 31 December 2014 had CCDS been in issue during that Financial Year, was £15 per CCDS, and that (subject as stated below) in respect of each subsequent Financial Year the Cap will be adjusted for inflation (which, for the avoidance of doubt, would include negative inflation) by reference to the United Kingdom Consumer Price Index ("**CPI**") (or any successor to, or replacement of, that index). Such adjustment will be made by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for the last full calendar month of the Financial Year in respect of which the Distributions are payable (being the percentage increase or decrease over the twelve months to and including that month) to the prevailing Cap. As at the date of this Offering Circular, the prevailing Cap in respect of the Financial Year to 31 December 2023 is £19.81. The next adjustment will, accordingly, be made by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for December 2024 to the prevailing Cap of £19.81. 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 any applicable CET1 Ratio has been significantly eroded and fallen below 7.00 per cent. In those circumstances, it is highly unlikely that the Society would be able under applicable prudential rules, or would elect or be permitted by the PRA, to declare Distributions on the CCDS until its capital and any applicable MREL resources had been restored to an acceptable level. There can be no guarantee that the Society's capital and any applicable MREL resources would be restored to such levels promptly, or at all.

No gross-up obligation

On the basis of UK tax law and practice prevailing as at the date of this Offering Circular, all payments of Distributions in respect of the CCDS are expected to be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the UK or any political subdivision or any authority thereof or therein having power to tax.

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

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

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

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

Statutory pre-emption rights do not apply to CCDS, and the Society does not expect to afford holders any contractual pre-emption rights in respect of the CCDS. Even if any contractual pre-emption rights were to be granted, the Society expects them to be very limited and subject to significant exceptions. Accordingly, holders of CCDS will likely be unable to avoid or mitigate the dilutive effects of issues of Additional CCDS or securities convertible into CCDS.

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

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

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

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

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

In addition, upon a transfer by the Society of the whole of its business in accordance with section 97 of the Act (including, where relevant, as amended pursuant to an order made under section 3 of the Mutual Societies Transfers Act) to a Successor Entity, the Successor Entity will assume a subordinated liability to each CCDS holder which will be applied on or around the vesting date, on behalf of the CCDS holders, in the subscription of such number of ordinary shares (which may or may not carry voting rights) in the Successor Entity or, if appropriate, any direct or indirect parent company of the Successor Entity. Whilst the number of shares to be delivered in such circumstance are required to have an aggregate market value as near as practicable to, but not less than, the market value of the CCDS immediately prior to the time of transfer of the business as determined by an independent financial adviser, there can be no assurance that the shares delivered in place of the CCDS will be as favourable in all respects to holders as the CCDS.

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

Holders representing specified thresholds of outstanding CCDS may be able to authorise the Society to vary the Conditions and, following a Regulatory Event, the Society is expected to be permitted to make certain amendments in its sole discretion without any requirement for the consent of the holders. Any such amendments would be binding on

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

It is expected that the conditions of issue of the CCDS will provide that such conditions may only be varied with the consent of the holders of specified majorities of the CCDS for the time being outstanding. Any variations approved by CCDS holders representing the requisite number of CCDS could have a significant adverse effect on the rights of holders and/or the value and/or market price of CCDS, and would be expected to be binding on all holders, and the holders acting through the specified majorities would have extensive powers to bind all CCDS holders.

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

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

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

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

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

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

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

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

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

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

The terms of any global certificate evidencing the CCDS are expected to provide that definitive CCDS will only be issued outside the Clearing Systems and registered directly in the name of each investor in the event that all Clearing Systems have closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or where the Society has or will become subject to adverse tax consequences which would not be suffered were the CCDS represented by certificates in definitive form.

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

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

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

In contrast to general meetings of shareholders of a limited company where shareholders may exercise voting rights which are proportionate to the number of shares they hold, at a general meeting of the members of the Society, each member is,

in line with the principles of mutuality, entitled to only one vote on each applicable resolution regardless of the size or number of its investments or interests in the Society. Only a member of the Society is entitled to vote at general meetings.

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

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

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

For the avoidance of doubt, the foregoing paragraphs relate to voting rights as a member at general meetings of the Society. The Indicative CCDS Conditions contain, and any agency agreement entered into by the Society in connection with any issue of CCDS would be expected to contain, provisions which enable separate meetings (which meetings need not be held at a physical place and instead may be by way of conference call, including by use of a videoconference platform) to be convened of the CCDS holders as a class only, for the purposes of considering matters affecting the rights of the CCDS holders. At such class meetings only, investors in the CCDS will be entitled to exercise one vote for each CCDS held by such investor at the relevant time. Investors should note that such provisions provide that CCDS holders holding defined majorities of the number of CCDS outstanding are able to agree, by resolution in writing or passed at a duly convened meeting of the CCDS holders, to amendments to the conditions of issue of the CCDS which shall bind all CCDS holders, including those who do not vote in favour of the relevant resolution.

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

If holders hold their CCDS through accounts with the Clearing Systems or another clearance or settlement system in circumstances in which they do not thereby become members of the Society, they will not be entitled, by virtue of their investment in CCDS, to any Conversion Benefits (being benefits under the terms of any future transfer of the Society's business to a company, other than rights to receive ordinary shares issued by the Successor Entity or its parent, as specifically envisaged under Condition 10 of the Indicative CCDS Conditions) arising on a demutualisation or other transfer of the Society's business to a company. Any Conversion Benefits arising on any such transaction would belong instead to the Nominee (or other nominee or custodian), as the registered holder of the CCDS. The Society expects that

any Nominee (or other nominee or custodian) would, on or prior to the date of issue of the CCDS, irrevocably agree to assign to the Charity Assignee any Conversion Benefits.

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

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

There can be no assurance that a secondary market for the CCDS will develop or of the liquidity of such a market if one develops. If a secondary trading market does develop for the CCDS the trading price of the CCDS may be subject to wide fluctuations in response to many factors, including those referred to in this risk factor, as well as (if the CCDS are listed) stock market fluctuations and general economic conditions that may adversely affect the market price of the CCDS. Publicly traded securities may experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them, and such volatility may be increased in an illiquid market, including in circumstances where a significant proportion of the securities are held by one or a limited number of investors. Accordingly, the market price of the CCDS may prove to be highly volatile. The market price of the CCDS may fluctuate significantly in response to a number of factors including, but not limited to, those set out below (some of which are beyond the Society's control):

- material decreases in the applicable CET1 Ratios of the Society or other capital ratios and/or any application of any Maximum Distributable Amount restrictions under the Capital Regulations, which could arise as a result of a number of factors including changes in regulation or losses incurred by the Society;
- material decreases in the amount of available Distributable Items of the Society;
- variations in operating results in the Group's reporting periods;
- any announcement or anticipation that the UK resolution authorities have elected or may elect to exercise their recovery and resolution powers under the Banking Act 2009 in respect of the Society, the CCDS or any of the Society's other securities;
- any shortfall in revenue or net profit or any increase in losses from levels expected by the market;
- increases in capital expenditure compared with market expectations;
- any perception that the Group's strategy is or may be less effective than previously assumed or that the Group is not effectively implementing any significant projects;
- changes in financial estimates by securities analysts, or any changes in any credit ratings assigned to the Society or any of its securities, or any such credit ratings being put on review for possible downgrade;
- changes in market valuations of similar entities;
- announcements by the Group of significant mergers, acquisitions, asset or business disposals, strategic alliances, joint ventures, new initiatives, new services or new service ranges, and any updates on the progress of any such transactions;
- regulatory matters, such as changes in regulatory regulations or PRA, UK Financial Policy Committee, FCA, HM Revenue & Customs or HM Treasury requirements;
- additions or departures of key personnel;

- future issues or sales of CCDS, Perpetual Capital Securities or other securities;
- any election by the Society not to declare a Distribution in respect of any given Financial Year, or the declaration of a Distribution which is lower than that expected by the market, or any amendments to any distribution policy maintained by the Society in respect of its CCDS; and
- events such as natural catastrophes, pandemic, man-made disasters, acts of terrorism or acts of war and any pre-emptive or reactive measures designed to prevent or contain such events.

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

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

The initial issue and subscription price of any CCDS might not be indicative of prices that will prevail in the trading market and investors may not be able to resell their CCDS at or above the price at which they purchased CCDS or at all.

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

- (i) the Rules and Memorandum of the Society;
 - (ii) the unaudited condensed consolidated financial statements of the Society for the six month period ended 30 June 2024, together with the auditors' independent review report thereon, as set out on pages 13 to 33 (inclusive) and 35 of the Society's Half-Yearly Financial Information 2024 (the "**H1 2024 Financial Statements**") and the key performance indicators set out on page 11 thereof;
 - (iii) the audited consolidated financial statements of the Society for the financial year ended 31 December 2023, together with the audit report thereon, as set out on pages 87 to 164 (inclusive) and 76 to 85 (inclusive), respectively, of the Society's annual report and accounts for the financial year ended 31 December 2023 (the "**2023 Financial Statements**"), the key performance indicators set out on page 19 of the Society's annual report and accounts for the financial year ended 31 December 2023 and the following additional sections of that annual report: (a) the section headed "*Alternative performance measures*" on page 20; (b) the section headed "*Net interest margin*" on page 21; (c) the section headed "*Administrative expenses and depreciation*" on page 21; and (d) the section headed "*Capital*" on pages 23 and 24;
 - (iv) the audited consolidated financial statements of the Society for the financial year ended 31 December 2022, together with the audit report thereon, as set out on pages 82 to 154 (inclusive) and 73 to 79 (inclusive), respectively, of the Society's annual report and accounts for the financial year ended 31 December 2022 (the "**2022 Financial Statements**"), the key performance indicators set out on page 23 of the Society's annual report and accounts for the financial year ended 31 December 2022 and the following additional sections of that annual report: (a) the section headed "*Alternative performance measures*" on page 24; (b) the section headed "*Net interest margin*" on page 24; (c) the section headed "*Administrative expenses and depreciation*" on pages 24 and 25; and (d) the section headed "*Capital*" on pages 27 and 28;
 - (v) the Society's Pillar 3 disclosures (unaudited) as at 31 December 2023; and
 - (vi) the Society's Pillar 3 interim disclosures key metrics (unaudited) as at 30 June 2024,
- (together, the "**Information Incorporated by Reference**").

The Information Incorporated by Reference has been previously published or is published simultaneously with this Offering Circular. The Information Incorporated by Reference 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 H1 2024 Financial Statements, 2023 Financial Statements and 2022 Financial Statements are not relevant for investors.

Any documents themselves incorporated by reference in the Information Incorporated by Reference shall not form part of this Offering Circular. Copies of the Information Incorporated by Reference may be obtained (without charge) from the Society's website at <https://www.newcastle.co.uk/media-centre/financial-results>. The content of the website referred to in this paragraph does not form part of this Offering Circular, save for the Information Incorporated by Reference itself.

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

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

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

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

1. GENERAL

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

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

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

Registration of title to the Perpetual Capital Securities in a name other than that of the Nominee will be permitted only if (i) all relevant Clearing Systems have closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business or do in fact do so and no successor Clearing System is available; or (ii) the Society has or will become subject to adverse tax consequences which would not be suffered were the Perpetual Capital Securities held in definitive form. For so long as the Perpetual Capital Securities remain held in accounts with a Clearing System, references in this overview to "Securityholders" and related expressions shall be read as references to the Nominee.

2. REGISTER

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

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

Perpetual Capital Securities Register. The Perpetual Capital Securities Register shall be maintained at the specified office of the Registrar, or at such other place as the Board of Directors of the Society thinks fit.

The Society will appoint Citibank, N.A., London Branch at 6th Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB as its registrar for the Perpetual Capital Securities.

3. MEETINGS OF THE MEMBERS OF THE SOCIETY

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

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

- (i) that Securityholder held the Perpetual Capital Securities (and was recorded as holder in the Perpetual Capital Securities Register):
 - (a) at the end of the Financial Year before the voting date; or
 - (b) if the voting date falls during that part of the Financial Year which follows the conclusion of the Annual General Meeting commenced in that year, at the beginning of the period of 56 days immediately preceding the voting date for Members voting in person at a special general meeting or a postal ballot or electronic ballot, as the case may be; and
- (ii) that Securityholder has not ceased to be a Shareholding Member between the relevant time specified in (i) above and the voting date.

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

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

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

4. WINDING UP OR DISSOLUTION

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

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

- (a) up to 20 per cent. to holders of all or some of the Deferred Shares (excluding Core Capital Deferred Shares). The proportion (if any) of such 20 per cent. to which any particular issue of Deferred Shares is entitled shall be set out 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 in proportion to the value of their Shareholding (excluding any Deferred Shares) at the relevant date.

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

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

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

Holders of the Perpetual Capital Securities shall, in a winding up or dissolution of the Society (save as otherwise provided in an Excluded Dissolution (as defined in Condition 20)) which commences prior to any Conversion Date determined in accordance with Condition 8, be entitled to claim for the nominal amount of their Perpetual Capital Securities together with accrued but unpaid interest thereon (excluding interest which has been cancelled in accordance with the Conditions). Such claim shall be conditional upon all sums due in respect of claims in such winding up or dissolution in relation to Senior Obligations (as defined in Condition 20) having first been paid in full.

The provisions under (a) to (c) above reflect Rule 46 of the Society's Rules. Rule 46 provides the basis for distribution of any surplus amongst members of the Society on a proportionate basis, having regard to the nature and amount of their investments, and without preference as to priority. The reference in (a) to up to 20 per cent. of the surplus being available for distribution to holders of Deferred Shares other than Core Capital Deferred Shares establishes a limit on the amount of any surplus which can be distributed to such holders but does not result in such amount of the surplus being ring-fenced for the benefit of such holders. As at the date of this Offering Circular, none of the Deferred Shares of the Society which are outstanding confer on their holders any right to share in any surplus of the Society on a winding up or dissolution. For the avoidance of doubt, notwithstanding paragraph (a) above, on a winding up or dissolution of the Society which commences prior to the Conversion Date, the holders of the Perpetual Capital Securities shall have no claim in respect of the surplus assets (if any) of the Society remaining in any winding up or dissolution following payment of all amounts due in respect of the liabilities of the Society.

5. DISPUTES AND LEGAL PROCEEDINGS

Subject to any overriding power under statute for the High Court to transfer particular proceedings to the County Court, section 85 of and Schedule 14 to the Act provide that, for a building society whose principal office is in England and Wales, no court other than the High Court in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society (save for narrow exceptions where the rules may require arbitration for certain disputes relating to election addresses, requisitioned resolutions and requisitioned meetings) or the Act or any statutory instrument under the Act.

CONDITIONS OF ISSUE OF THE PERPETUAL CAPITAL SECURITIES

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

The £40,000,000 Perpetual Contingent Convertible Additional Tier 1 Capital Securities (the "**Perpetual Capital Securities**", which term shall, unless the context otherwise requires, include any Further Perpetual Capital Securities issued pursuant to Condition 16(a)) are issued under, and are subject to, the Rules (the "**Rules**") of Newcastle 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 references to a particularly numbered "**Condition**" shall be construed accordingly) and subject to an agency agreement (as amended from time to time, the "**Agency Agreement**") dated 6 December 2024 between the Society and Citibank, N.A., London Branch as registrar and transfer agent (in such capacities, the "**Registrar**") and principal paying agent (in such capacity, the "**Principal Paying Agent**"). In the event of inconsistency between the Rules, these Conditions and the Agency Agreement, the Rules will prevail and, subject thereto, in the event of inconsistency between these Conditions and the Agency Agreement, these Conditions will prevail. Securityholders are bound by and are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

*While Perpetual Capital Securities are held on behalf of investors through accounts with the Clearing Systems, Perpetual Capital Securities will be registered in the name of a nominee for the common depository for the Clearing Systems (the "**Nominee**"). The Nominee shall be the Securityholder for all of the Perpetual Capital Securities for the purposes of the Conditions, and not the investors holding beneficial interests in the Perpetual Capital Securities through the Clearing Systems or the persons shown in the records of the Clearing Systems. The persons shown in the records of the Clearing Systems (other than a Clearing System) shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of the relevant Clearing System.*

1 General

1.1 Definitions

Terms defined in the Rules will, unless otherwise defined herein or unless the context otherwise requires, have the same meanings when used in these Conditions. Other capitalised terms used in these Conditions shall have the meanings set out herein, including in Condition 20.

1.2 Deferred shares

The Perpetual Capital Securities:

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

1.3 Society Conversion Benefits

Rights to Society Conversion Benefits to which a Securityholder may become entitled by reason of its holding of Perpetual Capital Securities shall be required to be assigned to the Community Foundation serving Tyne & Wear and Northumberland (or such other charity nominated by the Society from time to time pursuant to

any scheme for charitable assignment established by the Society for the time being) (the "**Charity Assignee**").

As used herein, "**Society Conversion Benefits**" shall mean any benefits under the terms of any future transfer of the Society's business to a company (other than rights to receive Bonds issued by the Successor Entity or, as the case may be, Qualifying Parent Securities issued by a Qualifying Parent (following the assumption of the Subordinated Deposit) as provided in Condition 13) and, if the Society amalgamates or merges with any other building society, "**Society**" shall, after the date of such amalgamation or merger, extend to such other society.

1.4 Waiver of Society Conversion Benefits

If a Securityholder fails to assign any Society Conversion Benefits as required pursuant to Condition 1.3, it acknowledges that it waives its entitlement to retain any Society Conversion Benefits received by it and covenants promptly to pay and deliver such Society Conversion Benefits to the Charity Assignee and until such time as payment is made, will hold a sum equal to such amount on trust for the Charity Assignee.

As neither investors holding beneficial interests in Perpetual Capital Securities through Clearing System accounts nor the persons shown in the records of the Clearing Systems will be members of the Society, they will not be entitled to any Society Conversion Benefits. Any Society Conversion Benefits will belong instead to the Nominee, as the registered holder of the Perpetual Capital Securities in the Perpetual Capital Securities Register. The Nominee will, on or prior to the Issue Date, irrevocably agree to assign to the Charity Assignee any Society Conversion Benefits.

2 Form, denomination, title and transfer

2.1 Form and denomination

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

2.2 Title and transfer

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

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

2.3 Certificates

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

Each new Certificate to be issued following a transfer will be mailed by uninsured mail at the risk of the holder entitled to the Perpetual Capital Securities to the address specified in the form of transfer within 14

days of the date of registration of the transfer in the Perpetual Capital Securities Register (or, if later, within 14 days of the written request of the relevant Securityholder to be issued a Certificate).

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

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

2.4 Formalities free of charge

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

3 Perpetual Capital Securities Register

3.1 Registrar

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

3.2 Perpetual Capital Securities Register

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

3.3 Certificates

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

3.4 Entries free of charge

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

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

4.1 Status

The Perpetual Capital Securities constitute direct, unsecured and subordinated investments in the Society and, on a winding up or dissolution of the Society, rank *pari passu* and without any preference among themselves. The rights and claims of the Securityholders are subordinated as described in Conditions 4.2 and 4.3, and are subject to Conversion of the Perpetual Capital Securities as provided in Condition 8. No security or guarantee has been, or will at any time be, provided by the Society or any other person to the Securityholders in respect of their rights under the Perpetual Capital Securities.

4.2 Subordination

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

- (i) junior to:
 - (A) the claims of all creditors (including all subordinated creditors) and Shareholding Members (as regards the principal of and interest due on such Shareholding Members' Shares) of the Society, including (without limitation) claims in respect of obligations of the Society which constitute Tier 2 Capital, but excluding claims in respect of Deferred Shares which are (or the claims in respect of which are) Parity Obligations or Junior Obligations; and
 - (B) the claims of all Shareholding Members (as regards the principal of and interest due on such Shareholding Members' Shares) of the Society in respect of:
 - (1) (for so long as any of the same remain outstanding) the Existing PIBS; and
 - (2) any other Deferred Shares in the Society except for Deferred Shares which are (or the claims in respect of which are) Parity Obligations or Junior Obligations,(claims preferred under this subparagraph (i) being, collectively, "**Senior Obligations**");
- (ii) *pari passu* among themselves and with any other claims ranking, or expressed by their terms to rank, *pari passu* with claims in respect of the Perpetual Capital Securities ("**Parity Obligations**"); and
- (iii) senior to all claims under any Core Capital Deferred Share of the Society and any other claims ranking, or expressed by their terms to rank, junior to the claims in respect of the Perpetual Capital Securities or any Parity Obligations ("**Junior Obligations**").

As used herein, "**Core Capital Deferred Share**", "**Deferred Share**", "**Share**" and "**Shareholding Member**" have the respective meanings ascribed thereto in the Rules.

4.3 Rights on a winding up or dissolution of the Society

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

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

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

4.4 Solvency Test

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

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

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

4.5 Set-off, etc.

Subject to applicable law, no holder of any Perpetual Capital Security (or any interest therein) may exercise, claim or plead any right of set-off (including, without limitation, compensation or retention), counterclaim or netting in respect of any amount owed to it by the Society in respect of, or arising under or in connection with, the Perpetual Capital Securities and each such holder shall, by virtue of its holding of any Perpetual Capital Security (or any interest therein), be deemed to have waived all such rights of set-off (including, without limitation, compensation or retention), counterclaim or netting. Notwithstanding the preceding sentence, if any of the amounts owing to any holder of any Perpetual Capital Security (or any interest therein) by the Society in respect of, or arising under or in connection with, the Perpetual Capital Securities is discharged by set-off (including, without limitation, compensation or retention), counterclaim or netting, such holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Society (or, in the event of its winding up or dissolution, the liquidator, receiver or other relevant insolvency official with primary responsibility for the winding up or dissolution of the Society) and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Society (or the liquidator, receiver or, as appropriate, such relevant insolvency official (as the case may be)) and accordingly any such discharge shall be deemed not to have taken place.

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

4.6 Enforcement

A holder of any Perpetual Capital Securities may institute such steps, actions or proceedings against the Society as it may think fit to enforce any term or condition binding on the Society under the Perpetual Capital Securities (other than any payment obligation of the Society under or arising from the Perpetual Capital Securities, including, without limitation, payment of any principal or interest in respect of the Perpetual Capital Securities, and payment of any damages awarded for breach of any obligations or, as the case may be, for any Assumed Breach, by the Society in respect of the Perpetual Capital Securities), provided that

(except in a winding up or dissolution of the Society, in which event the provisions of Condition 4.3 shall apply) in no event shall the Society, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been due and payable by it pursuant to these Conditions.

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

5 Interest

5.1 *Interest Rate*

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

Subject to Conditions 4.4, 6 and 8, interest shall be payable on the Perpetual Capital Securities semi-annually in arrear in equal instalments on (subject as provided in Condition 9.5) each Interest Payment Date as provided in this Condition 5.

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

5.2 *Interest accrual*

The Perpetual Capital Securities will cease to bear interest from (and including):

- (i) in the case of repayment pursuant to Condition 7.2, 7.3 or 7.4, the date of repayment thereof unless, upon surrender of the relevant Certificate, payment of all amounts due in respect of such Perpetual Capital Securities is not properly and duly made, in which event interest shall continue to accrue on the Perpetual Capital Securities, both before and after judgment, and shall be payable, subject as provided in these Conditions, up to (but excluding) the Relevant Date;
- (ii) in the case of substitution of the Perpetual Capital Securities for Compliant Securities under Condition 7.5, the date of such substitution (without prejudice to the accrual of interest under the Compliant Securities from (and including) such date); and
- (iii) in the case of Conversion pursuant to Condition 8, the Conversion Date.

5.3 *Calculation of interest amounts*

Interest in respect of any Perpetual Capital Security shall be calculated per Calculation Amount. The amount of interest payable (subject to Conditions 4.4, 6 and 8) in respect of a Perpetual Capital Security for a relevant period shall be calculated by (i) determining the product of the Calculation Amount, the relevant Interest Rate and the Day-Count Fraction (as described in Condition 5.1) for the relevant period, (ii) rounding the resultant figure to the nearest £0.01 (£0.005 being rounded upwards) and (iii) multiplying that rounded figure by a fraction the numerator of which is the nominal amount of such Perpetual Capital Security and the denominator of which is the Calculation Amount.

5.4 *Initial Interest Rate and interest amounts*

For each Interest Period which commences prior to the First Reset Date, the Interest Rate shall be 14.000 per cent. per annum (the "**Initial Interest Rate**").

Subject to Conditions 4.4, 6 and 8, each semi-annual interest payment for each Interest Period which commences prior to the First Reset Date will (if paid in full) amount to £70.00 per Calculation Amount.

5.5 *Reset Interest Rate*

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

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

The Principal Paying Agent will, as soon as practicable after 11.00 a.m. (London time) on each Reset Determination Date in relation to a Reset Period, determine the Reset Interest Rate for such Reset Period and shall promptly notify the Society thereof. The Society shall cause notice of the relevant Reset Interest Rate and the amount of interest which, subject to Conditions 4.4, 6 and 8, will be payable per Calculation Amount to be given to the Securityholders in accordance with Condition 17 as soon as reasonably practicable after each relevant Reset Determination Date. Such determination of the relevant Reset Interest Rate shall (in the absence of manifest or proven error) be binding on the Society and the Securityholders.

6 Interest cancellation

6.1 *Optional cancellation of interest*

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

Upon a decision by the Society to elect to cancel (in whole or in part) any interest payment under this Condition 6.1, the Society shall give notice of such election to the Securityholders in accordance with Condition 17 as soon as reasonably practicable on or prior to the relevant scheduled date for payment, *provided that* any delay in giving or failure to give such notice shall not affect the validity of the cancellation of any interest payment in whole or in part by the Society and shall not constitute a default under the Perpetual Capital Securities or for any purpose. Such notice shall specify the amount of the relevant cancellation and, accordingly, the amount (if any) of the relevant interest payment that will be paid on the relevant payment date.

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

6.2 *Mandatory cancellation of interest*

(i) *Cancellation at the direction of the Regulator*

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

(ii) *Cancellation due to insufficient Distributable Items*

To the extent required under then prevailing Capital Regulations, the Society shall not pay any interest payment otherwise due on any date if and to the extent that the amount of such interest payment otherwise due (together with any Additional Amounts payable thereon pursuant to Condition 10, if applicable), together with any interest payments or distributions which have been paid or made or which are required to be paid or made during the then current Financial Year on the Perpetual Capital Securities and on other own funds items (excluding any such interest payments or other distributions which (i) are not required to be made out of Distributable Items or (ii) have already been provided for, by way of deduction, in the calculation of Distributable Items), shall, in aggregate, exceed the amount of Distributable Items of the Society as at such payment date.

"Distributable Items" means, in respect of any interest payment, those profits and reserves (if any) of the Society which are available, in accordance with applicable law and regulation (including the then-prevailing Capital Regulations) for the time being, for the payment of such interest payment (on the basis that the Perpetual Capital Securities are intended to qualify as Additional Tier 1 Capital).

As at the date of this Offering Circular, Article 4(1)(128) of the Capital Requirements Regulation provides as follows: "distributable items" means the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose, before distributions to holders of own funds instruments, less any losses brought forward, any profits which are non-distributable pursuant to national law or the institution's by-laws and any sums placed in non-distributable reserves in accordance with the law of the United Kingdom, or any part of it, or of a third country or the statutes of the institution, in each case with respect to the specific category of own funds instruments to which the law of the United Kingdom, or any part of it, or of a third country, institutions' by-laws, or statutes relate; such profits, losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts'.

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

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

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

(iv) *Effect of cancellation*

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

that any delay in giving or failure to give such notice shall not affect the cancellation of any interest payment in whole or in part by the Society and shall not constitute a default under the Perpetual Capital Securities or for any purpose.

