

COVENTRY Building Society



COVENTRY BUILDING SOCIETY

(Incorporated in England under the Building Societies Act 1986)

£5,000,000,000

Euro Medium Term Note Programme

Under the Euro Medium Term Note Programme described in this Prospectus (the "**Programme**"), Coventry Building Society (the "**Issuer**", or the "**Society**", which expressions shall include any successor or substitute (see Condition 12)), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes (the "**Notes**" which expression shall include Senior Preferred Notes, Senior Non-Preferred Notes and Subordinated Notes (each as defined herein)). The aggregate nominal amount of Notes outstanding will not at any time exceed £5,000,000,000 (or the equivalent in other currencies and subject to increase as provided herein).

Application has been made to the Financial Conduct Authority (the "**FCA**") (the "**UK Listing Authority**") under Part VI of the Financial Services and Markets Act 2000 ("**FSMA**") for Notes issued under the Programme for the period of 12 months from the date of this Prospectus to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**").

References in this Prospectus to Notes being "listed" (and all related references) shall (other than as specified in the section headed "*United Kingdom Taxation*") mean that such Notes have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments. The Senior Preferred Notes and any Coupons relating thereto will constitute "ordinary non-preferential debt" for the purposes of The Banks and Building Societies (Priorities on Insolvency) Order 2018 (the "**Order**") and any law or regulation applicable to the Issuer which is amended by the Order (together, the "**Ranking Legislation**"). The Senior Non-Preferred Notes and any Coupons relating thereto will constitute "secondary non-preferential debt" for the purposes of the Ranking Legislation. The Subordinated Notes and any Coupons relating thereto will constitute "tertiary non-preferential debt" for the purposes of the Ranking Legislation.

The minimum specified denomination of all Notes issued under this Programme shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

Tranches of Notes (as defined in "*Overview of the Programme – Method of Issue*") to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Notes already issued.

The Issuer is rated by Moody's Investors Service Limited and Fitch Ratings Limited. Moody's Investors Service Limited and Fitch Ratings Limited are rating agencies established in the European Union and registered under Regulation (EC) No 1060/2009 on credit rating agencies (the "**CRA Regulation**"). A 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.

Amounts payable on Floating Rate Notes (as defined herein) may be calculated by reference to one of LIBOR, EURIBOR and SONIA as specified in the relevant Final Terms (as defined herein). As at the date of this Prospectus, the administrator of LIBOR is included in the register of administrators maintained by the European Securities and Markets Authority ("**ESMA**"), and the administrators of EURIBOR and SONIA are not included in ESMA's register of administrators under Article 36 of Regulation (EU) No. 2016/1011 (the "**Benchmarks Regulation**"). As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that the European Money Markets Institute, as the administrator of EURIBOR, is not currently required to obtain authorisation/registration, and SONIA does not fall within the scope of the Benchmarks Regulation by virtue of Article 2 of the Benchmarks Regulation.

Prospective investors should have regard to the factors described under the section headed "*Risk Factors*" in this Prospectus. "

Arranger
HSBC

Dealers

Barclays
Commerzbank

NatWest Markets

BNP PARIBAS
HSBC

This Prospectus comprises a prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and its Subsidiaries (as defined under "*Coventry Building Society – Subsidiaries*") (together, the "**Group**") and the Notes, which according to the particular nature of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer. For the purposes of this Prospectus, the expression "**Prospectus Directive**" means Directive 2003/71/EC, as amended, including by Directive 2010/73/EU.

The Issuer accepts responsibility for the information contained in this Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see "*Documents Incorporated by Reference*").

Each Series (as defined under "*Overview of the Programme – Method of Issue*") of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a "**temporary Global Note**") or a permanent global note in bearer form (each a "**permanent Global Note**") (temporary Global Notes and permanent Global Notes are referred to collectively as "**Global Notes**" and each as a "**Global Note**"). If the Global Notes are stated in the applicable Final Terms to be issued in new global note ("**NGN**") form, the Global Notes will be delivered on or prior to the original issue date of the relevant Series or Tranche, as applicable, to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Notes in registered form will be represented by registered certificates (each a "**Certificate**"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Registered Notes issued in global form will be represented by registered global certificates ("**Global Certificates**"). If a Global Certificate is held under the New Safekeeping Structure (the "**NSS**"), the Global Certificate will be delivered on or prior to the original issue date of the relevant Series or Tranche, as applicable, to a Common Safekeeper for Euroclear and Clearstream, Luxembourg.