6.3 *Interest non-cumulative; no default*

Any interest payment (or part thereof) not paid on any relevant payment date by reason of Condition 4.4, 6.1, 6.2 or 8 shall be cancelled and shall not accumulate and will not become due or payable at any time thereafter. Non-payment of any interest payment (or part thereof) in accordance with any of Condition 4.4, 6.1, 6.2 or 8 will not constitute an event of default by the Society for any purpose, and the Securityholders shall have no right thereto whether in a winding up or dissolution of the Society or otherwise. The Society may use such cancelled amounts of interest without restriction and the cancellation of such interest amounts will neither impose any restrictions on the Society nor prevent or restrict the Society from declaring or making any distributions or interest payments on any of its shares or other instruments or obligations.

7 Repayment, substitution, variation and purchase

7.1 *No fixed maturity*

The Perpetual Capital Securities constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no fixed repayment date. Securityholders do not have any right to require the Society to repay the Perpetual Capital Securities (but this is without prejudice to their rights to claim in a winding up or dissolution of the Society pursuant to, and in accordance with, Condition 4.3). The Perpetual Capital Securities will become repayable only as provided in this Condition 7 and in Condition 4.3.

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

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

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

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

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

7.3 *Repayment for tax reasons*

If a Tax Event occurs and is continuing, the Society may in its sole discretion, at any time but subject to Condition 7.6 and having given not less than 10 nor more than 60 days' notice to the Securityholders in accordance with Condition 17 (which notice shall specify the intended date of repayment and shall, subject to Condition 7.6, be irrevocable), elect to repay all, but not some only, of the Perpetual Capital Securities then outstanding at their nominal amount together with accrued but unpaid interest thereon up to (but excluding) the date of repayment (excluding interest which has been cancelled in accordance with these Conditions).

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

As used herein:

A "**Tax Event**" will occur if, as a result of a change in, or amendment to, the laws or regulations of any Relevant Tax Jurisdiction (as defined in Condition 10), including any treaty to which the Relevant Tax Jurisdiction is a party, or a change in the official application or interpretation of those laws or regulations, on or after the Reference Date, including a decision of any court or tribunal which becomes effective on or after the Reference Date (a "**Tax Law Change**"):

- (i) in making any payments on the Perpetual Capital Securities, the Society has paid or will or would on the next payment date be required to pay Additional Amounts (as defined in Condition 10); or
- (ii) the Society would not be entitled to claim a deduction in respect of any interest payable (or, if relevant, equivalent expense accruing) in respect of the Perpetual Capital Securities in computing its taxation liabilities or the amount of any such deduction would be materially reduced; or
- (iii) the Society would have to bring into account a taxable credit in connection with a Conversion (or, in the circumstances contemplated in Condition 13.3, a permanent write-down) of the Perpetual Capital Securities; or
- (iv) the Perpetual Capital Securities are or would be prevented from being treated as loan relationships for tax purposes in the Relevant Tax Jurisdiction; or
- (v) the Perpetual Capital Securities or any part thereof are or would be treated as a derivative or an embedded derivative for tax purposes in the Relevant Tax Jurisdiction; or
- (vi) the Society incurs or would incur any other taxation liability or liabilities as a consequence of changes in the value of the Perpetual Capital Securities for accounting purposes or any other relevant taxation purposes,

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

The Society shall make available to the Principal Paying Agent, for inspection by Securityholders at its specified office, at the same time as giving a notice to repay under this Condition 7.3, a copy of an opinion of an independent nationally recognised law firm or other tax adviser in the Relevant Tax Jurisdiction experienced in such matters to the effect that the circumstances set out in one or more of limbs (i) to (vi) of the definition of Tax Event have occurred and are continuing (but such opinion need not comment on whether the consequences of such event can be avoided by the Society taking reasonable measures available to it).

7.4 *Repayment for regulatory reasons*

If a Regulatory Event occurs and is continuing, the Society may in its sole discretion, at any time but subject to Condition 7.6 and having given not less than 10 nor more than 60 days' notice to the Securityholders in accordance with Condition 17 (which notice shall specify the intended date of repayment and shall, subject to Condition 7.6, be irrevocable), elect to repay all, but not some only, of the Perpetual Capital Securities then outstanding at their nominal amount together with accrued but unpaid interest thereon up to (but excluding) the date of repayment (excluding interest which has been cancelled in accordance with these Conditions).

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

A "**Regulatory Event**" will occur if, as a result of a change (or pending change) 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 basis or any other Applicable Prudential Basis).

7.5 *Substitution or variation*

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

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

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

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

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

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

7.6 *Conditions to repayment, substitution, variation and purchase*

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

- (i) (A) the Society providing such notice to the Regulator and obtaining such approval, permission or consent from the Regulator as is required under the then prevailing Capital Regulations and (B) the Society obtaining such other approval, permission or consent (if any) as is then required under the laws and regulations applicable to deferred shares of the Society;

- (ii) in the case of any repayment or purchase, the Society having demonstrated to the satisfaction of the Regulator that either: (A) the Society has (or by no later than the time of settlement of such repayment or purchase will have) replaced the Perpetual Capital Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Society; or (B) the own funds and eligible liabilities of the Society would, following such repayment or purchase, exceed the minimum requirements (including any buffer requirements) applicable to the Society, as laid down under the Capital Regulations, by a margin that the Regulator considers necessary at such time; and
- (iii) in respect of a repayment or purchase prior to the fifth anniversary of the Reference Date:
 - (A) in the case of repayment upon the occurrence of a Tax Event, the Society having demonstrated to the satisfaction of the Regulator that (1) the change in tax treatment is material and (2) the relevant Tax Law Change was not reasonably foreseeable as at the Reference Date; or
 - (B) in the case of repayment upon the occurrence of a Regulatory Event, the Society having demonstrated to the satisfaction of the Regulator that the change (or pending change) in the regulatory classification of the Perpetual Capital Securities is sufficiently certain and was not reasonably foreseeable as at the Reference Date; or
 - (C) otherwise, either (1) in the case of any repayment or purchase, the Society having demonstrated to the satisfaction of the Regulator that the Society has (or by no later than the time of settlement of such repayment or purchase will have) replaced the Perpetual Capital Securities with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Society, and the Regulator having permitted such action on the basis of the determination that it would be beneficial from a prudential point of view and justified by exceptional circumstances or (2) in respect of any purchase only (and subject to the Society or the relevant Subsidiary then being permitted to conduct market-making activity under the Act), the Society (or the relevant Subsidiary) having purchased the Perpetual Capital Securities for market-making purposes,

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

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

In addition, notwithstanding any other provision of these Conditions:

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

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

Further, if the Society has elected to repay, substitute or vary the terms of the Perpetual Capital Securities or if the Society or any of its Subsidiaries has entered into an agreement to purchase any Perpetual Capital Securities but, prior to (as the case may be) the repayment of the nominal amount, the substitution of the Perpetual Capital Securities, the variation of the terms of the Perpetual Capital Securities or the settlement of the purchase of the Perpetual Capital Securities, a Conversion Trigger occurs, the relevant repayment, substitution or variation notice or, as the case may be (and as acknowledged and agreed by the relevant Securityholder by virtue of its holding of any Perpetual Capital Security), the relevant purchase agreement shall be automatically rescinded and shall be of no force and effect, no repayment of the nominal amount of the Perpetual Capital Securities or any interest thereon will be due and payable on the scheduled repayment date, no substitution or variation will be effected and no purchase shall be made, as applicable, and, instead, a Conversion shall occur in respect of the Perpetual Capital Securities as described under Condition 8.

The Society shall not be entitled to give notice of any repayment, substitution or variation under this Condition 7 following the occurrence of a Conversion Trigger.

7.7 Purchases

Subject to Condition 7.6 and the Capital Regulations, the Society or any of its Subsidiaries may purchase or otherwise acquire Perpetual Capital Securities in any manner and at any price. Subject to applicable law, such Perpetual Capital Securities may, at the election of the Society, be held, reissued, resold or surrendered to the Registrar for cancellation.

7.8 Cancellation

All Perpetual Capital Securities repaid, all Perpetual Capital Securities substituted pursuant to Condition 7.5, all Perpetual Capital Securities purchased (or otherwise acquired) by the Society or any of its Subsidiaries as aforesaid and surrendered for cancellation, and all Perpetual Capital Securities which are Converted, shall be cancelled forthwith and such Perpetual Capital Securities may not be reissued or resold.

8 Conversion

8.1 Conversion on a Conversion Trigger

If, at any time, the Society, the Regulator or any agent appointed for such purpose by the Regulator determines that any applicable CET1 Ratio has fallen below 7.00 per cent. (the "**Conversion Trigger**"), the Society shall immediately notify the Regulator (unless the relevant determination was made by the Regulator or its agent), promptly notify the Securityholders (in accordance with Condition 17) of the occurrence of the Conversion Trigger and, without delay and by no later than one month (or such shorter period as the Regulator may require) following the determination that the Conversion Trigger has occurred:

- (a) cancel any interest which has accrued and remains unpaid up to (and including) the relevant Conversion Date (whether or not such interest has become due for payment);
- (b) irrevocably (without the need for the consent of Securityholders) write down the Perpetual Capital Securities by reducing the nominal amount of each Perpetual Capital Security to zero; and

- (c) (subject as provided in this Condition 8) issue to each Securityholder such number of CCDS as is equal to the aggregate nominal amount of that Securityholder's Perpetual Capital Securities divided by the prevailing Conversion Price (such write-down under Condition 8.1(b) above and issue of CCDS under this Condition 8.1(c) being referred to as a "**Conversion**", and "**Converted**" being construed accordingly).

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

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

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

8.2 Conversion Notice

The Society shall, as soon as reasonably practicable following its determination (or following it being notified by the Regulator that the Regulator or its agent has determined) that a Conversion Trigger has occurred, and in any event not less than 5 days prior to the Conversion Date (provided that any delay in giving or failure to give such notice shall not constitute a default under the Perpetual Capital Securities or for any other purpose or affect the Conversion of the Perpetual Capital Securities on the Conversion Date), give notice (which notice shall be irrevocable) to the Securityholders in accordance with Condition 17 (the "**Conversion Notice**") stating (i) that the Conversion Trigger has occurred, (ii) the Conversion Date, (iii) the prevailing Conversion Price and (iv) the procedures Securityholders will need to follow (if any) to receive CCDS pursuant to Condition 8.1(c) (including whether or not the CCDS will be delivered into a clearing system and/or a settlement system (and, if so, which clearing system(s) and/or settlement system(s)) and, if applicable, what will happen to any CCDS until any payment due pursuant to Condition 8.9 has been made).

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

8.3 Consequences of a Conversion

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

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

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

The paying up of the CCDS is expected to be reflected in the Society's accounts as credits to CCDS nominal and CCDS premium by an aggregate amount equal to the nominal amount by which the Perpetual Capital Securities are written down. It is anticipated that the paying up and issue of CCDS will be simultaneous with the write-down and cancellation of the Perpetual Capital Securities.

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

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

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

8.4 Conversion Price

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

8.5 Conversion Price adjustments

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

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

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

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

where:

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

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

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

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

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

where:

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

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

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

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

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

- (d) Notwithstanding the foregoing provisions:
- (i) where the events or circumstances giving rise to any adjustment pursuant to this Condition 8.5 have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Society, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall, subject to compliance with the prevailing Capital Regulations, be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Adviser to be in its opinion appropriate to give the intended result; and
 - (ii) such modification shall, subject to compliance with the prevailing Capital Regulations, be made to the operation of these Conditions as may be determined in good faith by an Independent Adviser to be in its opinion appropriate to ensure that an adjustment to the

Conversion Price or the economic effect thereof shall not be taken into account more than once.

8.6 *Decision of an Independent Adviser*

If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price, and following consultation between the Society and an Independent Adviser, a written determination of such Independent Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

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

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

8.7 *Option schemes and reinvestment plans*

No adjustment will be made to the Conversion Price where CCDS or other securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Society or any Subsidiary or any other associated company of the Society 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 (including, without limitation, bonus or incentive schemes) or pursuant to any dividend reinvestment plan or similar plan or scheme.

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

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

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

8.9 *Taxes etc.*

The Society shall not be liable for any taxes or capital, stamp, issue, registration or transfer taxes, charges or duties arising on Conversion or that may arise or be paid as a consequence of the delivery of CCDS upon Conversion. A Securityholder must pay any taxes and capital, stamp, issue, registration and transfer taxes, charges and duties arising on Conversion as a consequence of any disposal or deemed disposal of its Perpetual Capital Securities (or any interest therein) and/or the issue and delivery to it of any CCDS (or any interest therein). Notwithstanding anything to the contrary in this Condition 8, if any taxes, charges or duties were to be payable by the Society (or by a clearance service or any other person entitled to reimbursement by the

Society) as a consequence of delivery of the CCDS issued upon Conversion, then delivery shall, unless the Society in its sole discretion elects otherwise, be conditional upon either:

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

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

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

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

8.10 CCDS

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

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

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

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

8.11 Covenants

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

- (a) ensure that the CCDS issued upon Conversion shall be admitted to listing and trading on (i) a Relevant Stock Exchange and (ii) if and to the extent there are CCDS in issue immediately prior to the time of Conversion, the principal stock exchange or securities market (if any) on which such CCDS are then, with the consent or approval of the Society, listed, admitted to trading or quoted or accepted for dealing, in each case, as soon as the Society in its sole discretion (having regard to the interests of the Society's members, the financial condition of the Society and prevailing market conditions) considers practicable following the issue of such CCDS;
- (b) appoint an Independent Adviser promptly in the circumstances where these Conditions require or provide for a determination by such Independent Adviser; and
- (c) (if no such published policy is maintained by the Society at that time) publish a distribution policy in connection with the CCDS as soon as the Society in its sole discretion considers practicable following Conversion of the Perpetual Capital Securities.

9 Payments

9.1 Method of payment

- (i) Payments of principal shall be made (subject to surrender of the relevant Certificates at the specified office of the Registrar if no further payment falls to be made in respect of the Perpetual Capital Securities represented by such Certificates) in the manner provided in paragraph (ii) below.
- (ii) Interest on each Perpetual Capital Security shall be paid to the person shown on the Perpetual Capital Securities Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Perpetual Capital Security shall be made in Sterling by transfer to a Sterling account specified by the payee.

9.2 *Payments subject to applicable laws*

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

9.3 *Payment initiation*

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

9.4 *Delay in payment*

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

9.5 *Non-payment days*

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

10 **Taxation**

All payments by or on behalf of the Society in respect of the Perpetual Capital Securities shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of any Relevant Tax Jurisdiction, unless the withholding or deduction of the Taxes is required by law. If any such withholding or deduction for or on account of any Taxes is required by law, the Society will, in respect of payments of interest (but not of principal or any other amount), pay such additional amounts ("**Additional Amounts**") as may be necessary in order that the net amounts received by the Securityholders after the withholding or deduction shall equal the amounts which would have been receivable in respect of the Perpetual Capital Securities in the absence of the withholding or deduction; except that no Additional Amounts shall be payable in relation to any payment in respect of any Perpetual Capital Securities:

- (a) held by or on behalf of a Securityholder who is liable to such taxes, duties, assessments or governmental charges in respect of such Perpetual Capital Securities by reason of it having some connection with the Relevant Tax Jurisdiction other than the mere holding of the Perpetual Capital Securities;
- (b) where (in the case of a payment of interest on repayment) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date, except to the extent that the Securityholder would have been entitled to such Additional Amounts on surrendering such Certificate for payment on the last day of such period of 30 days; or

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

Notwithstanding any other provision of these Conditions, in no event will Additional Amounts be payable by (or on behalf of) the Society under this Condition 10 or otherwise in respect of any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code or any regulations or agreements thereunder or any official interpretations thereof or any law implementing an intergovernmental approach thereto.

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

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

11 Prescription

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

12 Replacement of Certificates

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

13 Succession and transfers

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

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

If the Society, in its sole discretion, considers that, as a result of such amalgamation or transfer of engagements, it is necessary to amend the provisions of these Conditions either (i) in order to give effect to or preserve substantially the economic effect of Conversion under these Conditions or (ii) to enable the Perpetual Capital Securities to qualify as Additional Tier 1 Capital of the Resulting Society, it may (subject to having obtained any necessary consent of the Regulator if then required by the Regulator or under the Capital Regulations), upon not less than 15 days' notice to Securityholders in accordance with Condition 17 but without the consent or approval of the Securityholders, make such amendments to these Conditions which, as determined by the Society (in the case of (a) and (c) below, in consultation with an Independent Adviser appointed by the Society for such purpose):

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

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

- (1) the ranking of the Perpetual Capital Securities;
- (2) the nominal amount of the Perpetual Capital Securities, the Interest Rate on the Perpetual Capital Securities from time to time, the Interest Payment Dates and the provisions regarding discretionary and mandatory cancellation of interest;
- (3) any existing rights under the Conditions to any accrued interest which has not been satisfied or cancelled in accordance with the Conditions (but subject always to the right of the Society subsequently to cancel such accrued interest in accordance with the terms of the Perpetual Capital Securities);
- (4) the repayment rights and obligations of the Society;
- (5) compliance with the prevailing Capital Regulations and requirements of the Regulator in relation to Additional Tier 1 Capital; and
- (6) the Perpetual Capital Securities will continue to be "hybrid capital instruments" for the purposes of Part 5 of the Corporation Tax Act 2009 (or benefit from equivalent treatment under any replacement tax rules (if any) relevant to the entitlement of the Society to claim a deduction in computing its tax liabilities in respect of any payments made under, or funding costs recognised in its accounts in respect of, the Perpetual Capital Securities),

and provided further that a certificate to the effect of the foregoing shall have been signed by two appropriately authorised signatories of the Society and given to the Principal Paying Agent on behalf of the Securityholders.

A brief summary of any key changes to the terms of the Perpetual Capital Securities will, not later than the time at which notice is given to members of resolutions to be proposed to approve the relevant amalgamation or transfer of engagements (or if no such resolutions will be proposed, as soon as reasonably practicable following the time at which notice is given to members of the proposed amalgamation or transfer of engagements), be available for inspection by the Securityholders at the Principal Office of the Society and the specified office of the Registrar.

It may be necessary, upon an amalgamation by the Society with another building society or a transfer of all or substantially all of its engagements to another building society as envisaged by Condition 13.1, for the terms of the Perpetual Capital Securities to be amended in certain respects. One example may be with respect to Conversion, for example if any CCDS then outstanding cease to exist or are themselves amended, or if CCDS are no longer the appropriate instrument to deliver to Securityholders upon Conversion of the Perpetual Capital Securities, or if any adjustments to the Conversion Price (and/or the adjustment provisions relating thereto) are appropriate.

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

Upon a transfer by the Society of the whole of its business in accordance with section 97 of the Act (including, where relevant, as amended pursuant to an order made under section 3 of the Mutual Societies Transfers Act) to a company (a "**Successor Entity**", which expression includes a subsidiary of a mutual society as referred to in the Mutual Societies Transfers Act) the Successor Entity will, in accordance with section 100(2)(a) of the Act, as from the vesting date, assume a liability to each holder of Perpetual Capital Securities and each Securityholder will be deemed automatically, by virtue of its holding of any Perpetual Capital Securities, to have irrevocably authorised and instructed that such liability shall be subordinated (a "**Subordinated Deposit**") and shall be applied on the vesting date (or as soon as reasonably practicable thereafter) in paying up undated subordinated bonds (the "**Bonds**") in a principal amount equivalent to the nominal amount of the Perpetual Capital Securities held by such Securityholder immediately prior to such transfer, and such Bonds shall, at the option of the Society (or the Successor Entity) in its sole discretion, be issued or transferred either:

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

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

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

The Bonds

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

If the Society or the Successor Entity elects option (a) above (such that Securityholders will be entitled to receive Bonds), the Bonds:

- (1) may be issued directly or indirectly by the Successor Entity;

- (2) shall rank junior to any subordinated deposit or subordinated bonds issued by the Successor Entity in respect of Senior Obligations of the Society and senior to any subordinated deposit, subordinated bonds and/or shares issued by the Successor Entity in respect of Junior Obligations of the Society;
- (3) shall have the same principal amount as the nominal amount of the Perpetual Capital Securities, shall bear the same Interest Rate from time to time and Interest Payment Dates as the Perpetual Capital Securities and shall preserve the provisions regarding discretionary and mandatory cancellation of interest;
- (4) shall have the same repayment rights and obligations as the Perpetual Capital Securities;
- (5) shall preserve any existing rights under the Conditions to any accrued interest which has not been satisfied or cancelled in accordance with the Conditions (but subject always to the right of the Successor Entity subsequently to cancel such accrued interest in accordance with the terms of the Bonds); and
- (6) shall be "hybrid capital instruments" for the purposes of Part 5 of the Corporation Tax Act 2009 (or benefit from equivalent treatment under any equivalent or replacement tax rules (if any) relevant to the entitlement of the Successor Entity to claim a deduction in computing its tax liabilities in respect of any payments made under, or funding costs recognised in its accounts in respect of, the Bonds).

Furthermore, if the Society or the Successor Entity elects option (a) above (such that Securityholders will be entitled to receive Bonds), the terms of the Bonds will, to the fullest extent permitted by applicable law and regulation:

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

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

Qualifying Parent and Qualifying Parent Securities

As used herein:

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

"**Qualifying Parent Securities**" means securities which:

- (1) are issued directly or indirectly by a Qualifying Parent and rank *pari passu* with other Additional Tier 1 Capital instruments (if any) of the Qualifying Parent then in issue;
- (2) have the same principal amount as the nominal amount of the Perpetual Capital Securities, bear the same Interest Rate from time to time and Interest Payment Dates as the Perpetual Capital Securities and shall have the same (or substantially the same) provisions regarding discretionary and mandatory cancellation of interest;
- (3) have the same (or substantially the same) repayment rights and obligations as the Perpetual Capital Securities;
- (4) shall be issued upon terms which have the economic effect of preserving any existing rights under the Conditions to any accrued interest which has not been satisfied or cancelled in accordance with the Conditions (but subject always to the right of the Qualifying Parent subsequently to cancel such accrued interest in accordance with the terms of the Qualifying Parent Securities); and
- (5) shall be "hybrid capital instruments" for the purposes of Part 5 of the Corporation Tax Act 2009 (or benefit from equivalent treatment under any equivalent or replacement tax rules (if any) relevant to the entitlement of the Qualifying Parent to claim a deduction in computing its tax liabilities in respect of any payments made under, or funding costs recognised in its accounts in respect of, the Qualifying Parent Securities).

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

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

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

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

Upon an amalgamation, transfer of engagements or transfer in accordance with Condition 13.1 or 13.2, the Society shall use reasonable commercial endeavours to procure that the Perpetual Capital Securities (or any instrument issued to Securityholders in replacement thereof as a result of a transfer in accordance with Condition 13.2) would, in the event of a Conversion Trigger (or a similar conversion trigger in any such replacement instrument, which, for the avoidance of doubt, may relate to the common equity tier 1 ratio of the Successor Entity or the Qualifying Parent or their respective group or sub-group, as the case may be, and references in this Condition 13.3 to the Conversion Trigger shall be construed accordingly) occurring immediately following such amalgamation or transfer, convert into a common equity tier 1 capital instrument (whether or not carrying voting rights at general meetings of the issuing entity) of the Resulting Society or, as the case may be, the Successor Entity or Qualifying Parent (or any parent thereof). If, immediately prior to such amalgamation or transfer, there are in issue any CCDS of the Society that are (with the consent or approval of the Society) listed or admitted to trading on any stock exchange or market, the Society (or, as the

case may be, the Resulting Society, the Successor Entity or the Qualifying Parent) will use reasonable endeavours to procure that, as soon as is reasonably practicable in the circumstances, the class of common equity tier 1 capital instruments into which the Perpetual Capital Securities (or, as the case may be, the instruments issued to Securityholders in replacement thereof as a result of a transfer in accordance with Condition 13.2) will, upon the occurrence of a Conversion Trigger, convert (the "**Conversion Instrument**") is listed or admitted to trading on a regularly operating, regulated stock exchange or other market; *provided that* there shall be no obligation on the Society, the Resulting Society, the Successor Entity or the Qualifying Parent (as the case may be) to obtain any such listing or admission to trading if the applicable Conversion Instrument is not issued by the ultimate holding entity of the group resulting from the amalgamation or transfer, as the case may be.

If, however, notwithstanding such reasonable commercial endeavours, the Society is unable to procure that the Perpetual Capital Securities (or any instrument issued to Securityholders in replacement thereof as a result of a transfer in accordance with Condition 13.2) would, following a Conversion Trigger, convert into a Conversion Instrument, then (notwithstanding any provision of Condition 13.1 or 13.2) if a Conversion Trigger occurs on or after the effective date of such amalgamation or transfer, the outstanding Perpetual Capital Securities (or any replacement instrument as aforesaid) shall not be subject to Conversion but instead will be subject to permanent write-down. Accordingly, upon the occurrence of such Conversion Trigger, the full nominal amount of such Perpetual Capital Securities (or replacement instruments) will automatically be written down to zero, each Perpetual Capital Security (or replacement instrument) will be cancelled, the Securityholders will be automatically deemed to have irrevocably waived their right to receive, and will no longer have any rights against the Society, the Resulting Society, the Successor Entity or the Qualifying Parent (as applicable) with respect to, repayment of the aggregate nominal amount of the Perpetual Capital Securities (or replacement instruments) so written down or delivery of any instrument as a result of such write-down, and all accrued but unpaid interest and any other amounts payable on each Perpetual Capital Security (or replacement instrument) will be cancelled, irrespective of whether such amounts have become due and payable prior to the occurrence of the Conversion Trigger.

13.4 Undertakings

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

- (c) In connection with any transfer by the Society of the whole of its business in accordance with section 97 of the Act (including, where relevant, as amended pursuant to an order made under section 3 of the Mutual Societies Transfers Act) to a company as provided in Condition 13.2, the Society:
 - (i) shall, and shall use all reasonable endeavours to procure that the Successor Entity and/or the Qualifying Parent (as applicable) shall, comply with the rules of any competent authority, stock exchange and/or quotation system by or on which the Perpetual Capital Securities are, for the time being, listed, traded and/or quoted with the consent or approval of the Society;
 - (ii) shall use all reasonable endeavours to ensure that the terms upon which its business is transferred to the Successor Entity shall require the Successor Entity or the Qualifying Parent (as applicable) to pay (or, in the absence of any such term of transfer, shall itself pay), any stamp duties, stamp duty reserve taxes and similar capital, stamp, issue and registration duties payable in the United Kingdom arising on the issue and initial delivery of the Bonds or Qualifying Parent Securities (as applicable), but will not pay (and each Securityholder as to itself will be required to pay) any other taxes, stamp duties, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on or following the issue and initial delivery of the Bonds or Qualifying Parent Securities (as applicable) pursuant to Condition 13.2; and
 - (iii) shall use all reasonable endeavours to ensure that the terms upon which its business is transferred to the Successor Entity shall require the Successor Entity or Qualifying Parent to procure that the Bonds or, as the case may be, the Qualifying Parent Securities are (A) where the Perpetual Capital Securities were, with the consent or approval of the Society, listed and/or admitted to trading on a stock exchange or market 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 market (or, if this is wholly impracticable, admitted to trading on another internationally recognised stock exchange or securities market chosen by the Successor Entity or Qualifying Parent) and (B) admitted to, and traded in, the same clearing system or systems as the Society had approved for the Perpetual Capital Securities or, if this is wholly impracticable, in such other clearing system(s) or settlement system(s) determined by the Successor Entity or Qualifying Parent, provided that this does not materially prejudice the holders of the Bonds or, as the case may be, the Qualifying Parent Securities.