Global Notes which are not issued in NGN form ("**Classic Global Notes**" or "**CGNs**") and Global Certificates which are not held under the NSS will be deposited on the issue date of the relevant Series or Tranche, as applicable, with a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the "**Common Depositary**").

The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "*Summary of Provisions Relating to the Notes while in Global Form*".

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers or the Arranger or the Trustee or any of the Agents (each as defined in "*Overview of the Programme*"). Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Dealers and the Arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Notes in bearer form and Notes in registered form which are exchangeable for Notes in bearer form are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a description of

certain restrictions on offers and sales of Notes and on distribution of this Prospectus, see "*Subscription and Sale*".

IMPORTANT – EEA RETAIL INVESTORS – If the Final Terms in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes 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 European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), 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 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA will be prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MIFID II PRODUCT GOVERNANCE/TARGET MARKET – The Final Terms in respect of any Notes will include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Dealers to subscribe for, or purchase, any Notes.

As the Notes may not be a suitable investment for all investors, each potential investor in any Notes must determine the suitability 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 relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes 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 relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (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.

Some Notes are complex financial instruments and such instruments may be purchased by investors as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how

the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

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) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

To the fullest extent permitted by law, none of the Dealers, the Arranger, the Trustee or the Agents accepts any responsibility for the contents of this Prospectus or for any other statement, made or purported to be made by, or on behalf of, the Arranger, a Dealer, the Trustee or an Agent in connection with the Issuer or the issue and offering of the Notes. The Arranger, each Dealer, the Trustee and each Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement. Neither this Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger or the Dealers, the Trustee or the Agents that any recipient of this Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers, the Arranger, the Trustee or the Agents undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers, the Arranger the Trustee or the Agents.

In connection with any Tranche of Senior Preferred Notes, Senior Non-Preferred Notes or Subordinated Notes (each as defined in "*Overview of the Programme – Method of Issue*"), one or more of the Dealers may act as stabilising manager (each a "**Stabilising Manager**"). References in the next paragraph to "the issue of any Tranche" are to each Tranche in relation to which one or more Stabilising Manager(s) is appointed.

In connection with the issue of any Tranche, the Dealer or Dealers (if any) acting as the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes 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 relevant Tranche 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 relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

In this Prospectus, unless otherwise specified or the context otherwise requires, references to "**pounds**", "**penny**", "**sterling**" and "**£**" are to the currency of the United Kingdom (the "**UK**"), references to "**€**" and "**euro**" are to the single currency of those member states of the European Union (the "**EU**") participating in the Third stage of European Economic and Monetary Union from time to time, references to the "**Eurozone**" mean the region comprised of the countries whose lawful currency is the euro, references to "**yen**" are to the currency of Japan and references to the "**Act**" are to the Building Societies Act 1986, which expression shall include, where applicable, any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under any such statutory modifications or re-enactment.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the Terms and Conditions contained on pages 22 to 50 of the Prospectus dated 18 September 2009, the Terms and Conditions contained on pages 24 to 52 of the Prospectus dated 3 September 2010, the Terms and Conditions contained on pages 24 to 52 of the Prospectus dated 14 November 2011, the Terms and Conditions contained on pages 29 to 57 of the Prospectus dated 12 November 2012, the Terms and Conditions contained on pages 17 to 47 of the Prospectus dated 31 October 2013, the Terms and Conditions contained on pages 32 to 64 of the Prospectus dated 30 October 2014, the Terms and Conditions contained on pages 25 to 57 of the Prospectus dated 30 October 2015, the Terms and Conditions contained on pages 26 to 57 of the Prospectus dated 28 October 2016 and the Terms and Conditions contained on pages 30 to 61 of the Prospectus dated 31 October 2017, each relating to Coventry Building Society's Euro Medium Term Note Programme, the audited consolidated annual financial statements of the Issuer for the years ended 31 December 2016 and 2017, respectively, (together in each case with the audit report thereon in respect of each such year) and the unaudited consolidated financial statements of the Issuer for the six months ended 30 June 2018 which have been previously published or are published simultaneously with this Prospectus (together with the review report thereon) and which have been approved by or filed with the FCA). Such documents shall be incorporated in, and form part of this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus 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 Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

The financial information incorporated by reference as referred to above appears in the Annual Report & Accounts of the Issuer for the years ended 31 December 2016 and 2017 and the Interim Financial Report of the Issuer for the six months ended 30 June 2018 (as applicable) and is available as follows:

Information incorporated by reference	Reference
Audited consolidated financial statements for the year ended 31 December 2016	Annual Report & Accounts 2016 (" AR 2016 ") pages 102-105
Notes to the audited consolidated financial statements	AR 2016 pages 106-143
Independent auditors' report	AR 2016 pages 96-101
Audited consolidated financial statements for the year ended 31 December 2017	Annual Report & Accounts 2017 (" AR 2017 ") pages 100-103
Notes to the audited consolidated financial statements	AR 2017 pages 104-143
Independent auditors' report	AR 2017 pages 93-99
Unaudited consolidated financial statements for the six months ended 30 June 2018	Interim Financial Report 30 June 2018 (" IR 2018 ") pages 10-13
Notes to the Interim Financial Report	IR 2018 pages 14-30
Independent auditors' review report	IR 2018 page 31

Copies of documents incorporated by reference in this Prospectus (i) can be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html> and (ii) may be obtained from the registered office of the Issuer.

Those parts of the documents incorporated by reference which are not specifically incorporated by reference in this Prospectus in the cross-reference table above are either not relevant for prospective investors in the Notes or the relevant information is included elsewhere in this Prospectus.

SUPPLEMENTAL PROSPECTUS

If at any time the Issuer shall be required to prepare a supplemental prospectus pursuant to section 87(G) of the FSMA, the Issuer will prepare and make available a supplement to this Prospectus or a further prospectus which, in respect of any subsequent issue of Senior Preferred Notes, Senior Non-Preferred Notes or Subordinated Notes to be listed on the Official List and admitted to trading on the Market, shall constitute a supplemental prospectus as required by the UK Listing Authority and section 87 of the FSMA.

The Issuer has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, mistake or material inaccuracy relating to information contained in this Prospectus which is capable of affecting the assessment of any Notes whose inclusion in this Prospectus or removal is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, and the rights attaching to the Senior Preferred Notes, the Senior Non-Preferred Notes and the Subordinated Notes, the Issuer shall prepare a supplement to this Prospectus or publish a replacement prospectus for use in connection with any subsequent offering of the Senior Preferred Notes, the Senior Non-Preferred Notes and the Subordinated Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

ALTERNATIVE PERFORMANCE MEASURES

The Prospectus includes certain data which the Group considers to constitute alternative performance measures ("APMs") for the purposes of the ESMA Guidelines on Alternative Performance Measures.

The Group believes that these APMs provide useful information to investors for the purposes of evaluating the financial condition and results of operations of the Group, the quality of its assets and the fundamentals of its business over different periods of time, and between the Group and the average industry standards.

These APMs are not defined by, or presented in accordance with, IFRS and are not measurements of the Group's operating performance under IFRS. These APMs should not be considered in isolation from, or as alternatives to, any measures of performance under IFRS.

APM	Definition	Rationale for Use
Net Interest Margin	Net interest income divided by average total assets.	Performance measure
Average Total Assets	The average of Total Assets as at the most recent financial year end and the preceding financial year end.	Performance measure
Management Expenses to mean total assets	Also referred to as costs to mean total assets. The sum of administrative expenses, amortisation of intangible assets and depreciation of property, plant and equipment divided by average total assets.	Performance measure
Cost to income ratio	Total income divided by the sum of administrative expenses, amortisation of intangible assets and depreciation of property, plant and equipment.	Performance measure
Retained profit to mean assets	Profit for the financial year divided by average total assets.	Performance measure
Liquidity (as a percentage of SDL)	Cash and balances with the Bank of England, Loans and advances to credit institutions and Debt securities divided by the sum of Shares, Deposits from banks, other deposits, Amounts owed to other customers, and debt securities in issue .	Performance measure

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OVERVIEW OF THE PROGRAMME

Words and expressions defined or used in "*Terms and Conditions of the Notes*" below shall have the same meaning in this overview.