14 Variations of the Conditions and the Rules

14.1 *Variation of the Conditions*

Subject as provided in Condition 7.5 and Condition 13, these Conditions may only be varied by the Society (a) with the consent in writing of the Securityholders in accordance with Condition 15.7 or with the sanction of a resolution passed at a separate meeting of the Securityholders held in accordance with Condition 15 and as further described in the Agency Agreement and (b) in compliance with prevailing Capital Regulations at such time (including, if then required, obtaining the prior consent of the Regulator).

14.2 *Variation of the Rules*

- (a) These Conditions do not limit the rights of members of the Society to amend the Rules.
- (b) The Society undertakes not to initiate any amendment to the Rules that is both (a) inconsistent with the provisions of these Conditions and (b) materially prejudicial to the interests of the Securityholders in that capacity.
- (c) Any amendment to the Rules or any resolution of members of the Society (in either case whether such amendment or resolution is initiated by the Society or by one or more of its members) shall not:

- (i) limit any rights of any Securityholder to bring an action against the Society for breach of contract in circumstances where the Society is in breach of these Conditions, and furthermore any Securityholder shall be entitled to bring an action against the Society as if there had been a breach of contract (such that a Securityholder may sue for a liquidated sum equal to its loss) in circumstances where an amendment has been made to the Rules or any resolution of members of the Society has been passed which is materially prejudicial to the holders of the Perpetual Capital Securities as a class and which would have been a breach of these Conditions had such amendment been instituted by the Society (an "**Assumed Breach**"); or
- (ii) afford the Society any defence to any claim made in any action referred to under (i) above,

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

15 Meetings of the Securityholders

15.1 *Convening the meeting, notice and quorum*

The Society alone may at any time convene a separate meeting of the Securityholders. Every meeting shall be held at such place (which need not be a physical place and instead may be by way of conference call, including by use of a videoconference platform, and all references to "place" and "present" in this Condition 15 shall be construed accordingly, so far as the context admits) as the Society may nominate.

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

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

At any meeting one or more persons present in person or by proxy and holding or representing in aggregate not less than one-third of the nominal amount of the Perpetual Capital Securities for the time being outstanding shall form a quorum for the transaction of business and no business (other than the choosing of a chair) shall be transacted at any meeting unless the requisite quorum shall be present at the commencement of business.

15.2 *Adjournment*

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

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

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

15.3 *Conduct of business of the meeting*

Every resolution put to the meeting (other than the choosing of a chair which will be decided by a simple majority on a show of hands) shall be decided by a poll. On a poll, every Securityholder or proxy who is present shall have one vote in respect of each £1,000 in outstanding nominal amount of the Perpetual Capital Securities held or represented by him. Any such resolution shall be duly passed if not less than three-quarters of the votes cast thereon are cast in favour.

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

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

15.4 *Proxies*

A Securityholder entitled to attend a meeting of the Securityholders:

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

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

15.5 *Effect of resolution*

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

15.6 *Other matters*

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

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

15.7 *Written resolution*

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

nominal amount of the Perpetual Capital Securities then outstanding. Such written resolution may be contained in one document or several documents in like form each signed by or on behalf of one or more such Securityholders. Any written resolution passed shall be binding upon all the Securityholders whether or not signing the written resolution and each of them shall be bound to give effect to the resolution accordingly, and the passing of any resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution.

15.8 Notice

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

16 Further issues

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

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

17 Notices

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

18 Governing law and rights of third parties

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

No person shall have any right to enforce any term or condition of the Perpetual Capital Securities under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that act.

Subject to any overriding power under statute for the High Court to transfer particular proceedings to the County Court, section 85 of and Schedule 14 to the Act provide that, for a building society whose principal office is in England and Wales, no court other than the High Court in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society (save for narrow exceptions where the rules may require arbitration for certain disputes relating to election addresses, requisitioned resolutions and requisitioned meetings) or the Act or any statutory instrument under the Act.

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

19.1 Recognition of Bail-in

Notwithstanding and to the exclusion of any other term of the Perpetual Capital Securities or any other agreements, arrangements, or understandings between the Society and any Securityholder (or any person

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

- (a) the effect of the exercise of the Bail-in Power by the Resolution Authority, that may include and result in (without limitation) any of the following, or some combination thereof:
 - (i) the reduction of all, or a portion, of the Amounts Due;
 - (ii) the conversion of all, or a portion, of the Amounts Due on the Perpetual Capital Securities into shares, deferred shares (including core capital deferred shares), other securities or other obligations of the Society or another person (and the issue to or conferral on the Securityholder of such shares, deferred shares (including core capital deferred shares), securities or obligations), including by means of an amendment, modification or variation of the terms of the Perpetual Capital Securities;
 - (iii) the cancellation of the Perpetual Capital Securities; and
 - (iv) the amendment or alteration of the term of the Perpetual Capital Securities or amendment of the amount of interest payable on the Perpetual Capital Securities and/or the date on which interest becomes payable, including by suspending payment for a temporary period; and
- (b) the variation of the terms of the Perpetual Capital Securities, as deemed necessary by the Resolution Authority, to give effect to the exercise of the Bail-in Power by the Resolution Authority.

19.2 *Payment of interest and other outstanding Amounts Due*

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

19.3 *No default*

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

19.4 *Notice to Securityholders*

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

19.5 *Definitions*

For the purposes of this Condition 19:

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

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

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

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

20 Definitions and Interpretation

Interpretation

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

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

Definitions

For the purpose of these Conditions:

"Accounting Currency" means Sterling or such other primary currency used in the presentation of the Society's accounts from time to time;

"Accrual Date" has the meaning ascribed thereto in Condition 5.1;

"Act" means the Building Societies Act 1986;

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

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

"Applicable Prudential Basis" means, at any time, the or each prudential basis (including individual basis, individual consolidated basis, consolidated basis and/or sub-consolidated basis) on which the Society is prudentially regulated under the Capital Regulations at such time;

As at the Issue Date, the Society is prudentially regulated on an individual consolidated basis only, and the Society is not aware of any plans by the Prudential Regulation Authority to prudentially regulate the Society on any additional or alternative bases.

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

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

"**Benchmark Gilt Reset Reference Rate**" means, in relation to a Reset Period, the percentage rate (rounded up (if necessary) to four decimal places) determined on the basis of the bid and offered yields of the Benchmark Gilt quoted by the Reset Reference Banks at 11.00 a.m. (London time) on the Reset Determination Date in relation to such Reset Period on a dealing basis for settlement on the next following Benchmark Gilt Dealing Day. Such quotations shall be obtained by or on behalf of the Society and provided to the Principal Paying Agent. If at least four quotations are provided, the Benchmark Gilt Reset Reference Rate will be determined by reference to the rounded arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Benchmark Gilt Reset Reference Rate will be determined by reference to the rounded arithmetic mean of the quotations provided. If only one quotation is provided, the Benchmark Gilt Reset Reference Rate will be determined by reference to the rounded quotation provided. If no quotations are provided, the Benchmark Gilt Reset Reference Rate will be deemed to be equal to the Benchmark Gilt Reset Reference Rate determined for the immediately preceding Reset Period or, in the case of the first Reset Period, 3.870 per cent. For these purposes:

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

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

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

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

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

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

"**Capital Requirements Regulation**" means Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (and amending Regulation (EU) No 648/2012) dated 26 June 2013 as it forms part of the laws of the United Kingdom by virtue of the EUWA;

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

"**CCDS holder**" means a holder of a CCDS;

"**Certificate**" has the meaning ascribed thereto in Condition 2.3;

"**CET1 Ratio**" means, at any time, each of (a) the ratio of Common Equity Tier 1 of the Society as at such time to the Risk Weighted Assets of the Society as at the same time, in each case calculated by the Society (or by the Regulator or an agent appointed by it for such purpose) on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation or any equivalent or similar law, rule or provision of the Capital Regulations then applicable to the Society) and expressed as a percentage; and (b) the ratio of Common Equity Tier 1 of the Society as at such time to the Risk Weighted Assets of the Society as at the same time, in each case calculated by the Society (or by the Regulator or an agent appointed by it for such purpose) on any other Applicable Prudential Basis and expressed as a percentage, in each case as calculated in accordance with the then-prevailing Capital Regulations but without applying any transitional, phasing in or similar provisions if and to the extent the Regulator then requires them to be disregarded for the purpose of determining whether a Conversion Trigger has occurred;

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

"**Common Equity Tier 1**" means, as at any time, the sum, expressed in the Accounting Currency, of all amounts that constitute common equity tier 1 capital of the Society as at such time, less any deductions from common equity tier 1 capital required to be made as at such time, in each case as calculated by the Society (or by the Regulator or an agent appointed by it for such purpose) on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation or any equivalent or similar law, rule or provision of the Capital Regulations then applicable to the Society) or, as the context requires, such other relevant Applicable Prudential Basis on which a CET1 Ratio is to be determined, in each case as calculated in accordance with the then-prevailing Capital Regulations but without applying any transitional, phasing in or similar provisions (if any) if and to the extent the Regulator then requires them to be disregarded for the purpose of determining whether a Conversion Trigger has occurred;

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

"**Community Foundation serving Tyne & Wear and Northumberland**" means the Community Foundation serving Tyne & Wear and Northumberland (Registered Charity No. 700510, limited Company No. 2273708);

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

- (i) have terms not materially less favourable to an investor than the terms of the Perpetual Capital Securities (as reasonably determined by the Society in consultation with an Independent Adviser, and provided that a certificate to such effect (including as to such consultation) of two appropriately authorised signatories of the Society shall have been delivered to the Principal Paying Agent prior to the relevant variation or substitution of the Perpetual Capital Securities taking effect);
- (ii) subject to (i) above, (1) are eligible as Additional Tier 1 Capital; (2) have the same principal amount as the nominal amount of the Perpetual Capital Securities and provide for the same Interest Rate and Interest Payment Dates from time to time applying to the Perpetual Capital Securities; (3) rank at least *pari passu* with the ranking of the Perpetual Capital Securities; (4) preserve the obligations (including the obligations arising from the exercise of any right) of the Society as to repayment of the Perpetual Capital Securities, including (without limitation) as to timing of, and amounts payable upon, such repayment; (5) contain terms providing for the conversion or write-down of the principal amount of such securities only if such terms are not materially less favourable to holders of the securities than the corresponding provisions of the Perpetual Capital Securities; (6) are "hybrid capital instruments" for the purposes of Part 5 of the Corporation Tax Act 2009 (or benefit from equivalent treatment under any equivalent or replacement tax rules (if any) relevant to the entitlement of the Society to claim a deduction in computing its tax liabilities in respect of any payments made under, or funding costs recognised in its accounts in respect of, such securities; and (7) preserve any existing rights under these Conditions to any accrued and unpaid interest or other amounts which have not been paid or cancelled

in accordance with these Conditions (but without prejudice to the ability of the Society to cancel such amounts under terms thereof substantially the same as the cancellation rights under these Conditions);

- (iii) are listed and/or admitted to trading on the same stock exchange as that on which the Perpetual Capital Securities are, immediately prior to the relevant substitution or variation and with the consent or approval of the Society, listed and/or admitted to trading, or are listed and/or admitted to trading on such other internationally recognised stock exchange as selected by the Society; and
- (iv) where the Perpetual Capital Securities had a published rating solicited by the Society from one or more Rating Agencies immediately prior to their substitution or variation, benefit from (or will, as announced, or otherwise confirmed in writing, by each such relevant Rating Agency, benefit from) an equal or higher published rating from each such Rating Agency as that which applied to the Perpetual Capital Securities immediately prior to their substitution or variation.

"**Conversion**" has the meaning ascribed thereto in Condition 8.1;

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

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

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

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

"**Converted**" has the meaning ascribed thereto in Condition 8.1;

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

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

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

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

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

"**Excluded Dissolution**" means each of (i) a winding up or dissolution of the Society for the purpose of a reconstruction, union, transfer, merger or amalgamation or the substitution in place of the Society of a successor in business, the terms of which reconstruction, union, transfer, merger or amalgamation or the substitution (x) have previously been approved by the Securityholders in accordance with Condition 15 and (y) do not provide that the Perpetual Capital Securities shall thereby become repayable in accordance with these Conditions, and (ii) a dissolution of the Society by virtue of the amalgamation and transfer provisions set out in sections 93, 94 and 97 of the Act, or by virtue of a transfer pursuant to an order made under section 3 of the Mutual Societies Transfers Act;

"**Existing PIBS**" means those outstanding of the Society's (i) £10,000,000 12⁵/₈ per cent. Permanent Interest Bearing Shares (ISIN: GB0006361371) (originally issued by the Society in 1992); (ii) £10,000,000 10³/₄ per cent. Permanent Interest Bearing Shares (ISIN: GB0006371529) (originally issued by the Society in 1993); (iii) £10,000,000 6.75 per cent. Permanent Interest Bearing Shares (ISIN: GB00B0712W15) (originally issued by Manchester Building Society in 2005); and (iv) £5,000,000 8 per cent. Permanent Interest Bearing Shares (ISIN: GB0008775057) (originally issued by Manchester Building Society in 1999);

As at the Issue Date, the entire aggregate nominal amount of the Existing PIBS remains outstanding.

"**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 is the 12 months ending on 31 December in each year;

"**First Reset Date**" means 6 June 2030;

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

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

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

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

"**Interest Payment Date**" means 6 June and 6 December in each year, starting on (and including) 6 June 2025;

"**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 6 December 2024;

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

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

"**Margin**" means 10.096 per cent. per annum;

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

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

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

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

"**Perpetual Capital Securities**" has the meaning given in the preamble to these Conditions, and "**Perpetual Capital Security**" shall be construed accordingly;

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

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

"**Principal Office**" means, with respect to the Society, its principal office from time to time, being as at the Issue Date at 1 Cobalt Park Way, Wallsend, NE28 9EJ, United Kingdom;

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

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

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

"Rating Agency" means any of Moody's Investors Service Limited, S&P Global Ratings UK Limited, Fitch Ratings Limited and each of their respective affiliates or successors;

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

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

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

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

"Regulatory Event" has the meaning ascribed thereto in Condition 7.4;

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

"Relevant Stock Exchange" means a United Kingdom stock exchange or securities market or another regularly operating, internationally recognised stock exchange or securities market;

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

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

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

"Reset Interest Rate" means, in relation to a Reset Period, the sum of: (a) the Benchmark Gilt Reset Reference Rate in relation to that Reset Period; and (b) the Margin;

"Reset Period" means each period from (and including) any Reset Date and ending on (but excluding) the next Reset Date;

"Reset Reference Banks" means five leading gilt dealers in the principal interbank market relating to pounds sterling selected by the Society and notified in writing to the Principal Paying Agent;

"Risk Weighted Assets" means, as at any time, the aggregate amount, expressed in the Accounting Currency, of the risk weighted assets of the Society as at such time, as calculated by the Society (or by the Regulator or an agent appointed by it for such purpose) on an individual consolidated basis (as referred to in Article 9 of the Capital Requirements Regulation or any equivalent or similar law, rule or provision of the Capital Regulations then applicable to the Society) or, as the context requires, such other relevant Applicable Prudential Basis on which a CET1 Ratio is to be determined, in each case in accordance with the then-prevailing Capital Regulations but without

applying any transitional, phasing in or similar provisions (if any) if and to the extent the Regulator then requires them to be disregarded for the purpose of determining whether a Conversion Trigger has occurred;

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

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

"**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;

"**Successor Entity**" has the meaning given in Condition 13.2;

"**Taxes**" has the meaning ascribed thereto in Condition 10;

"**Tax Event**" has the meaning ascribed thereto in Condition 7.3;

"**Tax Law Change**" has the meaning ascribed thereto in Condition 7.3;

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

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

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

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

1. EXCHANGE OF THE GLOBAL CERTIFICATE AND REGISTRATION OF TITLE

Registration of title to Perpetual Capital Securities in a name other than that of the Nominee will be permitted only if:

- (i) all Clearing Systems have closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or do in fact do so and no successor Clearing System is available; or
- (ii) the Society has or will become subject to adverse tax consequences which would not be suffered were the Perpetual Capital Securities represented by definitive Certificates.

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

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

References herein to "**Accountholders**" are to each person (other than a Clearing System) who is for the time being shown in the records of a Clearing System as the holder of a particular nominal amount of Perpetual Capital Securities (in which regard any certificate or other document issued by that Clearing System as to the nominal amount of Perpetual Capital Securities standing to the account of any person shall, save in the case of manifest error, be conclusive and binding for all purposes).

On the Exchange Date, the Nominee shall surrender the Global Certificate to, or to the order of, the Registrar for exchange for definitive Certificates. Upon exchange of the Global Certificate, the Registrar will make appropriate entries in the Perpetual Capital Securities Register and will, as soon as reasonably practicable and in any event within 14 days following the Exchange Date, deliver, or procure the delivery of, definitive Certificates to (or to the order of) the Nominee in minimum nominal amounts of £200,000 and integral multiples of £1,000 in excess thereof printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. On exchange of the Global Certificate, the Society will procure that it is cancelled and, if the Nominee so requests, returned to the Nominee together with the relevant definitive Certificates.

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

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

2. PAYMENTS

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

Payment by the Principal Paying Agent (or otherwise by or on behalf of the Society) to or to the order of the Nominee as aforesaid will discharge the obligations of the Society in respect of the relevant payment under the Perpetual Capital Securities. Each Accountholder must look solely to its Clearing System for its share of each payment made to or to the order of the Nominee.

3. TRANSFERS

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

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

4. NOTICES

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

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

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

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

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

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

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

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

As Accountholders (and persons holding interests in Perpetual Capital Securities via an Accountholder) will not be members of the Society, they will also not be entitled to any Society Conversion Benefits (including any rights to windfall payments) arising on a demutualisation or amalgamation or merger of the Society. Any Society Conversion Benefits arising on a demutualisation or amalgamation 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 the Community Foundation serving Tyne & Wear and Northumberland (or such other charity nominated by the Society from time to time pursuant to any scheme for charitable assignment established by the Society for the time being) any Society Conversion Benefits.

6. CONVERSION

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

7. SUBSTITUTION OF THE PERPETUAL CAPITAL SECURITIES FOR COMPLIANT SECURITIES

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

8. PRESCRIPTION

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

9. PURCHASE AND CANCELLATION

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

10. RECORD DATE

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

11. DIRECT RIGHTS

Subject as follows, upon a breach of contract by the Society (which shall, for the purposes of this paragraph "*Direct Rights*", include a Securityholder becoming entitled to bring any action against the Society as contemplated by Condition 14.2) or upon a winding up or dissolution of the Society, each Accountholder at the time of such breach or (as the case may be) at commencement of such winding up or dissolution (each a "**Relevant Person**") shall (for the purpose only of bringing an action for such breach of contract or, as the case may be, claiming in the winding up or dissolution of the Society in accordance with Condition 4) acquire against the Society all those rights ("**Direct Rights**") which such Relevant Person would have had if, at the time of the relevant breach of contract or (as the case may be) at commencement

of such winding up or dissolution, such Relevant Person had been identified in the Perpetual Capital Securities Register as the registered holder of such nominal amount of Perpetual Capital Securities (the "**Underlying Perpetual Capital Securities**") as is equal to the nominal amount of Perpetual Capital Securities which are credited to such Relevant Person's securities account with the relevant Clearing System at such time.

The Relevant Persons will acquire such Direct Rights only in the circumstances and for the purposes described in the preceding paragraph and for no other purpose. Such Direct Rights will be acquired in lieu and to the exclusion of the corresponding rights of the Nominee in respect of the relevant Perpetual Capital Securities. Direct Rights will be acquired automatically at the time of the relevant breach of contract or (as the case may be) at commencement of the winding up or dissolution, without the need for any further action on behalf of any person. The Global Certificate will be executed by the Society as a deed, which shall take effect as a deed poll for the benefit of the Relevant Persons to enable them to exercise their Direct Rights as described herein. The Society's obligations to Relevant Persons as described herein shall be a separate and independent obligation to each Relevant Person by reference to each Underlying Perpetual Capital Security of such Relevant Person, and the Society agrees that a Relevant Person may assign such Direct Rights in whole or in part.

The records of the Clearing Systems shall be conclusive evidence of the identity of the Relevant Persons and the nominal amount of Underlying Perpetual Capital Securities credited to the securities account of each Relevant Person. For these purposes, a statement issued by the relevant Clearing System stating the name of the Relevant Person to which the statement is issued and the nominal amount of Underlying Perpetual Capital Securities credited to the securities account of such Relevant Person as at the opening of business on the first business day following the time of the relevant breach of contract or (as the case may be) at commencement of the winding up or dissolution, shall be conclusive evidence of the records of the relevant Clearing System at the time of the relevant breach of contract or (as the case may be) at commencement of the winding up or dissolution.

12. SUCCESSION AND TRANSFERS

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

CERTAIN PROVISIONS OF THE ACT AND REQUIREMENTS OF THE SUPERVISORY AUTHORITY

1. AMALGAMATION

Section 93 of the Act permits a building society to amalgamate with one or more building societies by establishing a building society as their successor. Amalgamation requires a shareholding members' resolution passed by the shareholding members of each amalgamating society and a borrowing members' resolution (each as defined in Schedule 2 to the Act) of the borrowing members of each amalgamating society, as well as confirmation of amalgamation by the PRA or its successor (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 or societies, the Perpetual Capital Securities would, pursuant to their terms, become deferred shares in the successor building society without any alteration of their terms, except as set out in Conditions 13.1 and 13.3.

2. TRANSFER OF ENGAGEMENTS

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

3. TRANSFER OF BUSINESS

Sections 97 to 102D of the Act permit a building society to transfer the whole of its business to a company which has been specially formed by the society wholly or partly for the purpose of assuming and conducting the society's business in its place or is an existing company which is to assume and conduct the society's business in its place. In addition, the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (the "**Mutual Societies Transfers Act**") permits a building society to transfer the whole of its business to a company that is a subsidiary of a mutual society (as defined in the Mutual Societies Transfers Act) and in such cases sections 97 to 102D of the Act are amended pursuant to orders made under section 3 of the Mutual Societies Transfers Act to reflect that the relevant company is a subsidiary of a mutual society.

The transfer must be approved by a requisite shareholding members' resolution, in accordance with Schedule 2, paragraph 30(2)-(5) of the Act, passed by shareholding members and by a borrowing members' resolution passed by borrowing members, unless in certain circumstances the Supervisory Authority directs the transfer to proceed by a resolution of the transferor society's board of directors only. The society must also obtain the confirmation of the Supervisory Authority to the transfer and its terms. If the Supervisory Authority confirms the transfer, then the Act provides that on the vesting date (as defined in the Act) all of the property, rights and liabilities (which would include the Perpetual Capital Securities) of the transferor society, whether or not capable of being transferred or assigned, shall by virtue of the Act and in accordance with the transfer regulations (then in force) be transferred to and vested in the successor. Pursuant to section 100(2)(a) of the Act, the Perpetual Capital Securities would be converted into deposits with the successor. Condition 13.2 provides that the deposits will be subordinated and will be applied in the subscription of perpetual subordinated bonds of the successor, subject as provided therein.

Where, in connection with any transfer, rights are to be conferred on members of the Society to acquire shares in priority to other subscribers, the right is restricted to shareholding members of the Society who have held their shares throughout

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

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

4. DIRECTED TRANSFERS

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

5. GENERAL

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

USE OF PROCEEDS

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

DESCRIPTION OF THE SOCIETY

Introduction

The principal office of Newcastle Building Society is 1 Cobalt Park Way, Wallsend, NE28 9EJ and its telephone number is 0191 244 2000. It is incorporated and registered under the Act with registration number 233B.

The Society is the largest building society based in the North East of England and the seventh largest building society in the UK based on asset size, with Group assets as at 30 June 2024 of £6,502.2 million (31 December 2023: £6,223.2 million).

Except as otherwise stated, financial information contained in this section entitled "*Description of the Society*" is either (i) extracted from the H1 2024 Financial Statements, (ii) extracted from the 2023 Financial Statements, (iii) extracted from the 2022 Financial Statements or (iv) calculated using financial information extracted from the H1 2024 Financial Statements, 2023 Financial Statements or 2022 Financial Statements, as applicable.

The Society

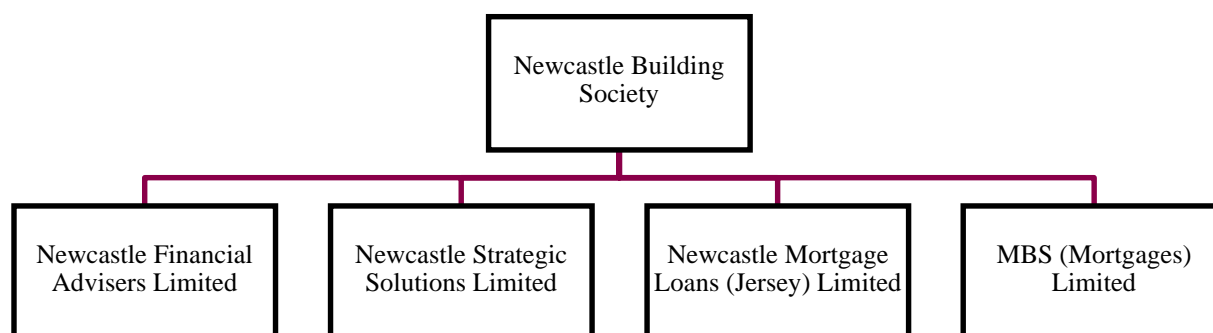
Grainger Building Society took over The City of Newcastle Building Society and The North Northumberland Benefit Building Society before merging with the Percy Building Society in 1957 to become the Grainger and Percy Building Society. It then absorbed the Victory Building Society in 1974 and changed its name back to the Grainger Building Society.

Newcastle Permanent Building Society acquired the assets of The North Eastern Permanent Building Society in 1942 followed by The Portland Building Society in 1961 and The St. Andrews Building Society in 1979.

In 1980, Newcastle Permanent Building Society merged with Grainger Building Society and so the Society was formed. The Society merged with the Nottingham Imperial Building Society in 2000 and the Universal Building Society in 2006 and, on 1 July 2023, the Society acquired the engagements of Manchester Building Society by way of a merger under the Act.

The Society has a network of 32 branches focused on its region, which it currently defines as the North East of England, North Yorkshire and Cumbria. One of the opportunities the Society is keen to explore in the future is whether it can replicate its unique relationship with the North East through extension of its branch network into the North West under the Manchester Building Society brand. Conversations are underway with key stakeholders in the North West as to how the Society best takes its first steps in delivering that ambition. As at 30 June 2024, the Society had over 371,000 members and the Group was an employer of 1,738 employees.

Group Structure



At the Group's core is the Society, which remains a savings and lending business putting its members at the heart of what it does.

Newcastle Financial Advisers Limited ("NFAL")

NFAL is the Society's financial advice subsidiary, providing the Society's members with access to regulated and trusted financial advice (NFAL is an appointed representative of The Openwork Partnership, thereby reducing the risk of any mis-selling by the Society) across the Society's branches. Demand for accessible, face-to-face meetings in the Society's branches remains strong and customers have demonstrated they value this service even more during times of economic uncertainty and cost of living challenges. In the six months ended 30 June 2024, NFAL advised its customers on nearly £60 million of their investments and its financial advice team achieved Top Rated firm status from VouchedFor, one of the UK's leading review sites for financial advisers for the third consecutive year. NFAL has now received over 2,400 feedback reviews on VouchedFor with an overall rating of 4.9/5. As at 30 June 2024, NFAL had total assets of £5.0 million (31 December 2023: £4.2 million) and funds under management (generating ongoing income on behalf of its customers) of approximately £567.0 million.

Newcastle Strategic Solutions Limited ("NSSL")

The Society's subsidiary NSSL has been managing savings accounts on behalf of some of the UK's leading savings providers since 2004. As a market leader, it is a successful business in its own right and brings scale and the capacity to invest in technology to the Group, while operating under the same culture and purpose principles as the Society. NSSL has supported the operations of numerous digital banks ranging from start-ups to subsidiaries of global brands and has supported them through early growth to balance sheets of multi-billion pounds sterling. The Society continues to deliver a major programme of digital investment into NSSL to support its clients. This includes the transition of all clients onto a new digital savings platform, the rollout of a new workforce management tool, and the implementation of Contact Centre as a Service, a cloud-based solution that provides NSSL with a comprehensive, flexible and scalable contact centre platform that can be tailored to meet specific needs. NSSL has been certified to 'ISO 27001' since 2018 for its information security management system covering process, personnel, physical and technical security. As at the date of this Offering Circular, NSSL manages savings balances for 16 different banks and building societies and is looking to extend its important role in generating capital for the wider Society business. As at 30 June 2024, NSSL had total assets of £51.0 million (31 December 2023: £50.8 million) and managed £50.0 billion (31 December 2023: £47.4 billion) of savings balances on behalf of its clients.

Newcastle Mortgage Loans (Jersey) Limited ("NMLJL")

The Society's subsidiary NMLJL was originally established for mortgage lending, however mortgages are no longer originated by this entity. As at 30 June 2024, NMLJL had total assets of £0.8 million (31 December 2023: £0.8 million).

MBS (Mortgages) Limited ("MBSL")

MBSL was acquired by the Society on 1 July 2023 as part of the merger with Manchester Building Society. The principal activity of MBSL is to hold and manage its portfolio of legacy residential mortgage assets. As at 30 June 2024, MBSL had total assets of £2.4 million (31 December 2023: £2.3 million).

Other controlled entity - Tyne Funding No.1 PLC

Tyne Funding No.1 PLC, incorporated on 30 September 2021, is a special purpose vehicle established to facilitate the issuance of a fully retained buy-to-let securitisation in December 2021. Tyne Funding No.1 PLC is deemed to be controlled by the Society. Although the Society does not have a controlling shareholding, it has the right of variable returns from the entity and is able to influence these returns. As a result, Tyne Funding No.1 PLC is consolidated into the Group accounts. As of 30 June 2024, the carrying value of the entity in the Society's balance sheet is zero pounds sterling.

All of the entities listed above are consolidated subsidiaries of the Society for the purpose of the Society's consolidated accounts and are incorporated in the UK, except for NMLJL, which is incorporated, and operates with no employees, in Jersey.

Merger with Manchester Building Society

The Society's merger with Manchester Building Society completed on 1 July 2023 and Manchester Building Society's results from this date have been included in the 2023 Financial Statements and the H1 2024 Financial Statements. For financial details in respect of the transfer of engagements from Manchester Building Society to the Society as at 1 July 2023 please refer to note 43 (Transfer of engagements) to the financial statements in the 2023 Financial Statements, which are incorporated by reference into this Offering Circular. The merger brought approximately 11,000 new members and 44 new colleagues to the Group, expanding the Society's geographic footprint into the North West. The full Newcastle Building Society product range was made available to Manchester Building Society members upon merger.

The merger brought additional net assets of £15.1 million, primarily made up of £108.9 million of lending and £120.7 million of member deposits. The assets and liabilities acquired include prime¹ and buy-to-let lending comparable to the Society's active lending books and include a euro-denominated equity release book, commercial lending and credit impaired lending, which have been included in the Society's legacy lending.

The merger improved the Group's capital and liquidity positions through the combination of both entities' assets, liabilities and regulatory capital.

Constitution

The Society is registered under, and operates in accordance with, the Act, regulations made thereunder and the Rules and the Memorandum. The Society is an incorporated building society for the purposes of the Act and is authorised by the PRA and regulated by the FCA and the PRA under the firm reference number 156058.

The Society is a mutual organisation with most of its members being retail savings shareholding members, borrowing members or both. Eligibility to vote at General Meetings is governed by the Act and by the Rules.

The affairs of the Society are conducted and managed by a Board of Directors (the "**Board**") who are elected and serve in accordance with the Rules and the Memorandum. The Board is responsible to the Society's 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.

Principal business areas

The Society's principal business activity, in line with its principal purpose as stated in its Memorandum, is making loans which are secured on residential property and are funded substantially by its members.

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 primarily to borrowers on the security of first charge mortgages secured on freehold and leasehold property.

The other activities of the Society, in line with its other purposes set out in its Memorandum, are:

- (a) to carry on the businesses of banking, investment, insurance and the provision of financial services and facilities;
- (b) to carry on any businesses connected with the provision of housing or other accommodation or the provision of any services relating to housing or other accommodation;
- (c) to carry on any businesses in the fields of information technology, data processing and communications;
- (d) to carry on any businesses involving the provision of goods or other services (whether for consumer or others) or dealing in any property;

¹ The Society categorises prime lending as lower risk, higher quality lending to borrowers with a good financial track record and no adverse credit history (and where the Society has the first charge on the mortgaged property).

- (e) to act as a parent undertaking and investment body and to assist and co-ordinate the activities of any undertakings in which it holds an interest;
- (f) to promote and support community and charitable purposes; and
- (g) to carry on or participate in any business or other activity which, in the opinion of the Board or any duly authorised officer or employee of the Society, may conveniently be carried on in connection with any other activity of the Society or for developing, taking advantage of or protecting any of the property or income of the Society or any connected undertaking of the Society or managing any risks associated with the activities of the Society or any connected undertaking of the Society.

Purpose and strategy

The Society's purpose is '*connecting our communities with a better financial future*' (the "**Purpose**"). As a regional building society, the Society's strategy and leadership are shaped by the Society's Purpose in order to deliver a sustainable business to benefit both the region and the Society's customers over the long-term.

As a mutual business, the Society's success lies in the intersection between serving the interests of its stakeholder members and communities and delivering an efficient, profitable and resilient business model which is both valued by and compelling to its customers and which is financially robust.

The Society cares about building lasting, authentic relationships with its customers, which means that while digital and intermediary channels play a key role in distribution and service delivery, face-to-face contact and a thriving branch network are particularly important. The Society has been keen to innovate in this area and has a track-record in delivering a successful branch model in locations from which other banking institutions have previously withdrawn and as such the Society plays a key role in maintaining vibrant high streets across its heartland region.

The Society's strategy is built around five key strategic themes:

1. being truly Purpose-led and making sure that delivering on its Purpose is at the heart of the Society's strategy and that its business model is effectively 'Powered by Purpose';
2. building its brand through its communities, recognising that its success relies on the reputation the Society builds with its customers and the difference it makes for the communities it serves across its region;
3. growing the scale and efficiency of the business, increasing its impact and the long-term sustainability of its operations;
4. fostering mutual advocacy, whereby its customers genuinely value the services the Society provides and the contribution it makes to its community and region; they actively participate in the Society and become the Society's biggest advocates, encouraging others to become part of the Society; and
5. understanding that making a positive contribution to the region's environmental sustainability is no longer a matter of choice but a necessity.

Balance Sheet

The consolidated Group balance sheet as at 30 June 2024, 31 December 2023, 30 June 2023 (restated) and 31 December 2022 is set out below:

Summary Group Balance sheet

	<i>Unaudited</i>	<i>Audited</i>	<i>Unaudited</i>	<i>Audited</i>
	30 June 2024	31 December 2023	30 June 2023	31 December 2022
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
			<i>Restated*</i>	
Assets				
Liquid assets	1,305.9	1,250.3	1,144.1	959.7
Derivatives and hedged risk adjustments ...	38.1	37.7	43.9	29.5
Loans and advances to customers	5,079.9	4,859.7	4,619.5	4,259.5
Other assets	78.3	75.5	63.6	64.4
Total assets	6,502.2	6,223.2	5,871.1	5,313.1
Liabilities				
Shares	5,275.2	5,014.3	4,678.8	4,220.8
Deposits and debt securities	800.1	801.0	846.2	752.9
Derivatives and hedged risk adjustments ...	35.6	61.7	44.1	55.0
Other liabilities	62.7	25.4	16.9	20.2
Capital and reserves	328.6	320.8	285.1	264.2
Total liabilities and equity	6502.2	6,223.2	5,871.1	5,313.1

* The fair value of the derivative liabilities has been restated. This increased: 30 June 2023 derivative liabilities by £2.1m; 30 June 2023 profit for the period by £0.1m, with adjustments to: opening reserves at 1 January 2023 of £1.7m; other assets of £0.6m; and other liabilities of £0.1m. Please see note 45 of the 2023 Financial Statements for more details.

Mortgage Lending Activities

The Society originates mortgages through its 32 branches, a centralised direct to customer telephony mortgage advice operation and through intermediaries that include mortgage brokers and independent financial advisers throughout the UK (except Northern Ireland). Approximately 94 per cent. of the Society's mortgage business is sourced through professional intermediaries who operate throughout the UK (except Northern Ireland). Consequently, the lending book has a broad geographical spread. All underwriting decisions relating to residential lending are manual and are made centrally.

The net increase in loans and advances to customers after provisions and other accounting adjustments was £220.2 million in the six months ended 30 June 2024 (six months ended 30 June 2023: £360 million) which included a £50.8 million reduction in the Society's exposure to the legacy lending book, resulting in loans and advances to customers after provisions and other accounting adjustments of £5,079.9 million as at 30 June 2024 (31 December 2023: £4,859.7 million).

Gross lending in the six months ended 30 June 2024 was £583.7 million (six months ended 30 June 2023: £660.2 million). The decrease in comparison to the six months ended 30 June 2023 relates to a reduction in new mortgage volumes at the start of the year, which has since increased throughout the period.

The Society's core lending book, before provisions and other accounting adjustments, grew by £273.9 million during the six months ended 30 June 2024 (six months ended 30 June 2023: £407.5 million) to £4,683.3 million (31 December 2023: £4,409.4 million)

Further details in respect of the Society's loan portfolios as at 30 June 2024, 31 December 2023 and 31 December 2022 are set out below:

Loan portfolios

	As at 30 June	As at 31 December		Movement in six months ended 30 June
	2024	2023	2022	2024
		<i>£m</i>		
Core lending				
Prime residential	4,303.6	4,019.8	3,369.1	283.8
Retail BTL <£1 million (at origination)	379.7	389.6	395.9	(9.9)
	<u>4,683.3</u>	<u>4,409.4</u>	<u>3,765.0</u>	<u>273.9</u>
Legacy lending				
Equity release	178.3	188.4	166.3	(10.1)
Specialist buy-to-let.....	6.9	13.3	14.0	(6.4)
Housing associations	179.7	211.9	270.9	(32.2)
Commercial	5.9	6.1	10.6	(0.2)
Other	21.7	23.6	18.1	(1.9)
	<u>5,075.8</u>	<u>4,852.7</u>	<u>4,244.9</u>	<u>223.1</u>
Provisions	(8.0)	(7.6)	(6.6)	(0.4)
Other accounting adjustments.....	12.1	14.6	21.2	(2.5)
Loans and advances to customers	<u>5,079.9</u>	<u>4,859.7</u>	<u>4,259.5</u>	<u>220.2</u>
	%	%	%	%
Weighted Average LTV ¹	67.9	67.4	67.7	0.5
Weighted Average ILTV ²	62.6	64.2	59.0	(1.6)

Notes:

¹ Balance weighted average LTV of the current loan amount/ original valuation for all loans in the core and legacy portfolios.

² Balance weighted average LTV of the current loan amount/ indexed valuation for all loans in the core and legacy portfolios.

The £4,303.6 million prime residential book at 30 June 2024 comprised 79.7 per cent. fixed rate loans, 11.8 per cent. tracker loans, 4.9 per cent. standard variable rate loans and 3.6 per cent. discounted rate loans. Additionally, 81 per cent. of these loans were capital repayment, 13 per cent. interest only, and 6 per cent. part capital repayment and part interest only.

The geographical split of the prime residential and retail buy-to-let mortgages <£1 million (at origination) as at 30 June 2024 is as follows:

Geographic Region	Prime residential	Prime Buy to let	Total core Lending	Prime residential	Prime Buy to let	Total core Lending
	£m			%		
Scotland	491.4	5.6	497.0	11.4	1.5	10.6
North East	470.5	7.3	477.8	10.9	1.9	10.2
Yorkshire	376.3	11.1	387.4	8.7	2.9	8.3
North West.....	491.6	19.3	510.9	11.4	5.1	10.9
East Midlands	297.9	14.3	312.2	6.9	3.8	6.7
West Midlands.....	302.3	16.1	318.4	7.0	4.2	6.8
Wales	138.0	5.0	143.0	3.2	1.3	3.1
East of England.....	351.0	38.8	389.8	8.2	10.2	8.3
South West.....	337.8	22.3	360.1	7.9	5.9	7.7
South East (Including London).....	1,039.6	239.7	1,279.3	24.2	63.1	27.2
Other	7.2	0.2	7.4	0.2	0.1	0.2
Total.....	4,303.6	379.7	4,683.3	100	100	100

Asset quality and risk appetite

The Society takes a conservative approach to credit risk in order to provide resilience to its business model. The Society does not advance sub-prime, self-certification or second-charge lending, all loans are manually underwritten and serviced in-house, and current and historically² experienced arrears levels are consistently below industry averages.

The percentage of mortgages in arrears by three months or more as at 30 June 2024 was 1.06 per cent. (30 June 2023: 0.37 per cent., 31 December 2023: 0.87 per cent.). The Society's arrears position has increased since 30 June 2023, partly due to the mortgages acquired in the second half of 2023 as part of the merger with Manchester Building Society, as well as a small increase in accounts in arrears given the cost of living pressures experienced by borrowers. The mortgages acquired through the Society's merger with Manchester Building Society have significantly higher arrears positions than the lending originated by the Society, however they make up only £119.0 million of total lending as at 30 June 2024.

In addition, the Society has redefined the basis of its arrears definition to include interest-only mortgages that have passed the capital repayment date, which were not included in prior periods as this more accurately reflects the number of mortgages that are in arrears. Excluding these interest-only mortgage accounts, the percentage of mortgages in arrears by three months or more was 0.93 per cent. as at 30 June 2024.

There were fourteen properties in possession as at 30 June 2024 (30 June 2023: nil, 31 December 2023: eight), of which two are from voluntary possessions, and seven relate to the Group's legacy equity release loans.

The Group's credit risk in relation to its core lending (prime residential and retail buy-to-let mortgage portfolios) is closely correlated with significant rises in unemployment rates and falls in property values. Provisions against core lending exposures are based on the Society's provisioning model that considers a range of economic scenarios.

Although the economic environment has generally improved in 2024 up to the date of this Offering Circular, there is still a significant degree of uncertainty and tail risks that the Society continues to monitor. Of particular relevance is the

² For information on historic arrears experience, see "Impairment and arrears data" and "Loans in 3 months+ arrears (by number of loans)" below.

risk around the cost of living and inflationary pressures which is affecting some of the Society's borrowers, albeit to a lesser degree than expected originally.

Scenario analysis is used to assess and provide for expected credit losses in respect of core lending. For details of the Society's current methodology, see note 38 to the 2023 Financial Statements, as incorporated by reference in this Offering Circular. Whilst no changes have been made to the provisioning methodology since 31 December 2023, scenarios have been updated to reflect the current economic outlook.

The following table summarises the house price index and unemployment assumptions used, which are the most significant assumptions to determine the provision. House price growth is provided as annual percentage growth or contraction compared to the previous year.

Scenario		2024	2025	2026	2027	2028
Upside	Unemployment %	4.2	3.9	3.9	3.9	3.8
	House price growth % per annum	4.5	5.5	6.6	7.2	7.1
Base	Unemployment %	4.3	4.4	4.4	4.4	4.4
	House price growth % per annum	(1.8)	(0.4)	1.6	3.7	3.8
Downside	Unemployment %	4.5	5.0	5.4	5.7	5.8
	House price growth % per annum	(6.3)	(6.9)	(1.4)	2.5	3.3
Stress	Unemployment %	8.5	8.0	7.4	6.8	6.8
	House price growth % per annum	(10.7)	(15.2)	(8.3)	(0.8)	0.3
Weighted	Unemployment %	4.8	5.0	5.1	5.1	5.1
	House price growth % per annum	(3.9)	(3.9)	(0.1)	3.1	3.6

For further information see note 13 of the Society's H1 2024 Financial Statements.

Provisions against core lending totalled £6.3 million and legacy lending £1.7 million as at 30 June 2024 (31 December 2023: £5.8 million and £1.8 million, respectively).

Provisions for expected credit losses against core lending have therefore increased by £0.5 million during the six months to 30 June 2024. This comprised additional provisions of £0.8 million on newly originated mortgages, a reduction in provisions of £0.2 million due to natural churn on the book and redemption of loan balances with customers and a £0.1 million reduction relating to loans originated before 2024. The coverage ratio on prime and buy-to-let mortgages remained static during the period at 0.13 per cent. showing the provisions moved proportionally with the mortgage balances.

The Society's legacy lending before provisions and other accounting adjustments, totalling £392.5 million as at 30 June 2024 (31 December 2023: £443.3 million) includes equity release mortgages (including £27.1 million of euro-denominated Spanish equity release mortgages acquired from Manchester Building Society), specialist buy-to-let, housing association and commercial lending books that are in run off with no further lending of these types currently contemplated.

The Society withdrew from new commercial lending in 2008. Lending balances on commercial property continue to reduce and the legacy commercial book remains performant though the Society continues to monitor the external macroeconomic influence.

During the six months ended 30 June 2024, the Society has seen further capital redemptions on its legacy lending which have reduced provisions in respect to the Society's own legacy books by £0.1 million since 31 December 2023. Provisions of £0.1 million were added in the same period relating to commercial legacy mortgages originated within the Society, a reduction of £0.1 million of provisions relating to legacy buy-to-let mortgages and a reduction in provisions held for legacy mortgages acquired from Manchester Building Society totalling £0.1 million. The coverage ratio on the legacy loans increased to 4.93 per cent. from 4.19 per cent. following redemptions of £8.5 million during the period.

Funding activities

The Society is predominantly funded through retail savings held by individuals with membership rights, with wholesale funding used to provide a diversified funding source. The Society manages its funding levels, mix and duration carefully to ensure it has the required resources in place to meet its liquidity and lending targets.

The Society has a track record of attracting and retaining retail savings balances and continues to organically grow its savings book. Retail savings balances increased by £260.9 million during the six months ended 30 June 2024 (£458.0 million in the six months ended 30 June 2023) to £5,275.2 million (31 December 2023: £5,014.3 million) as savings volumes were broadly managed to match mortgage volumes during the period.

At 30 June 2024, the Society's retail savings balances consist of a mix of variable rate products, fixed rate bonds and Individual Savings Accounts (ISAs) with approximately 60 per cent. held in branch deposits, the remaining approximately 40 per cent. raised online or by direct channels.

Insured deposits (balances that are covered by the FSCS) made up 93 per cent. of the Society's retail savings as at 30 June 2024 (31 December 2023: 93 per cent.).

The ratio of shares and deposits to wholesale funding was 87 per cent. and 13 per cent. (comprising approximately 8 per cent. TFSME and approximately 5 per cent. short term deposits), respectively, as at 30 June 2024 (86 per cent. and 14 per cent., respectively, as at 31 December 2023).

Wholesale funding decreased by £0.9 million during the six months ended 30 June 2024 to £800.1 million (31 December 2023: £801.0 million). This includes £20.0 million of Tier 2 capital eligible notes issued in June 2024.

The Group had £485.0 million TFSME drawings excluding accrued interest as at 30 June 2024 (31 December 2023: £515.0 million excluding accrued interest). TFSME drawings are contractually due to be repaid over the course of 2024 and 2025. It is the Society's intention to refinance TFSME drawings with a mix of retail and medium-term secured wholesale funding.

Wholesale Funding

	As at 30 June	As at 31 December	
	2024	2023	2022
		<i>£m</i>	
Deposits from credit institutions.....	537.3	538.7	577.1
Due to other customers	262.8	262.3	175.8
Total deposits and debt securities.....	800.1	801.0	752.9

Liquidity

Building societies are required to hold a proportion of their assets in a readily realisable form. The Society continues to manage its liquidity levels efficiently and comfortably within its regulatory limits. The liquidity the Society holds is low

risk and high-quality comprising assets held in cash or easily converted to cash through sale, market repo or via the various Bank of England liquidity schemes.

Liquid assets as a percentage of shares, deposits and liabilities (statutory liquidity percentage) as at 30 June 2024 were 21.5 per cent. (31 December 2023: 21.5 per cent.).

The liquidity coverage ratio (the "**LCR**") measures unencumbered high quality liquid assets as a percentage of net cash outflows over a 30-day stress period. The Society's LCR as at 30 June 2024 was 212 per cent. (31 December 2023: 227 per cent.), comfortably in excess of the minimum regulatory limit of 100 per cent.

The Society continues to comply with all regulatory and internal liquidity requirements as at the date of this Offering Circular.

The Society's liquidity resources as at 30 June 2024, 31 December 2023 and 31 December 2022 are set out below:

Liquidity Resources

	<u>As at 30 June</u>	<u>As at 31 December</u>	
	<u>2024</u>	<u>2023</u>	<u>2022</u>
		<i>£m</i>	
Cash & Balances with the Bank of England.....	585.8	525.5	421.9
Loans and Advances to credit institutions	105.9	109.8	104.8
Debt securities	614.2	615.0	433.0
Total liquid assets	<u>1,305.9</u>	<u>1,250.3</u>	<u>959.7</u>

The Directors of the Society (the "**Directors**") consider that the primary purpose of holding securities is to comply with prudential requirements. All transferrable debt securities are held with the intention of use on a continuing basis in the Group's activities. They are designated on initial recognition as assets held at fair value with changes recognised in other comprehensive income. Debt securities as at 30 June 2024 amounted to £614.2 million, with a split of 12.2 per cent. gilts, 20.9 per cent. treasury bills, 19.2 per cent. supnationals, 16.3 per cent. "AAA" rated residential mortgage-backed securities and 31.4 per cent. "AAA" rated covered bonds. No provisions are held against either debt securities or loans and advances to credit institutions.

Capital

The Group's total capital requirement/individual capital guidance is communicated annually by the PRA and consists of minimum regulatory capital requirements (Pillar 1 requirements) plus additional Society-specific capital requirements for credit, market, operational, counterparty, credit concentration, interest rate and pension obligation risk (Pillar 2A requirements) to address risks to the Society which the PRA considers are not adequately covered by Pillar 1 requirements, and/or an add-on to the buffer requirement (the "**PRA Buffer**") to provide for additional capital buffers as a mitigation against future possible stress periods. The PRA presently requires that the level of the PRA Buffer is not publicly disclosed. The Group's total capital requirement (Pillar 1, Pillar 2, plus buffers) at 30 June 2024 was 13.0 per cent. (31 December 2023: 13.0 per cent.). The Group complies with its total capital requirements plus capital buffers, as notified to it by the PRA.

Total capital resource increased from £308.6 million as at 31 December 2023 to £322.6 million as at 30 June 2024. This was primarily due to a £20.0 million Tier 2 capital raise in June 2024. In the same period, risk weighted assets increased from £2,186.3 million as at 31 December 2023 to £2,270.8 million as at 30 June 2024 primarily due to growth of the Society's mortgage book.

As at 30 June 2024 the Group's total capital ratio was 14.2 per cent. (31 December 2023: 14.1 per cent.) and its CET1 ratio was 12.1 per cent. (31 December 2023: 12.5 per cent.). The Group's minimum regulatory capital requirement (Pillar 1) is 8 per cent., of which 4.5 per cent. is to be held in the form of CET1 capital at 30 June 2024.

The Society's Basel III leverage ratio (on a transitional basis) was 4.2 per cent. at 30 June 2024 including central bank exposures and 4.6 per cent. excluding central bank exposures (31 December 2023: 4.4 per cent. (including central bank exposures) and 4.8 per cent. (excluding central bank exposures)). The PRA expects UK firms to maintain their leverage ratio above 3.25 per cent.

The following table sets out the Group's capital position as at 30 June 2024, 31 December 2023 and 31 December 2022:

	As at 30 June	As at 31 December	
	2024	2023	2022
		<i>£m</i>	
<i>Tier 1 capital</i>			
Common equity tier 1 capital.....	274.4	273.8	239.3
Additional tier 1	0.0	0.0	0.0
Total tier 1 capital	274.4	273.8	239.3
<i>Eligible Tier 2 capital</i>			
Eligible Tier 2 capital.....	48.2	34.8	20.0
Collective impairment allowance.....	0.0	0.0	0.0
Total Eligible tier 2 capital.....	48.2	34.8	20.0
Total capital	322.6	308.6	259.3
<i>Risk weighted assets</i>			
Liquid assets	44.2	42.0	45.6
Loans and advances to customers	1,892.5	1,813.4	1,544.5
Other assets	65.9	68.7	57.4
Off balance sheet.....	85.5	79.5	114.3
Operational risk.....	182.7	182.7	148.1
Total risk weighted assets	2,270.8	2,186.3	1,909.9
<i>Capital Ratios</i>			
Common Equity Tier 1 Ratio.....	12.1	12.5	12.5
Tier 1 Ratio	12.1	12.5	12.5
Total Capital Ratio	14.2	14.1	13.6
Leverage Ratio (UK) - excluding claims on central banks.....	4.6	4.8	4.8

The Group holds capital, primarily through accumulated reserves, to protect itself against the risks inherent in the running of a building society: primarily credit risk inherent in mortgage lending, liquidity investment, operational risk and the ability to realise other balance sheet assets ultimately into cash.

As at 30 June 2024, the Society's total capital resources exceeded its overall capital requirement (including buffers) by £23.9 million. Based on its Risk Weighted Assets as at that date, the Society's capital position implied headroom of £115.4 million to the Conversion Trigger.

As at 30 June 2024, the Society had subscribed capital in the form of £34.8 million permanent interest-bearing shares ("**PIBS**") (31 December 2023: £34.8 million), which includes £14.8 million of PIBS where the Society was substituted as the issuer in place of Manchester Building Society following its merger with Manchester Building Society on 1 July 2023. Each of the PIBS currently receives Tier 2 capital treatment and is recorded at amortised cost, being:

- £10.0 million 12.625 per cent. PIBS (ISIN: GB0006361371) (amortised cost £10.0 million);
- £10.0 million 10.75 per cent. PIBS (ISIN: GB0006371529) (amortised cost £10.0 million);
- £5.0 million 8.00 per cent. PIBS (ISIN: GB0008775057) (amortised cost £5.2 million); and
- £10.0 million 6.75 per cent. PIBS (ISIN: GB00B0712W15) (amortised cost £9.6 million).

Profitability

Despite an increasingly challenging external environment, the underlying business of the Group continues to perform with continued growth and profitability and to operate within regulatory requirements as to capital and liquidity.

As at 1 January 2023, the Bank of England base rate was 3.5 per cent. This gradually increased to a peak of 5.25 per cent. on 3 August 2023 where it remained before falling to 5.00 per cent. on 1 August 2024 and to 4.75 per cent. on 7 November 2024. In a dynamic rate environment, the Society aimed to pass on changes in the Bank of England base rate to its savings and mortgage customers in a timely and fair manner.

Over the first five months of 2024 the Society's average savings rate was 3.83 per cent. compared to a market average of 3.34 per cent. (*Source: CACI*). This equated to an additional £9.8 million more savings interest for the Society's savers compared to the market average over that period.

The Society is also acutely aware of the difficulties faced by its mortgage customers coming to the end of a historically low fixed rate interest period and moving to a higher repayment rate, especially as inflation remained high and other living costs continued to increase. The Society was quick to sign up to the Government's Mortgage Charter and has provided customers with additional support options which helped keep mortgage arrears below the market average.

The Society's Standard Variable Rate ("**SVR**") for mortgages remains one of the most competitive in the market at 6.94 per cent. versus a market average of 8.18 per cent. over the first half of 2024 (*Source: Bank of England*), saving the Society's SVR borrowers around £1.4 million in interest payments over the first half of 2024 compared to the market average.

The Group's 2024 half-yearly financial results demonstrate the core strength of the Group's operating model and this is reflected in the operating profit before impairments and provisions, which increased to £20.1 million for the six months ended 30 June 2024 compared to £17.9 million (restated on the basis set out below) for the six months ended 30 June 2023.

The table below sets out the summary Group income statement for 30 June 2024, 31 December 2023, 30 June 2023 (restated as set out below) and 31 December 2022:

Summary Group Income Statement	<i>Unaudited</i> Six months ended 30 June 2024	<i>Unaudited</i> Six months ended 30 June 2023 <i>Restated*</i>	<i>Audited</i> Year ended 31 December 2023	<i>Audited</i> Year ended 31 December 2022
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Net interest income.....	43.6	40.1	86.4	75.4
Other income and charges	33.6	28.3	51.5	45.2
Total operating income.....	77.2	68.4	137.9	120.6
Administrative expenses and depreciation	(57.1)	(50.5)	(106.5)	(89.2)
Operating profit before impairments and provisions	20.1	17.9	31.4	31.4
Impairments and provisions charges	(19.9)	(1.6)	(2.3)	1.2
Profit before taxation.....	0.2	16.3	29.1	32.6
Taxation.....	4.1	(3.9)	(7.0)	(6.0)
Profit after taxation.....	4.3	12.4	22.1	26.6

* The fair value of the derivative liabilities has been restated. This increased: 30 June 2023 derivative liabilities by £2.1m; 30 June 2023 profit for the period by £0.1m, with adjustments to: opening reserves at 1 January 2023 of £1.7m; other assets of £0.6m; and other liabilities of £0.1m. Please see note 45 of the 2023 Financial Statements for more details.

The Group's profit before taxation for the six months ended 30 June 2024 of £0.2 million (30 June 2023: £16.3 million (restated on the basis set out above)) was impacted by £20 million of costs that were recognised during the period following the announcement to provide voluntary financial support to members affected by the actions and subsequent collapse of Philips Trust. For further details of this voluntary support, see “*Voluntary support for members affected by the actions of the Philips Trust Corporation*” below and note 14 to the H1 2024 Financial Statements.

Net interest income was £43.6 million for the six months ended 30 June 2024 (for the six months ended 30 June 2023: £40.1 million, for the year ended 31 December 2023: £86.4 million) and the Group's net interest margin was 1.38 per cent. at 30 June 2024 (30 June 2023: 1.45 per cent.; 31 December 2023: 1.50 per cent.). The reduction in net interest margin was due to a reduction in new mortgage volumes at the start of the year, which has since increased throughout the period. In addition, the Society has increased its savings rates following significant Bank Base Rate rises in 2023. The impact of changing rates on the Society is mitigated by hedging its exposure to interest rate risks using interest rate swaps. This significantly reduces the impact of changes in market interest rates on net interest income, ensuring that existing lending remains profitable when interest rates rise.

Other income and charges, which includes income from NSSL and NFAL, was £27.6 million for the six months ended 30 June 2024 compared to £25.0 million for the six months ended 30 June 2023. NSSL continued to see growth in its underlying business in the first six months of 2024 as balances under management with existing clients continued to increase. NFAL also delivered a strong performance over the first half of the 2024 with new business, service income and appointment levels performing above original targets.

Administrative expenses and depreciation increased by £6.6 million from £50.5 million for the six months ended 30 June 2023 to £57.1 million for the six months ended 30 June 2024. The increase in administrative expenses relates predominantly to the continued investment in colleagues during the period and is in line with expectations.

During the six months ended 30 June 2024 the Society purchased £8.4 million of business support services and managed IT and property services from NSSL (in the same period in 2023, £7.9 million was procured from NSSL) in order to build capacity to drive the change agenda which includes the IT transformation which is improving customer functionality and

also enhancing the Group's infrastructure to deliver the Group's strategy and ensures its core platforms are at a leading level to provide security of data and enhanced resilience.

The Society received £5.1 million from NSSL in the six months ended 30 June 2024 for the provision of financial and administrative services. This compares to £5.5 million from NSSL for the same period in 2023.

The Board considers the cost-to-income ratio to be a simple measure of financial progress against internal targets and the return achieved on investment in the business. The cost-to-income ratio at 30 June 2024 has reduced to 74.0 per cent. from 77.2 per cent. at 31 December 2023 (30 June 2023: 73.9 per cent.).

The table below provides the reconciliation of operating profit before impairment and provisions to underlying operating profit for the six month periods ended 30 June 2023 and 30 June 2024 and for each of the years ended 31 December 2023 and 31 December 2022:

Underlying Operating Profit	6 months to 30 June 2024	6 months to 30 June 2023	12 months to 31 December 2023	12 months to 31 December 2022
		<i>Restated*</i>		
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Operating profit before impairments and provisions	20.1	17.9	31.4	31.4
Net gains in fair value of equity release mortgages and associated derivative financial instruments	(4.0)	(3.1)	(0.5)	1.3
(Gains) / losses in hedge ineffectiveness on accounting hedges	(1.9)	0.3	0.5	(8.8)
(Gains) / losses in revaluation of investments	-	(0.1)	0.2	2.1
Gains crystallised on sale of assets	-	-	-	(0.1)
Foreign exchange movements	-	-	(0.3)	-
Transactional costs	-	1.1	1.3	0.8
Gains on loan modifications	-	(1.1)	-	-
IT transformation costs	1.4	-	0.2	-
Underlying operating profit	15.6	15.0	32.8	26.7

* The fair value of the derivative liabilities has been restated. This increased 30 June 2023 profit for the period by £0.1 million.

The alternative performance measure of underlying operating profit is reported alongside the operating profit to give a clearer view of the underlying performance of the business. Underlying operating profit of the Group is determined by removing income or expenses arising from events or transactions distinct from the core activities of the Group (key underlying adjustments).

The non-underlying adjustments in the six months ended 30 June 2024 include net gains in the fair value of the equity release mortgage and associated derivatives of £4.0 million (30 June 2023: gain of £3.1m (restated)), hedge ineffectiveness gains on accounting hedges of £1.9 million (30 June 2023: loss of £0.3 million) and £1.4 million of IT transformation costs (30 June 2023: nil) relating to IT and systems investment during the period.

Voluntary support for members affected by the actions of the Philips Trust Corporation

On 2 May 2024, the Society announced voluntary and fully discretionary proposals (the "**Proposals**") for the ultimate benefit of certain of its members whose trusts were adversely affected by the collapse of Philips Trust Corporation ("**PTC**") and who had originally been referred to a predecessor firm of PTC by the Society. The Society's members understand its commitment to Purpose and its support of the communities it serves. Therefore, although there was no legal or regulatory obligation to do so, the Society has chosen to offer voluntary financial support to those members who were impacted. The terms of the Proposals are subject to absolute caps both in terms of aggregate costs and duration.

Management have determined an estimate of the total cost of the voluntary scheme and associated costs to be incurred (including legal and scheme costs), and have recognised a £20 million provision during the six-month period ended 30 June 2024 for this cost. This provision assumes full take-up of the Proposals by all eligible affected customers and no level of recoveries from the administrators of PTC. To the extent there is not a full take-up and/or there are any such recoveries from the administrators of PTC, the adverse capital impact of the Proposals will be less.

Key non-financial highlights

During the six months ended 30 June 2024, the Group:

- maintained high levels of customer service, with customer satisfaction³ scores of 91 per cent. (2023: 95 per cent.);
- continued to offer all members additional support through Helping Hand, a service delivered with Citizens Advice Gateshead. The Helping Hand service provides free, independent and rapid access to advice and information on a wide range of topics and issues, as well as emergency financial support for those struggling with the cost of living;
- continued to support the Mortgage Charter, being a set of commitments signed by the UK Government, the FCA and the Society (amongst others), which introduces extra measures of support for those experiencing mortgage payment difficulties;
- has not wavered in its commitment to high streets and the provision of face-to-face financial services, leading innovation in branches through the Society's programme of co-location and the continued pilot with OneBanx;
- improved the accessibility of the Society's website by adding a range of tools, including on-screen reading aids, customisable styling, as well as live translation and interpreting features;
- through the Newcastle Building Society Community Fund at the Community Foundation serving Tyne & Wear and Northumberland, made grants worth a total of more than £55,000 to charities which are expected to benefit almost 3,000 people in communities around the branch network focusing on the Society's key themes of employability, debt management, homelessness, food poverty and the environment;
- supported its communities with more than 685 colleague volunteering days, across a range of charitable causes;
- continued to support the region through new and high quality employment opportunities and bridging the employability skills gap via partnerships with Newcastle United Foundation, the Prince's Trust and Walking With The Wounded;

³ Customer satisfaction is a measure of how the Group's products and services meet customer expectations. The Group gathers customer feedback through its 'Voice of the Customer Feedback' tool, 'Rant & Rave'. By way of example, over the course of 2023, the Group had 29,544 items of feedback from its customers. Customers are surveyed as a result of an interaction with the Group's businesses, (i.e. such as in branches, through the Group's mortgage contact centre, online, or in investment services). The Group produce files at the end of each day, which is sent to Rant & Rave who then circulate the surveys and collect feedback on behalf of the Group.

- received re-accreditation as Investors in People Platinum, which demonstrates the Society's investment in colleagues and their opportunities to develop meaningful careers. The 'Platinum Award' has only been received by the top six per cent of firms assessed by 'Investors in People';
- was named Best Regional Building Society for the eighth consecutive year and Best Mortgage Lender for First Time Buyers at the 'What Mortgage Awards' as voted for by 'What Mortgage' readers; and
- in January 2024, became the first UK mutual to be formally accredited and recognised as a 'Good Mutual Business' under the 'Mutual Value Measurement' framework.

Environmental

The Society fully recognises its responsibility to care for the environment and support a sustainable future for its communities. It is committed to making positive changes to improve its own sustainability but also to work with its members and partners to help them to reduce their environmental impact. The climate strategy is centred around supporting the orderly transition to a greener, net zero economy. To ensure the strategy remains relevant the Society conducts annual stress tests, scenario analysis and impact exercises focusing on hypothetical but plausible scenarios, to ensure that strategic deliverables are appropriate. The Society has identified that its financed emissions are its biggest emitter and monitors the energy performance certificate (EPC) status of its mortgage book to gain better insight into the opportunities available to reduce these emissions. The Group is currently working closely with the United Nations with the intention to become a signatory to the UN Principles for Responsible Banking, which will include adopting a number of UN Sustainable Development Goals.

The Society's carbon literacy programme is designed to upskill and educate colleagues and provide critical business areas with a clearer understanding of types of changes they can make in order to contribute to the bigger goals. The Society's internal environment taskforce has grown in numbers over the last twelve months, focused on driving operational change. Although the Society's head office is powered by 100 per cent. hydro renewable electricity, the Society is actively exploring additional options to further reduce its carbon footprint, such as switching its fleet of vehicles to electric vehicles and determining how it can continue to improve the energy efficiency of its working environments. The Society continued to install LEDs across the branch network and at its head office. Seven EV chargers are installed at the Society's head office and more are planned and the Society has updated its vehicle fleet to be 75 per cent. electric.

Diversity, Equity and Inclusion

The Society is committed to being an inclusive organisation, both as a place to work and in its approach to its communities. It helps its communities to create positive change through a variety of partnerships, including long-term relationships with the Newcastle United Foundation and the Prince's Trust. It also provides significant financial support to local good causes through its grants programme. In 2023, the Society refreshed its approach to diversity, equity and inclusion with the launch of its "Place to Be You" strategy, which aims to grow a workforce that represents the diverse communities the Society serves and create a culture where every colleague feels valued and included for who they are and the unique perspectives they bring.

Selected Historical Financial Information

Set out below is a selection of historical financial information for the Group for each of the financial years ended 31 December 2018 to 31 December 2023.

Prior to 2021, the Group had previously accounted for the equity release mortgage ("**ERM**") assets at amortised cost. It changed its accounting policy in 2021 to a fair value approach, as was permissible under IFRS 4 and IAS 8. Relevant comparative balances prior to 2021 in the tables below have not been restated to reflect this change in accounting policy. ERM transitioned to IFRS 9 on 1 January 2023 and there was no change to the value of those assets as a result.

Summary Group Income Statement

	Year Ended 31 December					
	2023	2022	2021	2020	2019	2018
	<i>£m</i>					
Net interest income	86.4	75.4	59.0	40.2	36.9	34.2
Other income and charges.....	51.5	45.2	40.5	39.0	37.5	30.3
Total operating income	137.9	120.6	99.5	79.2	74.4	64.5
Administrative expenses	(100.1)	(83.5)	(65.8)	(57.9)	(53.9)	(46.9)
Depreciation.....	(6.4)	(5.7)	(5.2)	(4.9)	(4.2)	(2.9)
Operating profit before impairments, provisions and exceptional items	31.4	31.4	28.5	16.4	16.3	14.7
Impairment charges on loans and advances to customers.....	(1.1)	1.6	2.8	(10.5)	(1.5)	(1.5)
Impairment charges on tangible and intangible assets	(0.3)	(0.3)	(2.0)	(3.8)	0.0	0.0
Provision for liabilities and charges	(0.9)	(0.1)	(0.2)	(0.1)	(0.1)	0.1
Exceptional gain on purchase of Cobalt offices.....	0.0	0.0	0.0	0.0	0.0	0.0
Profit before taxation.....	29.1	32.6	29.1	2.0	14.7	13.3
Taxation	(7.0)	(6.0)	(5.2)	(0.6)	(3.3)	(2.5)
Profit for the period after tax.....	22.1	26.6	23.9	1.4	11.4	10.8

Group Balance Sheet

Year Ended 31 December

	2023	2022	2021	2020	2019	2018
	<i>£m</i>					
Assets						
Liquid assets.....	1,250.3	959.7	956.4	1109.7	862.5	692.4
Derivative financial instruments	50.9	90.4	14.5	0.0	0.1	3.5
Loans and advances to customers ..	4,859.7	4,259.5	3,794.5	3,477.9	3,295.1	2,772.2
Fair value adjustments for hedged risk	(13.2)	(60.9)	62.1	214.3	186.6	175.9
Non-current assets available for sale	0.0	0.2	2.4	4.9	0.0	0.0
Intangible assets	12.8	10.2	7.5	5.7	2.5	0.0
Property, plant and equipment	31.5	29.1	31.0	34.8	46.2	38.8
Other assets	31.2	24.9	26.0	17.0	19.1	15.0
Total Assets	6,223.2	5,313.1	4,894.4	4,864.3	4,412.1	3,697.8
Shares.....	5,014.3	4,220.8	3,731.8	3,776.3	3,400.9	2,713.7
Deposits and debt securities	801.0	752.9	746.7	628.0	579.4	552.4
Fair value adjustments for hedged risk	0.0	0.3	0.0	0.0	0.0	0.4
Derivative financial instruments	61.7	54.7	147.6	214.3	185.9	178.3
Other liabilities.....	25.4	20.2	24.2	18.2	20.1	12.9
Subordinated Liabilities	0.0	0.0	0.0	0.0	0.0	25.0
Subscribed capital	34.8	20.0	20.0	20.0	20.0	20.0
Reserves	286.0	244.2	224.1	207.5	205.8	195.1
Total Members' interest, equity and liabilities	6,223.2	5,313.1	4,894.4	4,864.3	4,412.1	3,697.8

Key Performance Indicators ("KPIs")

The Board regards KPIs as an important way of monitoring achievement of short-term objectives and progress against the strategic plan.

The below table shows certain KPIs for each of the financial years ended 31 December 2018 to 31 December 2023:

	Year ended 31 December					
	2023	2022	2021	2020	2019	2018
Profit Before Tax (£m)	29.1	32.6	29.1	2.0	14.7	13.3
Common Equity Tier 1 Ratio (%)	12.5	12.5	13.8	14.1	13.9	15.7
Leverage Ratio (%).....	4.4	4.5	4.5	4.4	4.7	5.4
Liquidity Coverage Ratio (%)	227	189	216	226	179	179
Statutory Liquidity Percentage (%) ...	21.5	19.3	21.4	25.2	21.7	21.2
Cost to Income Ratio (%).....	77	74	71	79	78	77
Net Interest Margin (%).....	1.50	1.48	1.21	0.87	0.91	0.92
Gross Mortgage Lending (£m).....	1,103	1,137	861	645	931	520
Net Core residential lending (£m).....	575*	587	329	228	575	160
Savings Balances (£m).....	5,014	4,221	3,732	3,776	3,401	2,714

*Excludes loans acquired from Manchester Building Society

	Year ended 31 December					
	2023	2022	2021	2020	2019	2018
Customer Satisfaction (%) ³	95	95	95	95	95	98
Colleague Turnover (%).....	12.4	13.2	15.5	7.5	10.1	11.3

Impairment and arrears data

The below table shows the impairment (charges)/reversals on loans and advances to customers for each of the years ended 31 December 2018 to 31 December 2023:

	Year ended 31 December					
	2023	2022	2021	2020	2019	2018
	<i>£m</i>					
Impairment (charges)/reversals on loans and advances to customers	(1.1)	1.6	2.8	(10.5)	(1.5)	(1.5)

The impairment charges for loans and advances to customers was £10.5 million in 2020. The majority of the increase in the provision reflected the then existing economic uncertainty from the impacts of Covid-19.

The below table shows the percentage of loans (by number of loans) in arrears by three months or more as at 31 December 2018 to 31 December 2023:

Loans in 3 months+ arrears (by number of loans)

	As at 31 December					
	2023*	2022	2021	2020	2019	2018
	%					
Core lending.....	0.48	0.36	0.44	0.38	0.36	0.29
Legacy lending.....	0.20	0.08	0.11	0.14	0.04	1.36
Total lending.....	0.46	0.35	0.42	0.36	0.33	0.30

The 2023 percentages exclude loans acquired from Manchester Building Society in 2023.

Management

Board of Directors

The affairs of the Society are conducted and managed by the Board who are responsible for the Society's strategy and policy and 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 in turn appoints and monitors executives who are responsible for the day-to-day management of the Society.

The business address of the Society's Directors is 1 Cobalt Park Way, Wallsend, NE28 9EJ. The members of the Board, their roles within the Society and their principal outside activities are, as at the date of this Offering Circular, as set out below.

<u>Name</u>	<u>Position within the Society</u>	<u>Other Directorships</u>
GA Bennett.....	Non-Executive Director	MBS (Mortgages) Limited Darkwood Croft Management Company Limited MAM Properties Limited
RTS Campbell	Non-Executive Director	New Vantage Consulting Limited Ignite Consulting Trustee Limited
MJ Faull.....	Non-Executive Director	IQUW Syndicate Management Limited The Line Art Walk The Line Public Art Walk CIC Henry's of Harbury Management Company Limited
BP Glover	Non-Executive Director	Newcastle Strategic Solutions Limited Advance Mortgage Funding Limited First Complete Limited Personal Touch Financial Services Limited Tenetline Limited United Trust Bank Limited
AS Haigh	Chief Executive Officer and Executive Director	Community Foundation serving Tyne & Wear and Northumberland North East England Chamber of Commerce Newcastle Financial Advisers Limited

Name	Position within the Society	Other Directorships
A Laverack (business name Anne Shiels).....	Non-Executive Director	Newcastle Financial Advisers Limited Anne Shiels Consulting Limited
S Miller.....	Chief Customer Officer and Executive Director	Newcastle Financial Advisers Limited Newcastle Strategic Solutions Limited
JDA Ramsbotham CBE ..	Chair and Non- Executive Director	Newcastle Strategic Solutions Limited High Doctor Pasture Caravan Park Limited Altruism Limited Willan Trustee Limited
DA Samper	Chief Financial Officer and Executive Director	-
MR Thompson.....	Non-Executive Director	Atlas Cloud Limited Newcastle United Foundation The Clinkard Group Limited Clinkard Holdings Limited North Standard Limited (Formerly known as The North of England Protecting & Indemnity Association Limited) Tyne and Wear Building Preservation Trust Limited

The Executive Directors have service contracts that can be terminated at any time by the Society on six months' notice.

There are no potential conflicts of interest between (i) any duties owed to the Society by any member of the Board and (ii) their private interests and/or other duties.

Auditors

Deloitte LLP, of 100 Embankment, Cathedral Approach, Manchester, M3 7FB (registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales) are the auditors to the Group.

TAXATION

UNITED KINGDOM TAXATION

The following is a summary of certain material UK withholding taxation matters at the date hereof in relation to payments of principal and interest in respect of the Perpetual Capital Securities and certain UK stamp duty and stamp duty reserve tax implications of acquiring, holding and disposing of the Perpetual Capital Securities. Save where expressly stated to the contrary, it is based on current United Kingdom law and the published practice of HM Revenue & Customs ("HMRC") (which may not be binding on HMRC and may be subject to change, sometimes with retrospective effect) in each case as at the date of this Offering Circular. The comments do not deal with other UK tax aspects of acquiring, holding or disposing of the Perpetual Capital Securities. The comments relate only to the position of persons who are absolute beneficial owners of the Perpetual Capital Securities and who hold the Perpetual Capital Securities as investments. The following is a general guide and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that might be relevant to a prospective purchaser. Securityholders who are in any doubt as to their tax position should consult their professional advisers. Securityholders who may be liable to taxation in jurisdictions other than the UK in respect of their acquisition, holding or disposal of Perpetual Capital Securities are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain UK taxation aspects. In particular, Securityholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Perpetual Capital Securities even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK.

Payments of Interest

The Perpetual Capital Securities will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange (within the meaning of section 1005 of the Income Tax Act 2007 (the "ITA 2007") for the purposes of section 987 of the ITA 2007) or admitted to trading on a "multilateral trading facility" operated by a regulated recognised stock exchange (within the meaning of section 987 of the ITA 2007). Whilst the Perpetual Capital Securities are and continue to be quoted Eurobonds, payments of interest on the Perpetual Capital Securities may be made without withholding or deduction for or on account of United Kingdom income tax.

Securities will be "listed on a recognised stock exchange" for this purpose if they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by the Commissioners for HMRC and either they are included in the United Kingdom official list (within the meaning of Part VI of the FSMA) or they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange. As at the date of this Offering Circular, the Society does not intend to apply for the Perpetual Capital Securities to be "listed on a recognised stock exchange" within the meaning above.

However, the Society has made or will make an application for the Perpetual Capital Securities to be admitted to trading on the International Securities Market of the London Stock Exchange with effect from on or around the Issue Date. The International Securities Market of the London Stock Exchange is a multilateral trading facility operated by a regulated recognised stock exchange for the purposes of Section 987 of the ITA 2007.

In all cases falling outside the exemptions described above, interest on the Perpetual Capital Securities may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available following a direction from HMRC pursuant to the provisions of any applicable double taxation treaty, or to any other exemption which may apply.

Other considerations

Where interest has been paid under deduction of United Kingdom income tax, Securityholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

Stamp duty and stamp duty reserve tax

1. No UK stamp duty or UK stamp duty reserve tax ("**SDRT**") will be payable on the issue of the Perpetual Capital Securities.
2. Section 109 of the Building Societies Act 1986 provides that no UK stamp duty will be payable on any transfer of shares in a building society (and it follows that no UK SDRT will be payable on any agreement to transfer shares in a building society).
3. The Finance Act 2019 introduced a new regime for hybrid capital instruments (the "**HCI rules**"). The HCI rules contain an exemption from all stamp duties on transfer so that no liability to UK stamp duty or SDRT should arise on the transfer of the Perpetual Capital Securities *provided that* the Perpetual Capital Securities constitute "hybrid capital instruments" for the purposes of the HCI rules and there are no arrangements, the main purpose, or one of the main purposes, of which is to secure a tax advantage.

The Perpetual Capital Securities should constitute "hybrid capital instruments" for the purposes of the HCI rules *provided that*:

- the Society is entitled to defer or cancel a payment of interest under the Perpetual Capital Securities;
- the Perpetual Capital Securities "have no other significant equity features"; and
- the Society has made an election in respect of the Perpetual Capital Securities.

The Perpetual Capital Securities will "have no other significant equity features" *provided that*:

- the Perpetual Capital Securities carry neither significant voting rights in the Society nor a right to exercise a dominant influence over the Society;
- any provision in the Perpetual Capital Securities for altering the amount of the principal is limited to write-down or conversion events in certain qualifying cases and that is not a right exercisable by the Securityholders; one of the qualifying cases is where a provision is included solely because of a need to comply with a regulatory or other legal requirement; and
- any provision for the Securityholder to receive anything other than interest or principal is limited to conversion events in qualifying cases.

The Society will make a hybrid capital election in respect of the Perpetual Capital Securities within the required timeframe pursuant to section 475C of the Corporation Tax Act 2009 and the Perpetual Capital Securities are not being issued in consequence of, or otherwise in connection with, any arrangements, the main purpose, or one of the main purposes of which, is to secure a tax advantage. Consequently, the Society expects that the HCI rules should apply to the Perpetual Capital Securities such that they would benefit from the exemption from all stamp duties.

4. No liability to UK stamp duty or SDRT will generally arise on a cash redemption of Perpetual Capital Securities, *provided* no issue or transfer of shares or other securities is effected upon or in connection with such redemption.
5. No liability to UK stamp duty or SDRT will arise for a Securityholder on the release of Perpetual Capital Securities on Conversion

6. No liability to UK stamp duty or SDRT will arise for a Securityholder on the issuance of CCDS by the Society to the Securityholders under a Conversion.

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 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. Investors should consult their own tax advisers regarding how these rules may apply to their investment in Perpetual Capital Securities.

SUBSCRIPTION AND SALE

NatWest Markets Plc (the "**Sole Lead Manager**") has agreed with the Society, subject to the satisfaction of certain conditions, to subscribe for, or procure subscribers for, the Perpetual Capital Securities at the issue price of 100.000 per cent. of their nominal amount. The Society has agreed to pay the Sole Lead Manager a commission if the conditions to which the issue of the Perpetual Capital Securities is subject are satisfied or waived by the Sole Lead Manager. The Society has agreed to pay certain of the Sole Lead Manager's expenses.

The Sole Lead Manager is entitled to terminate its engagement in certain circumstances prior to payment to the Society. The Society has agreed to indemnify the Sole Lead Manager against certain liabilities in connection with the issue of the Perpetual Capital Securities.

The Sole Lead Manager and its 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 Sole Lead Manager and its 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 its business activities the Sole Lead Manager and/or its 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. The Sole Lead Manager or its 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 Sole Lead Manager and its 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 and the CCDS into which they may convert under their terms 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 in 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.

The Sole Lead Manager has represented and agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Perpetual Capital Securities (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of all of the Perpetual Capital Securities, within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act, and it will have sent to each dealer to which it sells Perpetual Capital Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Perpetual Capital Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

In addition, until 40 days after the commencement of the offering of the Perpetual Capital Securities, an offer or sale of Perpetual Capital Securities within the United States by any dealer (whether or not participating in the offering) may

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

Prohibition of sales to EEA Retail Investors

The Sole 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 both) of the following:

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

United Kingdom

Prohibition of sales to UK Retail Investors

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

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

Other UK requirements

The Sole Lead Manager has further represented and agreed that:

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

Italy

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

General

No representation has been made that any action has been or will be taken by the Society or the Sole Lead Manager 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 the Sole Lead Manager 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 2 October 2024 and 3 December 2024 and resolutions of a duly appointed committee of the Board of Directors of the Society passed on 21 October 2024.

2. Approval, listing and admission to trading

It is expected that admission of the Perpetual Capital Securities to trading on the ISM will be granted on or around 6 December 2024, subject only to the issue of the Perpetual Capital Securities to be represented by the Global Certificate, and that such admission will become effective, and that dealings in the Perpetual Capital Securities on the ISM will commence, on or about 9 December 2024.

The Perpetual Capital Securities will not be admitted to the Official List of the FCA. The London Stock Exchange has not approved or verified the contents of this Offering Circular.

3. Clearing Systems

The Perpetual Capital Securities to be represented by the Global Certificate has been accepted for clearance through the Clearing Systems. The ISIN for the Perpetual Capital Securities is XS2925943305 and the Common Code is 292594330.

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

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

4. No significant or material adverse change

Since 30 June 2024, there has been no significant change in the financial or trading position of the Society or the Group and there has been no material adverse change in the prospects of the Society or the Group since 31 December 2023.

5. Litigation

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) of which the Society is aware during the 12 months preceding the date of this Offering Circular which may have, or have had in the recent past, significant effects on the Society's ability to meet its obligations to holders of the Perpetual Capital Securities.

6. Auditors

Deloitte LLP ("**Deloitte**"), of 100 Embankment, Cathedral Approach, Manchester, M3 7FB (registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales), have audited, and rendered unqualified audit reports on, the consolidated annual financial statements of the Society for the years ended 31 December 2022 and 31 December 2023. Deloitte has no material interest in the Society or the Group.

7. Registrar

The Society, pursuant to the Agency Agreement, will appoint Citibank, N.A., London Branch at its specified office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom to maintain the Perpetual Capital Securities Register at such specified office. It is intended that the Registrar will act as agent of

the Society for the purposes of maintaining the Perpetual Capital Securities Register, accepting instructions for, and effecting, transfers of Perpetual Capital Securities, issuing Certificates and receiving requests for the replacement of, and replacing, defaced, damaged, stolen, worn-out, lost or destroyed Certificates.

8. Documents available for inspection

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

- (i) the Rules and Memorandum of the Society;
- (ii) the published audited consolidated annual financial statements of the Society for the financial years ended 31 December 2022 and 31 December 2023;
- (iii) the published unaudited condensed consolidated financial statements of the Society for the six month period ended 30 June 2024;
- (iv) the unaudited Pillar 3 Disclosures of the Society for the financial year ended 31 December 2023;
- (v) the Society's unaudited Pillar 3 interim disclosures key metrics as at 30 June 2024; and
- (vi) the Agency Agreement, which includes the form of the Global Certificate.

ANNEX

INDICATIVE PROVISIONS RELATING TO THE CCDS

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

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

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

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

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

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

- (i) the Capital Rules, or the implementation or official interpretation thereof as applicable to the Society, change after issue of the Perpetual Capital Securities such that the terms of the CCDS issued upon conversion of the Perpetual Capital Securities are required to depart from the indicative provisions contained in this Annex in order that such CCDS qualify as Common Equity Tier 1 Capital (or equivalent) of the Society at that time;
- (ii) the Supervisory Authority requires the terms of the CCDS to depart from the indicative provisions contained in this Annex at the time of conversion of the Perpetual Capital Securities;
- (iii) the Society issues securities which are Core Capital Deferred Shares for the purposes of the Rules simultaneously with, or prior to, conversion of the Perpetual Capital Securities and it is necessary for the terms of the CCDS issued upon conversion of the Perpetual Capital Securities to depart from the indicative provisions contained in this Annex to ensure that such CCDS are capable of being consolidated and forming a single series with such other Core Capital Deferred Shares;
- (iv) the Society or its business is the subject of a succession or transfer of a type envisaged by Condition 13 of the Conditions of the Perpetual Capital Securities or Condition 10 of the CCDS as set out in Part II of this Annex (in which event the Society intends that provisions substantially the same as the provisions of that Condition 10 should apply, where appropriate, as if the CCDS had already been issued at the time of such succession or transfer); or
- (v) the Society is unable to procure clearing of the CCDS in the Clearing Systems (either without the terms of the CCDS departing in certain respects from the indicative provisions contained in this Annex, or at all), or the issue or transfer of the CCDS into or within the Clearing Systems may or would result in the Society suffering adverse tax consequences (including incurring any tax liabilities) which would not arise, or which would be reduced, if the CCDS were to be issued and held outside the Clearing Systems (including, for example, if the CCDS were issued into an alternative settlement system or in definitive certificated form).

PART I

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

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

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

1. GENERAL

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

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

*It is the Society's current expectation, as at the date of this Offering Circular, taking into account applicable law and regulation (including, without limitation, United Kingdom tax law) as at such date, that beneficial interests in the CCDS will be held by investors through accounts with a Clearing System (although there is no assurance that this will be the case). If the CCDS are issued into one or more Clearing Systems, the Society expects that title to all such CCDS will be registered in the name of a nominee of a depository for the relevant Clearing System(s) (the "**Nominee**") who shall be the CCDS holder for the purposes of the Rules and the Conditions (and, therefore, the Shareholding Member for the purposes of the Rules). In such case, an investor holding beneficial interests in the CCDS through a Clearing System will not be a member of the Society by virtue of its investment in the CCDS and (without prejudice to any rights or obligations that such person may have as a member of the Society in some other capacity) will be only indirectly subject to the Rules, the Memorandum and the Act with respect to its holding of CCDS in the manner provided above. Investors holding beneficial interests in the CCDS through a Clearing System shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of that Clearing System.*

If the CCDS are issued into one or more Clearing Systems, the Society expects that registration of title to CCDS in a name other than that of the Nominee would be permitted only if (i) all relevant Clearing Systems have closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business or do in fact do so and no successor Clearing System is available; or (ii) the Society has or will become subject to adverse tax consequences which would not be suffered were the CCDS held in definitive form. For so long as the CCDS remain held in accounts with a Clearing System, references in this Part to "CCDS holders" and related expressions shall be read as references to the Nominee.

2. REGISTER

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

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

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

3. DISTRIBUTIONS

Cap on Distributions

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

The Rules provide that the initial Cap, which would have been applicable to Distributions in respect of the Financial Year to 31 December 2014 had CCDS been in issue during that Financial Year, was £15 per CCDS, and that (subject as stated below) in respect of each subsequent Financial Year the Cap will be adjusted for inflation by reference to the United Kingdom Consumer Price Index (overall index, 2005=100) ("**CPI**") published by the Office for National Statistics (or any successor to, or replacement of, that index). Such adjustment will be made by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for the last full calendar month of the Financial Year in respect of which the Distributions are payable (being the percentage increase or decrease over the twelve months to and including that month) to the prevailing Cap. If the CPI ceases to be published and no direct successor or replacement index is published, the Board shall be entitled to determine an appropriate replacement index for determining inflation-based adjustments to the Cap, and shall have sole discretion to determine any modifications to the method of determining inflation-based adjustments to the Cap during the transition from CPI to the replacement index. The Society shall in each year determine the adjustment to the Cap promptly following publication of the relevant CPI (or successor or replacement index) data by the Office for National Statistics (or such successor or other organisation as may be responsible for publishing official data with respect to the relevant index) and will (following the Society first issuing Core Capital Deferred Shares and while the Society has Core Capital Deferred Shares in issue) 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 whether or not CCDS are in issue during the relevant Financial Year. As at the date of this Offering Circular, the prevailing Cap in respect of the Financial Year to 31 December 2023 is £19.81. The next adjustment will, accordingly, be made by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for December 2024 to the prevailing Cap of £19.81.

Distribution Policy

The Rules also provide that the Board may determine and from time to time publish the policy of the Society in relation to the Distributions on any Core Capital Deferred Shares, which may include an expectation of future Distributions having regard to the ongoing profitability and long term viability of the Society, the need for the Society to ensure that it has adequate capital resources and such other factors as the Board considers appropriate. The policy must provide that any such expectation (if given) is indicative only and not legally binding on the Society and that Distributions may be paid at the absolute discretion of the Board.

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

4. MEETINGS OF THE MEMBERS OF THE SOCIETY

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

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

- (i) that CCDS holder held the CCDS (and was recorded as holder in the CCDS Register):
 - (a) at the end of the Financial Year before the voting date; or
 - (b) if the voting date falls during that part of the Financial Year which follows the conclusion of the Annual General Meeting commenced in that year, at the beginning of the period of 56 days immediately preceding the voting date, for Members voting in person at a special general meeting or a postal ballot or electronic ballot, as the case may be; and
- (ii) that CCDS holder has not ceased to be a Shareholding Member between the relevant time specified in (i) above and the voting date.

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

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

The foregoing provisions relate to general meetings of the members of the Society. For provisions relating to the convening of separate meetings of the CCDS holders only, see Condition 12 in "Part II: Conditions of issue of the Core Capital Deferred Shares" below and "Meetings; membership rights whilst the CCDS are held through Clearing Systems" in "Part III: Overview of provisions relating to the CCDS while represented by the Global CCDS Certificate" 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 per cent. to holders of all or some of the Deferred Shares (excluding Core Capital Deferred Shares). The proportion (if any) of such 20 per cent. to which any particular issue of Deferred Shares is entitled shall be set out 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 in proportion to the value of their Shareholding (excluding any Deferred Shares) at the relevant date.

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

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

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

On a winding up or dissolution of the Society, CCDS holders will have no right to repayment of any principal amount in respect of their CCDS; rather, the rights of the CCDS holders to participate in the winding up or dissolution will, subject as provided in Condition 4.8, be limited to an entitlement to share, to the extent and in the manner provided in the Conditions, in the Surplus (if any) of the Society remaining following payment of all amounts in respect of Liabilities of the Society and any amounts payable pursuant to Condition 4.8. If there are insufficient assets of the Society to pay all amounts in respect of Liabilities of the Society, no payment shall be made to the CCDS holders in the winding up or dissolution of the Society.

The provisions under (a) to (c) above reflect Rule 46 of the Society's Rules. Rule 46 provides the basis for distribution of any surplus amongst members of the Society on a proportionate basis, having regard to the nature and amount of their investments, and without preference as to priority. The reference in (a) to up to 20% of the surplus being available for distribution to holders of Deferred Shares other than Core Capital Deferred Shares establishes a limit on the amount of any surplus which can be distributed to such holders but does not result in such amount of the surplus being ring-fenced for the benefit of such holders. As at the date of this Offering Circular, none of the Deferred Shares of the Society which are outstanding confer on their holders any right to share in any surplus of the Society on a winding up or dissolution. For the avoidance of doubt, the calculation of the Core Capital Contribution Share in Condition 4.4 of the Conditions of Issue of the CCDS will, in the event of a winding up or dissolution of the Society as referred to in Condition 4.2, be calculated by reference to the entire amount of Surplus before deduction of any amounts of such Surplus which may be distributed to holders of Deferred Shares (other than Core Capital Deferred Shares) or any other members.

The liability of a CCDS holder to contribute to the winding up or dissolution of the Society is limited to the amount which has been actually paid, or the amount (if any) which is in arrear, on such holder's CCDS. For these purposes, amounts would only be in arrear on CCDS if, and to the extent that, the Nominal Amount and Premium Amount (each as defined in the Conditions) payable in respect of such CCDS on issue had not been paid in full.

In accordance with Condition 8 of the terms and conditions of the Perpetual Capital Securities, the nominal amount by which the Perpetual Capital Securities will be written down following the occurrence of the Conversion Trigger shall be applied, directly or indirectly, to paying up the CCDS to be issued to holders of the Perpetual Capital Securities, and such holders shall be deemed irrevocably to have directed and authorised the Society to apply such amounts for such purpose on their behalf. Accordingly, CCDS issued upon conversion of

the Perpetual Capital Securities will be paid up in full upon issue, and there will be no liability of holders of such CCDS to further contribute in the winding up or dissolution of the Society.

6. DISPUTES AND LEGAL PROCEEDINGS

Subject to any overriding power under statute for the High Court to transfer particular proceedings to the County Court, section 85 of and Schedule 14 to the Act provide that, for a building society whose principal office is in England and Wales, no court other than the High Court in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society (save for narrow exceptions where the rules may require arbitration for certain disputes relating to election addresses, requisitioned resolutions and requisitioned meetings) or the Act or any statutory instrument under the Act.

PART II

CONDITIONS OF ISSUE OF THE CORE CAPITAL DEFERRED SHARES

The following (save for paragraphs in italics, which are for information only and do not form part of the conditions) are the indicative conditions of issue of the CCDS as they are expected to apply to holders of the CCDS and in the form in which they are expected to appear on the reverse of each CCDS Certificate, subject to amendment and completion:

The Core Capital Deferred Shares (the "**CCDS**", which term shall, unless the context otherwise requires, include any Additional CCDS (as defined below) issued pursuant to Condition 13) are issued under the Rules (the "**Rules**") of Newcastle Building Society (the "**Society**") for the time being. CCDS holders are entitled to the benefit of, are bound by and are deemed to have notice of, the Rules. The CCDS are also issued subject to, and with the benefit of, these conditions of issue (the "**Conditions**") and subject to an agency agreement (as amended from time to time, the "**Agency Agreement**") dated on or around [date] between the Society and [entity name] as registrar and transfer agent (in such capacities, the "**Registrar**", which term shall include any other registrar and transfer agent appointed by the Society in respect of the CCDS from time to time) and principal paying agent (in such capacity, the "**Principal Paying Agent**", which term shall include any other principal paying agent appointed by the Society in respect of the CCDS from time to time). In the event of inconsistency between the Rules, these Conditions and the Agency Agreement, the Rules will prevail and, subject thereto, in the event of inconsistency between these Conditions and the Agency Agreement, these Conditions will prevail. CCDS holders are bound by and are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

*It is the Society's current expectation, as at the date of this Offering Circular, taking into account applicable law and regulation (including, without limitation, United Kingdom tax law) as at such date, that beneficial interests in the CCDS will be held by investors through accounts with a Clearing System (although there is no assurance that this will be the case). If the CCDS are issued into one or more Clearing Systems, the Society expects that title to all such CCDS will be registered in the name of a nominee of a depository for the relevant Clearing System(s) (the "**Nominee**") who shall be the CCDS holder for the purposes of the Rules and the Conditions (and, therefore, the Shareholding Member for the purposes of the Rules). In such case, the Society expects that registration of title to CCDS in a name other than that of the Nominee, and the issue of definitive Certificates in respect of CCDS, would occur only in the very limited circumstances described under "Overview of provisions relating to the CCDS while represented by the Global CCDS Certificate – Exchange of the Global CCDS Certificate and registration of title".*

While CCDS are held on behalf of investors through an account with a Clearing System and registered in the name of the Nominee, the Nominee shall be the CCDS holder for all such CCDS for the purposes of the Conditions, and not the investors holding beneficial interests in the CCDS through the Clearing Systems or the persons shown in the records of the Clearing Systems. The persons shown in the records of the Clearing Systems (other than a Clearing System) shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of the relevant Clearing System.

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

1. GENERAL

- 1.1 Terms defined in the Rules will, unless otherwise defined herein or unless the context otherwise requires, have the same meanings when used in these Conditions. Other capitalised terms used in these Conditions shall have the meanings set out in Condition 18.
- 1.2 The CCDS:

- (a) are deferred shares for the purposes of section 119 of the Building Societies Act 1986 (the "**Act**");
- (b) are not protected deposits for the purpose of the Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000 (the "**FSMA**");
- (c) are not withdrawable; and
- (d) are Core Capital Deferred Shares for the purposes of the Rules.

1.3 By purchasing CCDS, each CCDS holder agrees to assign any rights to Conversion Benefits to which it may become entitled by reason of its holding of CCDS to the Community Foundation serving Tyne & Wear and Northumberland (or such other charity nominated by the Society from time to time pursuant to any scheme for charitable assignment established by the Society for the time being) (the "**Charity Assignee**"). For these purposes, "**Conversion Benefits**" shall mean any benefits under the terms of any future transfer of the Society's business to a company (other than rights to receive ordinary shares issued by the Successor Entity or its parent, as specifically provided for under Condition 10) and, if the Society amalgamates or merges with any other building society, "**Society**" shall, after the date of such amalgamation or merger, extend to such other society.

1.4 If a CCDS holder fails to assign any Conversion Benefits as required pursuant to Condition 1.3, it acknowledges that, by purchasing CCDS, it waives its entitlement to retain any Conversion Benefits received by it and covenants promptly to pay and deliver such Conversion Benefits to the Charity Assignee (or to the Society for payment and delivery to the Charity Assignee) and until such time as payment is made, will hold a sum equal to such amount on trust for the Charity Assignee.

If the CCDS are issued into one or more Clearing Systems and registered in the name of a Nominee in the manner described above, then as neither investors holding the beneficial interests in CCDS through Clearing System accounts nor the persons shown in the records of the Clearing Systems will, by virtue of such holding, be members of the Society, they will not be entitled to any Conversion Benefits by virtue of such holding. Any Conversion Benefits relating to the CCDS will belong instead to the Nominee, as the registered holder of the CCDS in the CCDS Register. It is expected that the Nominee will, on or prior to date of issue of the CCDS, irrevocably agree to assign to the Charity Assignee any Conversion Benefits.

2. FORM, TITLE AND TRANSFER

2.1 Form

The CCDS are in registered form and have a nominal value of £[1] each (the "**Nominal Amount**"). The CCDS are transferable in accordance with the Rules and subject to Condition 2.2.

In the event that a CCDS is subscribed at a price higher than the Nominal Amount, the difference between the subscription price and the Nominal Amount shall constitute CCDS premium (the "**Premium Amount**").

2.2 Title and transfer

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

CCDS are transferable in whole numbers and no CCDS may be transferred in part. A transfer of CCDS will not be valid, and will not be registered in the CCDS Register, unless the number of CCDS transferred is equal to or greater than the specified minimum transfer amount (the "**Minimum Transfer Amount**") prevailing at the time of transfer. The initial Minimum Transfer Amount is [number] CCDS. The Minimum Transfer Amount may be reduced in agreement with the Relevant Regulators upon not less than 30 nor more than 60 days' notice to CCDS

holders in accordance with Condition 14. The Minimum Transfer Amount prevailing from time to time will be published on the Society's website.

The Society currently expects that, if it were to issue CCDS, the initial Minimum Transfer Amount would be approximately 250 CCDS (which assumes an issue price per CCDS of approximately £100). However, the actual Minimum Transfer Amount which may be set, or which may be prevailing, at the time of conversion of the Perpetual Capital Securities may be higher or lower than 250 CCDS, and will depend upon agreement with the Relevant Regulators.

No transfer of a CCDS shall be valid unless made in the form endorsed on the CCDS Certificate or in such other form as the Board may agree, which form shall be duly completed and signed (as appropriate) and presented to the Registrar. Title to the CCDS will pass upon registration of such transfer in the CCDS Register and, if so requested in writing by the registered holder, the Registrar shall, on behalf of the Society, issue a CCDS Certificate in respect of such holding (which will be made available at the specified office of the Registrar).

The Society currently expects that, if it were to issue CCDS, it would not be possible for investors holding interests in CCDS through a Clearing System to transfer CCDS in amounts less than the Minimum Transfer Amount prevailing as at the time of transfer. The Society expects that the Clearing Systems will not accept instructions to settle transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount, and (in the limited circumstances in which definitive CCDS are issued) the Registrar will not register in the CCDS Register any transfer of CCDS in definitive form in amounts less than the prevailing Minimum Transfer Amount. Accordingly, purported transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount will be incapable of settlement. Investors in CCDS are responsible for ensuring that any trades they enter into in respect of the CCDS are capable of settlement; failure to do so may result in an investor breaching its contract of sale and purchase. If, and for so long as, CCDS are admitted to trading on any stock exchange, investors and potential investors in CCDS who are members of such stock exchange should have regard to any settlement obligations under the rules of such stock exchange (such as, if applicable, rule G5000 (obligation to settle) of the London Stock Exchange).

Any decision by the Society to propose a reduction in the Minimum Transfer Amount to the Relevant Regulators will be based on all relevant factors at the time, which may include (if it is the case) the fact that an established trading market has developed for the CCDS which would enable a wider range of investors to better assess whether or not CCDS would be a suitable investment for them. The Society does not expect to make such proposals frequently.

2.3 CCDS Certificates

A certificate (each a "**CCDS Certificate**") will, if so requested in writing by such CCDS holder, be issued to each CCDS holder in respect of its registered holding of CCDS. Each CCDS Certificate will be numbered serially with an identifying number which will be recorded on the relevant CCDS Certificate and in the CCDS Register, and will specify the number of CCDS registered in the name of such holder(s).

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

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

It is expected that, except in the limited circumstances described under "Overview of provisions relating to the CCDS while represented by the Global CCDS Certificate – Exchange of the Global CCDS Certificate and registration of title", owners of interests in the CCDS will not be entitled to receive physical delivery of CCDS Certificates.

2.4 Formalities free of charge

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

3. CCDS REGISTER

- 3.1 The Society has appointed the Registrar to act as registrar and transfer agent in respect of the CCDS under the terms of the Agency Agreement.
- 3.2 Pursuant to the Agency Agreement, the Society shall procure that the Registrar maintains the CCDS Register, in which shall be entered the name and address of each CCDS holder. Each CCDS holder shall notify the Registrar immediately of any change of name or address and shall produce such evidence of change of name or address as the Registrar may reasonably require.
- 3.3 A CCDS holder must provide the Registrar with a written order containing such instructions and other information as the Society and the Registrar may reasonably require to complete, execute and deliver a CCDS Certificate to such CCDS holder.
- 3.4 Transfers and other documents or instructions relating to or affecting the title of any CCDS shall be recorded in the CCDS Register. No charge shall be made in respect of any entry in the CCDS Register or any change in relation to such entry. The CCDS Register shall be maintained at the specified office of the Registrar or at such other place as the Society and the Registrar shall agree.

4. STATUS, SUBORDINATION AND RIGHTS ON A WINDING UP OR DISSOLUTION

4.1 Status and subordination

The CCDS constitute direct, unsecured and subordinated investments in the Society and, on a winding up or dissolution of the Society, rank (a) *pari passu* among themselves and with any other investments ranking or expressed to rank *pari passu* with the CCDS (provided that participation of CCDS holders in the Surplus (as defined in Condition 4.2) will be in the manner and proportion described in this Condition 4), and (b) junior to (i) all Liabilities of the Society and (ii) any claims in respect of declared, unconditional and unpaid Distributions in accordance with Condition 4.8 and claims ranking or expressed to rank *pari passu* therewith.

4.2 Rights on a winding up or dissolution

On a winding up or dissolution of the Society (other than a winding up or dissolution in connection with an amalgamation or transfer as described Condition 10, in respect of which the provisions of Condition 10 will apply), the rights of the holders of Outstanding CCDS to participate in the winding up or dissolution shall, save as provided in Condition 4.8, be limited to an entitlement to share, to the extent and in the manner provided in Condition 4.3, in the surplus assets (if any) of the Society remaining ("**Surplus**") following payment of all amounts in respect of Liabilities of the Society and any amounts payable pursuant to Condition 4.8 and claims ranking or expressed to rank *pari passu* therewith, provided that such entitlement shall be capped at the Average Principal Amount per CCDS as provided in Condition 4.7.

4.3 Distribution of Surplus

In the event of a distribution of Surplus, such Surplus shall, subject to Condition 4.7, be shared without preference as to priority between:

- (a) CCDS holders (whose entitlement shall be for such amount as will, upon such sharing of the Surplus, result in CCDS holders receiving, in respect of each CCDS held which is Outstanding at the Relevant Time, an amount equal to (i) the Core Capital Contribution Share determined in accordance with

Condition 4.4 or, if less, (ii) the Average Principal Amount determined as at the Relevant Time in accordance with Condition 4.5);

- (b) those Persons who are qualifying Members (whose entitlement shall be calculated based on the proportionate value of their Shareholding (excluding any holding of Deferred Shares) at the Relevant Time);
- (c) (unless the terms of the relevant Deferred Shares otherwise provide) holders of any other Deferred Shares in the Society at the Relevant Time (whose entitlement (if any) shall be calculated based on and subject to the terms of issue of such Deferred Shares and subject to any limit specified in the Rules as regards distributions of surplus to holders of Deferred Shares); and
- (d) any other persons entitled to share in the surplus assets in accordance with the Rules from time to time (whose entitlement shall be calculated based on and subject to the Rules).

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

In this Condition 4.3, the terms "**Deferred Share**", "**Member**", "**Person**", "**qualifying Members**" and "**Share**" have their respective meanings given in the Rules.

In these Conditions, "**Relevant Time**" means (i) 1.00 a.m. (London time) on the earlier of the date on which notice is given of a winding up or dissolution resolution of the Society or the date on which notice is given of presentation of a winding up petition of the Society (including, without limitation, notice of an order made under a building society insolvency or building society special administration (each as defined in the Act) but excluding notice of an effective resolution passed for dissolution of the Society by virtue of section 93(5) (dissolution following an amalgamation with one or more building societies by the establishment of a successor building society), section 94(10) (dissolution following transfer of all engagements to another building society) or section 97(9) or (10) (dissolution following transfer of the whole business to a company) (including, where relevant, as amended pursuant to an order made under section 3 of the Mutual Societies Transfers Act) of the Act), or (ii) such other time and date as may be specified by the insolvency official appointed with primary responsibility for the winding up or dissolution of the Society.

4.4 Core Capital Contribution Share

This Condition 4.4 determines the amount of any Surplus the CCDS holders will be eligible to receive upon a winding up or dissolution of the Society as described in Condition 4.2 (unless the amount calculated in accordance with this Condition 4.4 exceeds the Average Principal Amount per CCDS calculated in accordance with Condition 4.5, in which case CCDS holders will instead be eligible to receive the Average Principal Amount for each CCDS held). For the avoidance of doubt, if the Society is wound up or dissolved and there is no Surplus, CCDS holders will not be eligible to receive any amount pursuant to this Condition 4.4 or Condition 4.5.

The calculation in Condition 4.4(b) determines the relative contribution proportion (expressed as a percentage) of the CCDS holders (as a class) to the total Common Equity Tier 1 Capital of the Society from time to time. This Core Capital Contribution Proportion will be first calculated at the time of issue of the first tranche of CCDS and subsequently adjusted upon recalculation from time to time to reflect any additional issues of CCDS pursuant to Condition 13 and any cancellations of CCDS. If the Society is wound up in circumstances where a Surplus is available for distribution, Condition 4.4(a) provides that the CCDS holders (as a class) would be eligible to receive such share (i.e. percentage) of that Surplus as is equal to the Core Capital Contribution Proportion prevailing at that time, which amount would be shared amongst the CCDS holders pro rata based on the number of CCDS they hold.

In addition to recognising new issues and cancellations of CCDS from time to time, the calculation in Condition 4.4(b) also recognises that the CCDS holders have a notional proportionate interest in the profits and losses of

the Society on an ongoing basis: each time the calculation is repeated, the section of the formula " $(CCCP_{DT-1} \times \text{Core Capital}_{DT})$ " effectively apportions to outstanding CCDS a notional interest in the appropriate proportion of profits generated or losses incurred (recognised as increases or decreases in Common Equity Tier 1 Capital) in the period between the previous calculation and the current calculation. The amount of those profits or losses attributed to the CCDS is based on the Core Capital Contribution Proportion prevailing at the time those profits were generated or losses incurred. Thus all CCDS will have a notional proportionate interest in the profits and losses of the Society from their time of issue (subject, on a winding up or dissolution, to Condition 4.5). For the avoidance of doubt, the calculation is relevant for determining the proportion of any Surplus that CCDS holders would be eligible to receive upon the winding up or dissolution of the Society. The notional proportionate interest in profits is not an entitlement to receive any amounts in respect of such profits at any time. Except for any payment of Surplus upon the winding up or dissolution of the Society, no payments will be made to CCDS holders as a result of the calculation being performed.

The Core Capital Contribution Proportion will be first calculated as at the time of issue of the first tranche of CCDS, which may be the CCDS issued upon conversion of the Perpetual Capital Securities or may alternatively be CCDS which are issued prior to conversion of the Perpetual Capital Securities and with which the CCDS issued upon such conversion are consolidated and form a single series.

- (a) The "**Core Capital Contribution Share**" means the amount (rounded to the nearest penny, with £0.005 being rounded up) calculated by (i) multiplying (x) the total amount of Surplus available for distribution in accordance with Condition 4.2 by (y) the Core Capital Contribution Proportion calculated in accordance with Condition 4.4(b) as at the Relevant Time and (ii) dividing the resulting figure by the total number of CCDS which are Outstanding as at the Relevant Time.
- (b) The "**Core Capital Contribution Proportion**" at any given Determination Time (as defined below) is the portion (expressed as a percentage) of the total Common Equity Tier 1 Capital of the Society at such time which is determined, in accordance with the following provisions of this Condition 4.4(b), to have been contributed by the CCDS which are Outstanding at such time.
 - (i) The Core Capital Contribution Proportion shall be calculated as at the time of issue of the first tranche of CCDS (whether upon conversion of other securities of the Society or otherwise) and recalculated (A) as at the time of each issue of Additional CCDS (as defined in Condition 13), (B) upon the cancellation of any CCDS and (C) as at the Relevant Time (the time of each such calculation, a "**Determination Time**"). For the purposes of calculating the Core Capital Contribution Proportion at the Relevant Time (but not at any other Determination Time), all CCDS held by the Society in its treasury function at the Relevant Time shall be deemed to be cancelled at the Relevant Time (such cancellation to be reflected in the determination of the Core Capital Contribution Proportion at the Relevant Time).
 - (ii) The Core Capital Contribution Proportion as at each Determination Time shall be determined by the Board (or, if applicable, in the case of determination as at the Relevant Time, by or on behalf of the administrator, receiver, liquidator or other insolvency official appointed with primary responsibility for the winding up or dissolution of the Society) on the basis of the most recently published consolidated annual, interim or *ad hoc* accounts of the Society available as at the relevant Determination Time, and such determination shall be reviewed and confirmed by an independent accountant or firm of accountants of recognised standing appointed or approved by the Board (or, if applicable, the relevant insolvency official) as an expert for such purpose (provided that such expert shall have no responsibility or liability whatsoever to CCDS holders in connection with such review and confirmation).
 - (iii) The Core Capital Contribution Proportion for a particular Determination Time ("**DT**") shall be a percentage (rounded to five decimal places, with 0.000005 being rounded up) equal to:

$$\frac{\text{New Issue Amount}_{DT} + (\text{CCCP}_{DT-1} \times \text{Core Capital}_{DT}) - \text{Cancellation Adjustment Share}_{DT}}{\text{New Issue Amount}_{DT} + \text{Core Capital}_{DT} - \text{Cancellation Adjustment Amount}_{DT}}$$

where:

"**New Issue Amount_{DT}**" is the sum of the aggregate Nominal Amounts and aggregate Premium Amounts (in each case expressed in pounds sterling) of the CCDS (if any) being issued at time DT (and shall be zero if no CCDS are being issued at time DT);

"**CCCP_{DT-1}**" is the Core Capital Contribution Proportion calculated as at, and applicable to, the Determination Time immediately preceding time DT ("**DT-1**") (provided that, for the purposes of determining the Core Capital Contribution Proportion at the first Determination Time upon issue of the first tranche of CCDS, CCCP_{DT-1} shall be zero);

"**Core Capital_{DT}**" is the total amount of Common Equity Tier 1 Capital of the Society, calculated in accordance with the Capital Rules, as at time DT, adjusted if necessary to disregard the impact of (i) any New Issue Amount_{DT} as a result of any new CCDS being issued at time DT, (ii) any Cancellation Adjustment Amount_{DT} as a result of any CCDS being cancelled at time DT and (iii) any CCDS held, as a result of treasury trading, by the Society in its treasury function as at time DT, in each case having regard to the Capital Rules and accounting standards then applicable;

"**Cancellation Adjustment Amount_{DT}**" is the amount (expressed in pounds sterling) by which the Common Equity Tier 1 Capital of the Society is or was reduced as a result of the purchase by the Society of the CCDS (if any) which are being cancelled at time DT (and shall be zero if no CCDS are being cancelled at time DT); and

"**Cancellation Adjustment Share_{DT}**" is an amount (which, for the avoidance of doubt, shall be zero if no CCDS are being cancelled at time DT) equal to:

$$(N \times \text{Notional}_{DT}) + \text{CCCP}_{DT-1}[\text{Cancellation Adjustment Amount}_{DT} - (N \times \text{Notional}_{DT})]$$

where:

"**N**" is the number of CCDS which are being cancelled at time DT;

"**Notional_{DT}**" is the deemed notional contribution (expressed in pounds sterling) of each CCDS to the Common Equity Tier 1 Capital of the Society as at the relevant Determination Time, which shall be calculated by (i) multiplying (x) Core Capital_{DT} by (y) CCCP_{DT-1} and (ii) dividing the resulting figure by the total number of CCDS which are Outstanding immediately prior to the relevant Determination Time; and

"**Core Capital_{DT}**", "**CCCP_{DT-1}**" and "**Cancellation Adjustment Amount_{DT}**" have the meanings given above.

The "Cancellation Adjustment Share_{DT}" formula allocates (notionally, and for the purposes only of determining the Core Capital Contribution Proportion from time to time) between CCDS holders and the other members of the Society the reduction in the Common Equity Tier 1 Capital of the Society as a result of the purchase by the Society of the CCDS which are being cancelled at the relevant Determination Time. "Notional_{DT}" represents the deemed notional contribution of each CCDS being cancelled to the Common Equity Tier 1 Capital of the Society as at the relevant Determination Time, and such amount will (notionally, in the context of the determination of the Core Capital Contribution Proportion) be borne by the CCDS holders. If the amount of the reduction in Common Equity Tier 1 Capital per cancelled CCDS is higher or lower than such deemed notional contribution, the difference is apportioned between the CCDS holders and the other members of the Society proportionately by reference to the prevailing Core Capital Contribution Proportion.

- (c) The Core Capital Contribution Proportion shall be determined as soon as reasonably practicable following each Determination Time and shall promptly, and in any event within 14 days following the confirmation of such determination in the manner provided in Condition 4.4(b)(ii) above, be published on the Society's website (or, if this is not possible, via the Regulatory News Service operated by the London Stock Exchange or another regulatory information service as may be recognised by any stock exchange on which the CCDS are for the time being listed).
- (d) If, at any time, by reason of any change in the Capital Rules (or official interpretation thereof) or otherwise, the CCDS cease to qualify as Common Equity Tier 1 Capital of the Society, they will, nevertheless, be treated as contributing to Common Equity Tier 1 Capital of the Society (on the same basis as immediately prior to ceasing so to qualify) for the purposes of determining the Core Capital Contribution Proportion.

4.5 Average Principal Amount

- (a) "**Average Principal Amount**" means an amount (expressed in pounds sterling) per CCDS calculated as follows and rounded to the nearest penny (with £0.005 being rounded up):

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

where:

"**Aggregate Nominal**" is the aggregate of all Nominal Amounts (expressed in pounds sterling) paid at initial subscription of all CCDS issued at any time up to (and including) the time at which the Average Principal Amount is being calculated (whether or not the same remain Outstanding);

"**Aggregate Premium**" is the aggregate of all Premium Amounts (expressed in pounds sterling) paid at initial subscription of all CCDS issued at any time up to (and including) the time at which the Average Principal Amount is being calculated (whether or not the same remain Outstanding); and

"**Total CCDS Issued**" is the total number of CCDS issued at any time up to (and including) the time at which the Average Principal Amount is being calculated (whether or not the same remain Outstanding).

- (b) The Average Principal Amount will be determined in accordance with this Condition 4.5 by the Board as at the time of each new issue of CCDS, and in each case shall be published on the Society's website (or, if this is not possible, via the Regulatory News Service operated by the London Stock Exchange or another regulatory information service as may be recognised by any stock exchange on which the CCDS are for the time being listed) promptly, and in any event within 14 days, following its determination.

4.6 CCDS issued other than for cash

If at any time CCDS are issued and allotted other than for cash (including, without limitation, CCDS issued and allotted by way of a bonus issue (including a capitalisation issue) or pursuant to a remuneration scheme for directors or employees of the Society or the Society and its subsidiaries, or CCDS issued in exchange for, or upon the write-down and/or conversion of, other securities of the Society), the Premium Amount of each such CCDS shall be determined by the Board in good faith (and in accordance with generally accepted accounting practices and the accounting policies of the Society for the time being) as an amount equal to the notional value (such notional value being, as close as practicable, the equivalent cash value) in respect of which such CCDS is issued and allotted less the £[1] Nominal Amount of such CCDS. The Nominal Amount and Premium Amount of each such CCDS shall be included in any calculation of the Core Capital Contribution Proportion and Average Principal Amount as if such Nominal Amount and Premium Amount had been paid to the Society in cash.

4.7 Entitlement to Surplus capped

The entitlement of CCDS holders to share in the Surplus shall be capped at the Average Principal Amount per CCDS. Accordingly, following payment to the holders of CCDS, by way of distribution of Surplus, of an amount equal to the Average Principal Amount in respect of each CCDS, the holders of the CCDS shall have no further entitlement to share in any remaining or further distribution of Surplus, and any such remaining or further Surplus shall be distributed amongst the persons and in the manner specified in Conditions 4.3(b), (c) and (d) only, or otherwise as provided in the Rules.

4.8 Declared and unpaid Distributions

On a winding up or dissolution of the Society, the CCDS holders shall, in respect of any declared, unconditional (which term shall, for these purposes, include any conditional Distribution (as described in Condition 5.3) or part thereof in respect of which the relevant conditions have been satisfied) and unpaid Distributions, be entitled to prove in the winding up or dissolution of the Society, as the case may be, for the amount of such Distributions but only if, and subject to the condition that, all sums due from the Society in respect of Liabilities in the winding up or dissolution have been paid in full, and accordingly the claims of the CCDS holders in respect thereof shall rank (a) *pari passu* amongst themselves and with any other claims ranking or expressed to rank *pari passu* therewith and (b) junior to all Liabilities of the Society. Accordingly, such claims shall constitute the most junior claim in the winding up or dissolution of the Society other than a claim to participate in any Surplus.

4.9 Set-off, etc.

By acceptance of the CCDS, each CCDS holder (and each holder of any interest in the CCDS) will be deemed to have waived any right of set-off (including, without limitation, compensation or retention), counterclaim or netting that such holder might otherwise have against the Society in respect of or arising under the CCDS whether prior to or in a winding up or dissolution. Notwithstanding the preceding sentence, if any of the rights and claims of any CCDS holder (or holder of any interest in the CCDS) in respect of, or arising under, the CCDS are discharged by set-off (including, without limitation, compensation or retention), counterclaim or netting, such holder will immediately pay an amount equal to the amount of such discharge to the Society or, if applicable, the administrator, receiver, liquidator or other insolvency official appointed with primary responsibility for the winding up or dissolution of the Society and, until such time as payment is made, will hold a sum equal to such amount on trust for the Society or, if applicable, such administrator, receiver, liquidator or other insolvency official (as the case may be). Accordingly, such discharge will be deemed not to have taken place.

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

5. DISTRIBUTIONS

5.1 Declaration of Distributions

The Board may, in its sole and absolute discretion, from time to time declare Periodic Distributions (as defined in the Rules, and referred to herein as "**Distributions**", which term shall include any Interim Distribution and any Final Distribution each as defined below) in respect of the CCDS. With respect to any given Financial Year of the Society, the Board may declare an interim Distribution (an "**Interim Distribution**") during such Financial Year and/or a final Distribution (a "**Final Distribution**") in respect of such Financial Year.

A Distribution (or any part thereof) may be declared unconditionally or subject to satisfaction of such conditions as the Board may determine (which may include, without limitation, any consents or approvals which may be necessary for distribution of reserves of the Society).

If an Interim Distribution is declared during any Financial Year, it will (subject to satisfaction of the relevant conditions to payment, if any) be paid on [*date, month*] in such Financial Year and if a Final Distribution is

declared in respect of any Financial Year, it will (subject to satisfaction of the relevant conditions to payment, if any) be paid on [*date, month*] falling in the Financial Year immediately following the Financial Year in respect of which the Final Distribution is declared, provided that if any such date is not a Business Day, such Interim Distribution or Final Distribution (as the case may be) will be paid on the immediately following Business Day (the "**Distribution Payment Dates**").

If, at any time, the Society changes its accounting reference date, the Board shall be entitled to change the Distribution Payment Date for the payment of Final Distributions to a date which the Board considers appropriate given the new accounting reference date (provided that such date shall fall not more than five months following the end of the Financial Year in respect of which the relevant Final Distribution is declared), and the Distribution Payment Date for the payment of Interim Distributions shall at the same time be changed to the date falling six months prior to such date. Any new Distribution Payment Dates so determined will be promptly notified to CCDS holders in accordance with Condition 14 and published on the website of the Society (or, if this is not possible, via the Regulatory News Service operated by the London Stock Exchange or another regulatory information service as may be recognised by any stock exchange on which the CCDS are for the time being listed).

5.2 Distributions discretionary

The Board shall have full discretion at all times whether or not to declare any Interim Distribution or Final Distribution. Interim Distributions and Final Distributions are independent, and accordingly whether or not the Board declares an Interim Distribution during any Financial Year shall have no effect or bearing on the Board's discretion whether or not to declare a Final Distribution in respect of that Financial Year (save that the amount of the Final Distribution (if any) declared in respect of a Financial Year shall not, when aggregated with any Interim Distribution paid during that Financial Year, exceed the Cap provided in Condition 5.5). If, at any time, the Board elects not to declare any Interim Distribution or Final Distribution, no Distribution or other amount in respect of the relevant period shall accumulate to CCDS holders or be payable at any time thereafter, and CCDS holders shall have no right to any Distribution or other amount in respect of such period, whether in a winding up or dissolution of the Society or otherwise.

Notwithstanding the discretion of the Board referred to above, if the Supervisory Authority, by notice in writing to the Society, requires the Society not to declare any Distributions on the CCDS at any time or whilst any specified circumstances subsist or during a specified period, the Board shall not declare any Distributions until such time as the Supervisory Authority authorises it to resume Distributions on the CCDS, such circumstances cease to subsist or, as the case may be, expiration of the specified period.

5.3 Conditional Distributions

If a Distribution (or any part thereof) is declared subject to the satisfaction of one or more conditions and any such condition is not satisfied on or prior to the relevant Distribution Payment Date, such Distribution (or, as the case may be, the part of such Distribution subject to the relevant condition) shall not accumulate to CCDS holders or be payable at any time thereafter, and CCDS holders shall have no right to such Distribution (or, as the case may be, the conditional part thereof) whether in a winding up or dissolution of the Society or otherwise.

5.4 Distributions payable out of Distributable Items

Distributions will be paid out of Distributable Items, and the Board shall not declare a Distribution that is greater than the amount of Distributable Items available for payment of such Distribution.

If the Distribution is to be paid entirely out of the Society's profits available for distribution, such payment is subject to the discretion of the Board. To the extent that the Distribution is to be paid from the Society's reserves, such payment is subject to the discretion of the Board and applicable legal and regulatory requirements relevant to making payments from the reserves.

5.5 Cap on Distributions

The total Distribution paid on each CCDS in respect of any given Financial Year of the Society (being the aggregate of the Interim Distribution (if any) paid during such Financial Year and the Final Distribution (if any) paid in respect of such Financial Year) shall not exceed the prevailing Periodic Distributions Cap (as defined in the Rules) determined in accordance with the Rules (the "**Cap**"). The Cap prevailing from time to time in respect of the CCDS shall be published on the Society's website.

*The Rules provide that the initial Cap, which would have been applicable to Distributions in respect of the Financial Year to 31 December 2014 had CCDS been in issue during that Financial Year, was £15 per CCDS, and that (subject as stated below) in respect of each subsequent Financial Year the Cap will be adjusted for inflation by reference to the United Kingdom Consumer Price Index (overall index, 2005=100) ("**CPI**") published by the Office for National Statistics (or any successor to, or replacement of, that index). Such adjustment will be made by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for the last full calendar month of the Financial Year in respect of which the Distributions are payable (being the percentage increase or decrease over the twelve months to and including that month) to the prevailing Cap. If the CPI ceases to be published and no direct successor or replacement index is published, the Board shall be entitled to determine an appropriate replacement index for determining inflation-based adjustments to the Cap, and shall have sole discretion to determine any modifications to the method of determining inflation-based adjustments to the Cap during the transition from CPI to the replacement index. The Society shall in each year determine the adjustment to the Cap promptly following publication of the relevant CPI (or successor or replacement index) data by the Office for National Statistics (or such successor or other organisation as may be responsible for publishing official data with respect to the relevant index) and will (following the Society first issuing Core Capital Deferred Shares and while the Society has Core Capital Deferred Shares in issue) 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 whether or not CCDS are in issue during the relevant Financial Year. As at the date of this Offering Circular, the prevailing Cap in respect of the Financial Year to 31 December 2023 is £19.81. The next adjustment will, accordingly, be made by applying the CPI annual inflation percentage published by the Office for National Statistics in its statistical bulletin for December 2024 to the prevailing Cap of £19.81.

5.6 Distribution due and payable following declaration

Once declared, a Distribution will be due and payable by the Society on the relevant Distribution Payment Date, provided that any Distribution (or any part thereof) that is stated to be conditional as aforesaid will become due and payable on the relevant Distribution Payment Date only if the relevant conditions are satisfied on or prior to such Distribution Payment Date.

5.7 Non-declaration not default

Neither a decision by the Board not to declare a Distribution (whether an Interim Distribution or a Final Distribution) at any time, nor non-payment of any Distribution (or any part thereof) in respect of which a relevant condition to payment of such Distribution (or such part) has not been satisfied on or before the relevant Distribution Payment Date, shall constitute a default by the Society under the CCDS for any purpose, and neither such event shall entitle CCDS holders to petition for the winding up or dissolution of the Society nor impose any restrictions on the Society or prevent the Society from declaring any distributions or interest payments on any of its other shares or other instruments or obligations.

5.8 Notice of Distribution

Following determination by the Board whether any Interim Distribution or Final Distribution shall be declared, the Society will publish an announcement confirming (a) the amount (if any) of such Distribution, expressed as an amount per CCDS and (b) whether the Distribution (or any part thereof) is conditional and, if so, the relevant condition(s).

If the Board declares a Distribution which is, in whole or in part, conditional and one or more relevant conditions have not been satisfied on or before the relevant Distribution Payment Date, the Society will promptly publish an announcement confirming that such condition(s) have not been satisfied and that, accordingly, the Distribution (or the relevant part thereof) subject to such condition(s) is not, and shall not become, due and payable.

5.9 Distribution Policy

The Society will from time to time publish on its website a distribution policy (the "**Distribution Policy**") setting out the Board's expectations as regards the declaration of Distributions and certain factors which the Board may consider when determining whether or not to declare a Distribution and, if so, the amount of such Distribution. Upon any change in the policy, the Society shall promptly publish the revised Distribution Policy on its website.

The Distribution Policy may give an indication of the Board's current expectations with respect to declaration of Distributions (the "**Indication**"). Any Indication will not be binding on the Board or the Society and the Board shall (subject to there being available sufficient Distributable Items) have absolute discretion to declare a Distribution which is higher (subject to the Cap) or lower than the Indication or to determine that no Distribution shall be declared in respect of the relevant period. The Board will have regard to a range of factors including those set out in the Distribution Policy and must satisfy itself that the declaration of any Distribution is consistent with maintaining the financial strength of the Society.

The Society does not intend to publish a Distribution Policy until such time as it has any CCDS in issue.

6. PAYMENTS

6.1 Payment by cheque or transfer

Subject as follows, all payments in respect of the CCDS will be made on the due date for payment or, if such date is not a Business Day, on the immediately following Business Day to a CCDS holder appearing in the CCDS Register in respect of the CCDS of which it is the holder at the close of business on the fifteenth day before the relevant due date (the "**Record Date**") by transfer to such CCDS holder's Designated Account (or, failing which, by sterling cheque drawn on a bank or building society in the United Kingdom, posted on or about the due date for payment and made payable to such CCDS holder).

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

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

replaced with "ICSD Business Day", which shall mean a day on which the Clearing Systems are open for business.

6.2 Payments subject to applicable laws

Payments in respect of the CCDS will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment or other laws and regulations to which any of the Society, the Registrar or the Principal Paying Agent is or becomes subject and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto or any other applicable law.

In the event that a withholding or deduction is required to be made under applicable law or regulation, the Society will cause the requisite amount to be withheld or deducted and CCDS holders will be entitled to receive only the balance of the relevant Distribution following such withholding or deduction.

On the basis of United Kingdom tax law and practice prevailing as at the date of this Offering Circular, all payments of Distributions in respect of any CCDS, if issued, would be expected to be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax.

6.3 Partial payments

If any amount due on the CCDS is not paid in full, the Registrar will annotate the CCDS Register of the amount in fact paid.

7. PRESCRIPTION

Any amounts payable in respect of CCDS in respect of which no cheque has been cashed and no payment claimed shall cease to be payable after 12 years from the due date and shall revert to the Society.

8. NO REDEMPTION; PURCHASES

8.1 No redemption

The CCDS constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no maturity date. The Society has neither an obligation nor any right to redeem or, save following a purchase as referred to in Condition 8.2, cancel the CCDS and CCDS holders do not have any right to require the Society to redeem, purchase or cancel the CCDS.

8.2 Purchases

The Society and, subject to the immediately following paragraph, its subsidiaries may, in their sole discretion but subject to Condition 8.3 and to compliance with the Capital Rules then prevailing, at any time purchase or otherwise acquire CCDS in the open market or otherwise at any price. CCDS so purchased may, at the option of the Society (but, in the case of a purchase by a subsidiary of the Society, subject to the immediately following paragraph), be held, re-issued and/or re-sold or surrendered to the Registrar for cancellation.

Subsidiaries of the Society shall not be permitted to purchase and hold CCDS for their own account or that of the Society, and any such purchase shall be deemed to be a purchase by the Society for immediate cancellation. Nothing in the previous sentence shall prohibit a subsidiary of the Society from purchasing or holding CCDS in its capacity as personal representative, agent or trustee for or on behalf of, or for the benefit of, a person other

than the Society or a subsidiary of the Society, and any such purchase shall not be deemed to be a purchase by the Society (for immediate cancellation or otherwise).

8.3 Purchases subject to supervisory consent

Any purchase of CCDS by the Society or any of its subsidiaries will, if so required by the Supervisory Authority, the prudential rules applicable to the Society or any laws or regulations applicable to deferred shares of the Society at the relevant time, be conditional upon the Society having duly notified the Supervisory Authority and/or any other relevant authority of its intention to purchase the CCDS and the Supervisory Authority and/or such other relevant authority (as applicable) having permitted, approved or consented to such purchase.

9. REPLACEMENT OF CCDS CERTIFICATES

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

10. SUCCESSION AND TRANSFERS

10.1 Amalgamation or transfer under section 93 or 94 of the Act

Upon an amalgamation by the Society with another building society under section 93 of the Act or a transfer of all or substantially all of its engagements to another building society under section 94 of the Act, the CCDS shall become deferred shares in the amalgamated or transferee building society, as appropriate (the "**Resulting Society**", and references in these Conditions to "Society" shall thereafter be construed accordingly), having such terms and conditions as are necessary to ensure that both the CCDS and any other deferred shares which, prior to such amalgamation or transfer, constituted Common Equity Tier 1 Capital of the other society, shall constitute Common Equity Tier 1 Capital of the Resulting Society and, subject thereto, in all material respects identical to the terms of the CCDS, all as determined by an independent financial adviser (having regard to such factors as it considers appropriate) appointed by the Society in its sole discretion.

It may be necessary, upon an amalgamation by the Society with another building society or a transfer of all or substantially all of its engagements to another building society as envisaged by Condition 10.1, for the terms of the CCDS and/or the rules of the Resulting Society to be amended in certain respects and/or for certain adjustments to be made to the prevailing Core Capital Contribution Proportion, Average Principal Amount and/or Cap on Distributions and, where applicable, the formulae for calculating the same. With a view to minimising the financial impact of such amendments and adjustments on CCDS holders, it is the intention of the Society that, if and to the extent that the Society has control over such matters, any such amendments and adjustments should be limited to the minimum necessary in order to ensure that the CCDS and any other deferred shares of the other society which, prior to such amalgamation or transfer, constituted Common Equity Tier 1 Capital of the other society, shall constitute Common Equity Tier 1 Capital of the Resulting Society.

10.2 Transfer of business under section 97 of the Act

Upon a transfer by the Society of the whole of its business in accordance with section 97 of the Act (including, where relevant, as amended pursuant to an order made under section 3 of the Mutual Societies Transfers Act) to a company (a "**Successor Entity**", which expression includes a subsidiary of a mutual society as referred to in the Mutual Societies Transfers Act) the Successor Entity will, in accordance with section 100(2)(a) of the Act, as from the vesting date, assume a subordinated liability (a "**Subordinated Deposit**") to each holder of CCDS,

which Subordinated Deposit shall be applied on the vesting date (or as soon as reasonably practicable thereafter), on behalf of the CCDS holder, in the subscription of such number of ordinary shares (which may or may not carry voting rights) in the Successor Entity or, if appropriate, any direct or indirect parent company of the Successor Entity, ranking *pari passu* in all respects with the then existing ordinary shares of such Successor Entity or such parent, as applicable, as have an aggregate market value immediately following such subscription as near as practicable to, but not less than, the market value of the CCDS immediately prior to the time of transfer of the business of the Society to the Successor Entity, as determined by an independent financial adviser (having regard to such factors as it considers appropriate, including recent trading prices if available) appointed by the Society in its sole discretion.

10.3 Basis of appointment of independent financial adviser

Any independent financial adviser appointed pursuant to Condition 10.1 or 10.2 shall act as an expert and not as an arbitrator, and all fees, costs and expenses in connection with such appointment shall be borne by the Society. Any determination made in good faith by such independent financial adviser pursuant to Condition 10.1 or 10.2 shall be binding on the Society, the Registrar and the CCDS holders. No independent financial adviser appointed pursuant to Condition 10.1 or 10.2 shall have any responsibility or liability whatsoever to any CCDS holder or to any other person in connection with any determination made by it in good faith pursuant to Condition 10.1 or 10.2.

10.4 Failure to obtain a determination by independent financial adviser

If, in circumstances which require an independent financial adviser to make any determination pursuant to Condition 10.1 or 10.2, the Society is unable (having used reasonable endeavours) to appoint such independent financial adviser, or if the appointed independent financial adviser fails to make any necessary determination and the Society is unable (having used reasonable endeavours) to appoint an alternative or additional independent financial adviser to make such determination, the Society shall itself be entitled to make the necessary determinations in consultation with an independent financial adviser appointed by it for such purpose (and any such determinations will be treated for all purposes under this Condition 10 as determinations made by an independent financial adviser), provided that if the Society is unable to appoint an independent financial adviser with which to consult, the Society shall instead convene a meeting of the CCDS holders in accordance with Condition 12 in order for such holders to approve by resolution those determinations which remain to be made. Such approval may alternatively be obtained by way of a written resolution in accordance with Condition 12.7.

10.5 Undertakings

- (a) The Society undertakes to use all reasonable endeavours to procure that any amalgamation, transfer of engagements 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 with the consent or approval of the Society; and
 - (ii) shall pay, or shall use all reasonable endeavours to ensure that the Resulting Society pays, any 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 such deferred shares,

but will not pay (and each CCDS holder 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 such deferred shares pursuant to Condition 10.1.

- (c) In connection with any transfer by the Society of the whole of its business in accordance with section 97 of the Act (including, where relevant, as amended pursuant to an order made under section 3 of the Mutual Societies Transfers Act) to a company as provided in Condition 10.2, the Society:
- (i) shall, and shall use all reasonable endeavours to procure that the Successor Entity shall, comply with the rules of any competent authority, stock exchange and/or quotation system by or on which the CCDS are, for the time being, listed, traded and/or quoted with the consent or approval of the Society; 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 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 such ordinary shares, but will not pay (and each CCDS holder 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 such ordinary shares pursuant to Condition 10.2.

11. VARIATIONS OF THESE CONDITIONS

- 11.1 Save as provided in Condition 11.5, these Conditions may only be varied by the Society with the consent in writing of the CCDS holders in accordance with Condition 12.7 or with the sanction of a resolution passed at a separate meeting of the CCDS holders held in accordance with Condition 12 (all as more fully described in Schedule [3] to the Agency Agreement).
- 11.2 These Conditions do not limit the rights of members of the Society to amend the Rules.
- 11.3 The Society undertakes not to initiate any amendment to the Rules that is both (a) inconsistent with the provisions of these Conditions and (b) materially prejudicial to the interests of the CCDS holders in that capacity.
- 11.4 The provisions of Condition 11.2 and any amendment to the Rules or any resolution of members of the Society (in either case whether such amendment or resolution is initiated by the Society or by one or more of its members) shall not:
- (a) limit any rights of any CCDS holder to bring an action against the Society for breach of contract in circumstances where the Society is in breach of these Conditions, and furthermore any CCDS holder shall be entitled to bring an action against the Society as if there had been a breach of contract (such that a CCDS holder may sue for a liquidated sum equal to its loss) in circumstances where an amendment has been made to the Rules or any resolution of members of the Society has been passed which is materially prejudicial to the holders of CCDS as a class and which would have been a breach of these Conditions had such amendment been instituted by the Society; or
 - (b) afford the Society any defence to any claim made in any action referred to under (a) above,

provided, however, that no CCDS holder shall be entitled to bring an action against the Society under (a) above, and the Society shall have a valid defence to any such action under (b) above, if the holders of CCDS have at any time passed a resolution in accordance with Condition 12 (whether at a duly convened meeting of the holders of CCDS or by way of written resolution) approving, ratifying and/or consenting to the relevant amendment to the Rules or the relevant member resolution, as the case may be.

- 11.5 If, at any time, a Regulatory Event occurs, the Society may in its sole discretion, without the need for the consent of the holders of the CCDS, upon not less than 30 nor more than 90 days' notice to holders of the CCDS in accordance with Condition 14, vary the terms of the CCDS so that they remain or (as the case may be) become capable of qualifying in full as Common Equity Tier 1 Capital of the Society, provided that:
- (a) the terms of the CCDS, as so varied, are not materially less favourable to the CCDS holders (in their capacity as such) than the terms of the CCDS immediately prior to such variation (as reasonably determined by the Society in good faith in consultation with an independent adviser of recognised standing, in which regard a certification to such effect shall be signed by two directors of the Society and made available to holders for inspection); and
 - (b) if the CCDS were admitted to listing and/or trading on any stock exchange immediately prior to such variation, the CCDS continue to be admitted to listing and/or trading on the same stock exchange or on another stock exchange selected by the Society.

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

12. MEETINGS OF THE CCDS HOLDERS

12.1 Convening the meeting, notice and quorum

The Society alone may at any time convene a separate meeting of the CCDS holders. Every meeting shall be held at such place (which need not be a physical place and instead may be by way of conference call, including use of a videoconference platform, and all references to "place" or "present" in this Condition 12 shall be construed accordingly, so far as the context admits) as the Society may approve.

At least 21 clear days' notice specifying the hour, date and place of the meeting shall be given to the CCDS holders entered in the CCDS Register 35 days prior to the date specified for the meeting, such notice to be given in accordance with Condition 14. The notice shall specify generally the nature of the business to be transacted at the meeting and the terms of any resolution to be proposed to alter these Conditions.

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

At any meeting one or more persons present in person or by proxy and holding or representing in aggregate not less than one-third of the number of CCDS for the time being Outstanding shall form a quorum for the transaction of business and no business (other than the choosing of a chair) shall be transacted at any meeting unless the requisite quorum shall be present at the commencement of business.

12.2 Adjournment

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

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

Notice of any adjourned meeting shall be given in the same manner as notice of an initial meeting but as if 10 were substituted for 21 in Condition 12.1.

12.3 Conduct of business of the meeting

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

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

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

12.4 Proxies

A CCDS holder entitled to attend a separate meeting of the CCDS holders:

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

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

12.5 Effect of resolution

Any resolution passed at a meeting duly convened and held in accordance with the provisions of this Condition 12 shall be binding upon all the CCDS holders whether or not present at the meeting and whether or not voting in favour and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution.

12.6 Other matters

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

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

12.7 Written resolution

A resolution may also be passed, without the need for a meeting of CCDS holders, by way of a resolution in writing signed by or on behalf of CCDS holders holding in aggregate not less than three-quarters of the number of CCDS for the time being Outstanding. Such written resolution may be contained in one document or several documents in like form each signed by or on behalf of one or more such CCDS holders. Any written resolution passed shall be binding upon all the CCDS holders whether or not signing the written resolution and each of them shall be bound to give effect to the resolution accordingly, and the passing of any resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution.

12.8 Notice

Notice of any resolution duly passed by the CCDS holders, whether at a meeting of CCDS holders or by written resolution, shall be given in accordance with Condition 14 by the Society within 14 days of the passing of the resolution, provided that failure to give such notice shall not invalidate the resolution.

13. FURTHER ISSUES

The Society shall be at liberty from time to time, without the consent of the CCDS holders, to create and issue, at any price, further deferred shares ranking *pari passu* in all respects and so that the same shall be consolidated and form a single series with the Outstanding CCDS ("**Additional CCDS**").

The Society shall be at liberty from time to time, without the consent of the CCDS holders, to create and issue, at any price, deferred shares upon such other terms of issue as the Society may at the time of issue determine, provided that the Society shall not issue any Core Capital Deferred Shares (within the meaning of the Rules) other than Additional CCDS.

14. NOTICES

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

15. RIGHTS OF THIRD PARTIES

No person shall have any right to enforce any term or condition of the CCDS under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that act.

16. GOVERNING LAW

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

Subject to any overriding power under statute for the High Court to transfer particular proceedings to the County Court, section 85 of and Schedule 14 to the Act provide that, for a building society whose principal office is in England and Wales, no court other than the High Court in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society (save for narrow exceptions where the rules may require arbitration for certain disputes relating to election addresses, requisitioned resolutions and requisitioned meetings) or the Act or any statutory instrument under the Act.

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

17.1 Recognition of Bail-in

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

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

17.2 Payment of interest and other outstanding amounts

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

17.3 No default

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

17.4 Notice to CCDS holders

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

17.5 Definitions

For the purposes of this Condition 17:

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

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

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

18. DEFINITIONS AND INTERPRETATION

Interpretation

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

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

Definitions

For the purpose of these Conditions:

"Act" has the meaning given in Condition 1.2(a).

"Additional CCDS" has the meaning given in Condition 13.

"Agency Agreement" has the meaning given in the preamble to these Conditions.

"Average Principal Amount" has the meaning given in Condition 4.5.

"Board" means the Board of Directors of the Society.

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

"Cap" has the meaning given in Condition 5.5.

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

requirement for own funds and eligible liabilities), in each case to which the Society and its group are subject at such time.

"**CCDS**" has the meaning given in the preamble to these Conditions.

"**CCDS Certificate**" has the meaning given in Condition 2.3.

"**CCDS holder**" means a person whose name and address is entered in the CCDS Register as the holder of CCDS, and references to a "**holder**" of CCDS shall be construed accordingly.

"**CCDS Register**" means the records of the Society, for the purposes of the Deferred Shares Register (as defined in the Rules), maintained by the Registrar constituting the register of the holders of CCDS.

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

"**Common Equity Tier 1 Capital**", at any time, has the meaning ascribed thereto (or to any equivalent term) at such time in the Capital Rules.

"**Community Foundation serving Tyne & Wear and Northumberland**" means the Community Foundation serving Tyne & Wear and Northumberland (Registered Charity No. 700510, limited Company No. 2273708);

"**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.

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

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

"**Determination Time**" or "**DT**" has the meaning given in Condition 4.4.

"**Distributable Items**" means, in respect of the payment of a Distribution at any time, those profits and reserves (if any) of the Society which are available, in accordance with applicable law and regulation (including the then-prevailing Capital Rules) for the time being, for the payment of such Distribution (on the basis that the CCDS are intended to qualify as Common Equity Tier 1 Capital).

As at the date of this Offering Circular, Article 4(1)(128) of the Capital Requirements Regulation⁴ provides as follows: "distributable items" means the amount of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose, before distributions to holders of own funds instruments, less any losses brought forward, any profits which are non-distributable pursuant to national law or the institution's by-laws and any sums placed in non-distributable reserves in accordance with the law of the United Kingdom, or any part of it, or of a third country or the statutes of the institution, in each case with respect to the specific category of own funds instruments to which the law of the United Kingdom, or any part of it, or

⁴ Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (and amending Regulation (EU) No 648/2012) dated 26 June 2013 as it forms part of the laws of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018.

of a third country, institutions' by-laws, or statutes relate; such profits, losses and reserves being determined on the basis of the individual accounts of the institution and not on the basis of the consolidated accounts'.

"**Distribution Payment Dates**" has the meaning given in Condition 5.1, and "**Distribution Payment Date**" shall be construed accordingly.

"**Distribution Policy**" has the meaning given in Condition 5.9.

"**Distributions**" has the meaning given in Condition 5.1, and "**Distribution**" shall be construed accordingly.

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

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

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

"**Liabilities**" means (i) the claims of all creditors (including, without limitation, creditors in respect of subordinated liabilities) of the Society and (ii) the claims of all other Shareholding Members (as defined in the Rules) of the Society (including, without limitation, holders of permanent interest bearing shares (if any)) in respect of the amounts paid up on their shares (other than Core Capital Deferred Shares (within the meaning of the Rules)), in each case including any principal amount, any interest (including post-petition interest) thereon and any other amounts owing thereon, but excluding (x) any actual, prospective or contingent claims to participate in a distribution of Surplus of the Society and (y) any claims in respect of declared, unconditional and unpaid Distributions in accordance with Condition 4.8 and claims ranking or expressed to rank *pari passu* therewith.

"**Minimum Transfer Amount**" has the meaning given in Condition 2.2.

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

"**Nominal Amount**" has the meaning given in Condition 2.1.

"**Outstanding**" means, in relation to the CCDS, all the CCDS issued other than:

- (a) those CCDS which have been cancelled in accordance with Condition 8; and
- (b) any global CCDS Certificate to the extent that it shall have been exchanged for definitive CCDS Certificates pursuant to its provisions;

PROVIDED THAT for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of the CCDS holders or any of them or to pass a resolution by way of written resolution in place of a meeting and any direction or request by CCDS holders;
- (ii) the determination of how many and which CCDS are for the time being Outstanding for the purposes of Condition 12 and paragraphs [8, 9, 21 and 22] of Schedule [3] to the Agency Agreement;
- (iii) any discretion, power or authority (whether granted under these Conditions, the Rules or applicable laws) which any person is required, expressly or impliedly, to exercise in or by reference to the interests of the CCDS holders or any of them; and

- (iv) the determination by any person whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the CCDS holders or any of them,

those CCDS (if any) which are for the time being held by or on behalf of or for the benefit of the Society, any subsidiary of the Society or any holding company of the Society or any other subsidiary of such holding company, in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain Outstanding;

AND FURTHER PROVIDED THAT for the purposes of Conditions 4.2, 4.3(a), 4.4(a) and 4.4(b), all CCDS held by the Society in its treasury function at the Relevant Time (but, for the avoidance of doubt, not at any other Determination Time) shall be deemed to be cancelled at the Relevant Time (such cancellation to be reflected in the determination of the Core Capital Contribution Proportion at the Relevant Time) and not to be or remain Outstanding for such purposes.

The effect of the second proviso above is that CCDS held by the Society as beneficial owner shall be treated as being cancelled upon a winding up or dissolution of the Society and accordingly shall not be Outstanding for the purposes of any calculation of the Core Capital Contribution Share, and accordingly no claim shall be made in respect of those CCDS so held in the winding up or dissolution of the Society.

"**Principal Amount**" has the meaning given in Condition 2.1.

"**Principal Paying Agent**" has the meaning given in the preamble to these Conditions.

"**Record Date**" has the meaning given in Condition 6.1.

"**Registrar**" has the meaning given in the preamble to these Conditions.

a "**Regulatory Event**" will occur if there is a change (or pending change) 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 an individual, individual consolidated, consolidated or sub-consolidated basis, as then applicable to the Society).

As at the Issue Date, the Society is prudentially regulated on an individual consolidated basis only, and the Society is not aware of any plans by the Prudential Regulation Authority to prudentially regulate the Society on any additional or alternative bases.

"**Relevant Regulators**" means the Supervisory Authority and/or the Financial Conduct Authority (or any successor thereto) as required in the circumstances.

"**Relevant Time**" has the meaning given in Condition 4.3.

"**Rules**" has the meaning given in the preamble to these Conditions.

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

"**Surplus**" has the meaning given in Condition 4.2.

PART III

OVERVIEW OF PROVISIONS RELATING TO THE CCDS WHILE REPRESENTED BY THE GLOBAL CCDS CERTIFICATE

This Part III would be expected to apply to CCDS represented by a Global CCDS Certificate and cleared in the Clearing Systems. If the Society issues any CCDS, it currently expects, as at the date of this Offering Circular, taking into account applicable law and regulation (including as to United Kingdom taxation matters) as at such date, that all such CCDS would be so represented and cleared whilst the Clearing Systems remain open for business, provided the Clearing Systems accept the CCDS for clearing (although there is no assurance that this will be the case).

The following is a summary of the provisions to be contained in the Agency Agreement and in the global certificate representing all the CCDS upon issue (the "**Global CCDS Certificate**") which will apply to, and in some cases modify the effect of, the Conditions while the CCDS are represented by the Global CCDS Certificate:

1. EXCHANGE OF THE GLOBAL CCDS CERTIFICATE AND REGISTRATION OF TITLE

Registration of title to CCDS in a name other than that of the Nominee will be permitted only if:

- (i) all Clearing Systems have closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or do in fact do so and no successor Clearing System is available; or
- (ii) the Society has or will become subject to adverse tax consequences which would not be suffered were the CCDS represented by the Global CCDS Certificate in definitive form.

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

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

References herein to "**Accountholders**" are to each person (other than a Clearing System) who is for the time being shown in the records of a Clearing System as the holder of a particular number of CCDS (in which regard any certificate or other document issued by that Clearing System as to the number of CCDS standing to the account of any person shall, save in the case of manifest error, be conclusive and binding for all purposes).

On the Exchange Date, the Nominee shall surrender the Global CCDS Certificate to, or to the order of, the Registrar for exchange for definitive Certificates. Upon exchange of the Global CCDS Certificate, the Registrar will make appropriate entries in the CCDS Register and will, as soon as reasonably practicable and in any event within 14 days following the Exchange Date, deliver, or procure the delivery of, definitive CCDS Certificates to (or to the order of) the Nominee printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. On exchange of the Global CCDS Certificate, the Society will procure that it is cancelled and, if the Nominee so requests, returned to the Nominee together with any relevant definitive CCDS Certificates.

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

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

2. PAYMENTS

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

Payment by the Registrar or the Principal Paying Agent (or otherwise by or on behalf of the Society) to or to the order of the Nominee as aforesaid will discharge the obligations of the Society in respect of the relevant payment under the CCDS. Each Accountholder must look solely to its Clearing System for its share of each payment made to or to the order of the Nominee.

3. TRANSFERS

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

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

The Minimum Transfer Amount prevailing from time to time, as determined in accordance with Condition 2.2, shall apply *mutatis mutandis* to transfers of book-entry interests in the CCDS. Accordingly, a transfer of book-entry interests in the CCDS will only be effected by the Clearing Systems if such transfer is in respect of a whole number of CCDS equal to or greater than the Minimum Transfer Amount prevailing at the time of the transfer.

The CCDS will be transferable on a 'unit' basis in whole numbers, subject to the Minimum Transfer Amount, and not on the basis of principal amount. For example, an instruction to sell or purchase "100,000" CCDS in a Clearing System will be an instruction to sell or purchase (as the case may be) one hundred thousand CCDS (and not an instruction to sell or purchase £100,000 in principal amount of CCDS).

The Clearing Systems will not accept instructions to settle transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount. Accordingly, purported transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount will be incapable of settlement. Investors in CCDS are responsible for ensuring that any trades they enter into in respect of the CCDS are capable of settlement; failure to do so may result in an investor breaching its contract of sale and purchase. If, and for so long as, the CCDS are admitted to trading on any stock exchange, investors and potential investors in CCDS who are members of such stock exchange should have regard to any settlement obligations under the rules of such stock exchange (such as, if applicable, rule G5000 (obligation to settle) of the London Stock Exchange).

4. DISCLOSURE OF CCDS HOLDINGS

This paragraph 4 would be expected to apply if the CCDS were to be admitted to trading on the London Stock Exchange. If the CCDS were to be listed or admitted to trading on another stock exchange and such stock exchange's rules contain any free-float or other obligations which require the Society to obtain or monitor certain compliance information, this paragraph 4 would be expected to apply with such amendments as are necessary to enable the Society to comply with such obligations.

For so long as any CCDS are represented by the Global CCDS Certificate and such Global CCDS Certificate is registered in the name of the Nominee, the Society (or an agent on its behalf) may from time to time give notice (a "**Compliance Notice**"), in accordance with the usual procedures of the Clearing Systems, requiring Beneficial Owners and Intermediaries (each as defined below) to disclose to the Society (or to its appointed agent, which shall be bound to confidentiality by contract or by generally applicable law and regulation) such information (the "**Compliance Information**") as the Society considers necessary in order for it to establish its continued compliance with its obligations under [Listing Rule 16.3.2R] in connection with [Listing Rule 16.2.1R] and/or

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

The Compliance Information to be provided will be specified in the relevant Compliance Notice, and may include (without limitation) (i) the legal name of the holder of any CCDS; (ii) the number of CCDS held by such person; (iii) whether, to its knowledge, such person has any connection with the Society or any Director of the Society or whether any other circumstance exists which would be relevant for the purpose of determining whether the requirements contained in the Free Float Rules are being met; and (iv) if that person acquired any CCDS after the Record Time (as defined below), the legal name of the person from whom it acquired such CCDS.

Each Beneficial Owner will be required to provide the specified Compliance Information as regards itself and its own holding of CCDS. Each Intermediary will be required to provide the specified Compliance Information both as regards (i) itself and its holdings of CCDS as Intermediary and (ii) to the best of its knowledge, the persons (whether Beneficial Owners or other Intermediaries) for whom it is acting as Intermediary and the CCDS which it holds for such persons.

The relevant Compliance Notice will specify, in addition to the nature of the Compliance Information to be disclosed, the reference date and time as at which holdings of CCDS must be disclosed (the "**Record Time**"), the period during which the relevant information must be disclosed (the "**Disclosure Period**") and the procedure for providing such information (which is expected to be in accordance with the usual procedures of the Clearing Systems).

By acquiring and holding CCDS, each Beneficial Owner and Intermediary:

- (a) acknowledges that the provision of Compliance Information is mandatory, and undertakes promptly (and in any event within the Disclosure Period) following receipt of a Compliance Notice to provide to the Society (or to its appointed agent) all Compliance Information specified in such Compliance Notice;
- (b) authorises and empowers (without the need for any further action or authorisation) each Intermediary through which it holds CCDS to disclose, on its behalf, to the Society (or to its appointed agent) all Compliance Information specified in such Compliance Notice (to the extent that such information is available to such Intermediary); and
- (c) acknowledges that the Society may share such Compliance Information, on a strictly confidential basis and for the purpose only of assessing and evidencing its compliance with its obligations under the Free Float Rules, with its agents and its professional advisers (provided that such agents and advisers are bound to confidentiality by contract or by generally applicable law and regulation) and, if it so requests, the Relevant Authority.

The Society undertakes that it will (i) use all Compliance Information obtained solely for the purpose of assessing and establishing its compliance with its obligations under the Free Float Rules, (ii) retain appropriate internal records in respect of such Compliance Information and keep such internal records and information confidential and will not use or disclose any Compliance Information obtained except as set out under (c) above or otherwise as may be required by applicable law and regulation.

As used herein:

"**Beneficial Owners**" means each person who for the time being (or, where appropriate, as at the relevant Record Time) holds any interests in CCDS for its own account (and not only as custodian or an Intermediary for another person);

"**Intermediary**" means each Clearing System and each Accountholder, custodian, broker or other intermediary who for the time being (or, where appropriate, as at the relevant Record Time) holds interests in CCDS (as custodian or otherwise) for the account of another person (and "**Intermediaries**" shall be construed accordingly); and

"**Listing Rules**" means the rules made under Part VI of the FSMA and contained in the Financial Conduct Authority Handbook (or any successor rule book thereto) from time to time, and references to a numbered Listing Rule are to the relevant rule within the Listing Rules (including any amendment or successor to such rule from time to time).

For these purposes, CCDS will be deemed to be held by a Beneficial Owner or an Intermediary if an interest in such CCDS is (or, where appropriate, was as at the relevant Record Time) credited to the account of such Beneficial Owner or Intermediary with a Clearing System (or to an account with an Intermediary which in turn holds such CCDS, either directly or indirectly through one or more further Intermediaries, in an account with a Clearing System) and references to "**held**", "**holds**", "**holder**" "**holding**" or similar references shall be construed accordingly.

The Free Float Rules are rules which require the Society to ensure that a sufficient number of CCDS are, and on an ongoing basis remain, in 'public hands' within the meaning of the Free Float Rules (commonly referred to as the 'free-float' listing requirement).

5. NOTICES

For so long as the CCDS are represented by the Global CCDS Certificate and such Global CCDS Certificate is held on behalf of one or more Clearing Systems, notices may be given to the CCDS holders by delivery of the relevant notice to the relevant Clearing Systems for communication to the relevant Accountholders in substitution for despatch and service as required by Condition 14. Such notice shall be deemed to have been given on the date of delivery of the notice to the relevant Clearing Systems for such communication.

6. MEETINGS; MEMBERSHIP RIGHTS WHILST THE CCDS ARE HELD THROUGH CLEARING SYSTEMS

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

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

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

At a separate meeting of CCDS holders only, the Nominee will have one vote per CCDS and will act on the instructions of one or more Accountholders received by it through the Clearing Systems. The Agency Agreement

contains provisions relating to the convening and conduct of such meetings of CCDS holders. Those provisions include arrangements pursuant to which an Accountholder or Beneficial Owner will be able (i) to attend any such meeting and cast the votes attributable to its CCDS or (ii) otherwise to direct (including by way of electronic consents) how the votes attributable to its CCDS shall be cast at such meeting. For these purposes, notwithstanding the provisions of Condition 12.4(a), the Nominee shall be entitled to appoint one or more persons as its proxy or proxies to attend, speak and, on a resolution, vote at a meeting of CCDS holders. Each proxy shall be appointed in respect of such number of CCDS specified by the Nominee (provided that no two proxies can be appointed in respect of the same CCDS).

The Agency Agreement also contains provisions for the passing of resolutions, without the need for a meeting of CCDS holders, by way of electronic consents communicated through the electronic communications systems of the relevant Clearing System(s) by or on behalf of CCDS holders holding in aggregate not less than three-quarters of the number of CCDS for the time being Outstanding.

As Accountholders and Beneficial Owners will not be members of the Society, they will also not be entitled to any Conversion Benefits (including any rights to windfall payments) arising on a demutualisation or amalgamation or merger of the Society. Any Conversion Benefits arising on a demutualisation or amalgamation or merger of the Society will belong instead to the Nominee, as the registered holder of the CCDS in the CCDS Register.

It is expected that the Nominee will, on or prior to the date of issue of the CCDS, irrevocably agree to assign to the Charity Assignee any Conversion Benefits.

7. RECORD DATE

For so long as all CCDS are held in the Clearing Systems, the Record Date shall be determined in accordance with Condition 6.1 provided that the words "fifteenth day" shall be deemed to be replaced with "ICSD Business Day". "**ICSD Business Day**" means a day on which the Clearing Systems are open for business.

8. PRESCRIPTION

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

9. PURCHASE AND CANCELLATION

Cancellation of any CCDS purchased and surrendered for cancellation in accordance with Condition 8.2 will be effected by a corresponding reduction in the number of CCDS represented by the Global CCDS Certificate.

10. DIRECT RIGHTS

Subject as follows, upon a breach of contract by the Society (which shall, for the purposes of this paragraph "*Direct Rights*", include a CCDS holder becoming entitled to bring any action against the Society as contemplated by Condition 11.4) or upon a winding up or dissolution of the Society, each Accountholder at the time of such breach or, as the case may be, at the Relevant Time (each a "**Relevant Person**") shall (for the purpose only of bringing an action for such breach of contract or, as the case may be, claiming in the winding up or dissolution of the Society in accordance with Condition 4) acquire against the Society all those rights ("**Direct Rights**") which such Relevant Person would have had if, at the time of the relevant breach of contract or, as the case may be, at the Relevant Time, such Relevant Person had been identified in the CCDS Register as the registered holder of such number of CCDS (the "**Underlying CCDS**") as is equal to the number of CCDS which are credited to such Relevant Person's securities account with the relevant Clearing System at such time.

The Relevant Persons will acquire such Direct Rights only in the circumstances and for the purposes described in the preceding paragraph and for no other purpose. Such Direct Rights will be acquired in lieu and to the exclusion of the corresponding rights of the Nominee in respect of the relevant CCDS. Direct Rights will be

acquired automatically at the time of the relevant breach of contract or, as the case may be, at the Relevant Time, without the need for any further action on behalf of any person. The Global CCDS Certificate will be executed by the Society as a deed, which shall take effect as a deed poll for the benefit of the Relevant Persons to enable them to exercise their Direct Rights as described herein. The Society's obligations to Relevant Persons as described herein shall be a separate and independent obligation to each Relevant Person by reference to each Underlying CCDS of such Relevant Person, and the Society agrees that a Relevant Person may assign such Direct Rights in whole or in part.

The records of the Clearing Systems shall be conclusive evidence of the identity of the Relevant Persons and the number of Underlying CCDS credited to the securities account of each Relevant Person. For these purposes, a statement issued by a relevant Clearing System stating the name of the Relevant Person to which the statement is issued and the number of Underlying CCDS credited to the securities account of such Relevant Person as at the opening of business on the first business day following the time of the relevant breach of contract or the Relevant Time (as the case may be), shall be conclusive evidence of the records of the relevant Clearing System at the time of the relevant breach of contract or the Relevant Time (as applicable).

11. SUCCESSION AND TRANSFERS

Upon a transfer by the Society of the whole of its business to a Successor Entity in accordance with Condition 10.2, the Nominee will (unless otherwise agreed as part of the terms of the transfer at the relevant time) direct that the ordinary shares to be delivered to it shall instead be delivered directly to (or to the order of) the Accountholders as if those Accountholders had, at the vesting date, held in definitive form the number of CCDS corresponding to their book-entry interests in the Clearing Systems in the CCDS at that time.

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