The following overview is qualified in its entirety by the remainder of this Prospectus.

Issuer	Coventry Building Society
Description	Euro Medium Term Note Programme
Issuer Legal Entity Identifier (LEI):	2138004G59FXEAZ6IO10
Size	Up to £5,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. The Issuer may increase the size of the Programme in accordance with the terms of the Dealer Agreement.
Arranger	HSBC Bank plc
Dealers	Barclays Bank PLC BNP Paribas Commerzbank Aktiengesellschaft HSBC Bank plc NatWest Markets Plc The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Prospectus to " Permanent Dealers " are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Trustee	HSBC Corporate Trustee Company (UK) Limited
Issuing and Paying Agent	HSBC Bank plc
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a " Series ") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in one or more tranches (each a " Tranche ") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in final terms to this Prospectus (the " Final Terms ").
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.

Form of Notes

Each Series of Notes may be issued:

- (i) in bearer form and in registered form ("**Exchangeable Series**");
- (ii) in bearer form ("**Bearer Series**"); or
- (iii) in registered form ("**Registered Series**").

Notes in bearer form ("**Bearer Notes**") comprised in an Exchangeable Series ("**Exchangeable Bearer Notes**") are exchangeable for Notes in registered form ("**Registered Notes**") and Registered Notes comprised in an Exchangeable Series ("**Exchangeable Registered Notes**") are exchangeable for Exchangeable Bearer Notes.

Registered Notes comprised in a Registered Series may not be exchanged for Bearer Notes and Bearer Notes comprised in a Bearer Series may not be exchanged for Registered Notes.

Each Tranche of Bearer Series and Bearer Notes comprised in a Tranche of an Exchangeable Series will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in "*Overview of the Programme – Selling Restrictions*"), otherwise each Tranche of a Bearer Series and Bearer Notes comprised in a Tranche of an Exchangeable Series will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of nominees or a common nominee for one or more clearing systems are referred to as "**Global Certificates**".

Clearing Systems

Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer.

Initial Delivery of Notes

On or before the issue date for each Tranche, if the relevant Global Note is an NGN or the relevant Global Certificate is held under the NSS, such Global Note or Global Certificate will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is a CGN or the relevant Global Certificate is not held under the NSS, the Global Note representing Bearer Notes or Exchangeable Bearer Notes or the Global Certificate representing Registered Notes or Exchangeable Registered Notes may be deposited with a Common Depositary for Euroclear and Clearstream, Luxembourg. Global Notes which are in CGN form or Global Certificates which are not held under the NSS may also be deposited with any other clearing system or may be delivered outside any clearing system **provided that** the method of such delivery has been agreed in advance by the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.

Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealers.
Maturities	Subject to compliance with all relevant laws, regulations and directives, (i) the Senior Preferred Notes may only have any maturity in excess of one month, (ii) the Senior Non-Preferred Notes may only have any maturity in excess of one year and (iii) the Subordinated Notes may only have any maturity in excess of five years and one day.
Denomination	The minimum specified denomination of each Note shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).
Fixed Rate Notes	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.
Resettable Notes	Interest will be payable in arrear on the dates specified in the Final Terms at the initial rate specified in the Final Terms, and thereafter the rate may be reset with respect to a specified time period by reference to the prevailing Mid-Swap Rate. The rate of interest may be reset on more than one occasion.
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or (ii) by reference to LIBOR, EURIBOR or SONIA as adjusted for any applicable margin. Interest periods will be specified in the relevant Final Terms.
Zero Coupon Notes	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. In no circumstances will the Notes bear negative interest. All such information will be set out in the relevant Final Terms.
Benchmark Discontinuation	If a Benchmark Event occurs, such that any rate of interest (or any component part thereof) cannot be determined by reference to the original benchmark or screen rate (as applicable) specified in the relevant Final Terms, then the Issuer may (subject to certain conditions) be permitted to substitute such benchmark and/or screen rate (as applicable) with a successor, replacement or alternative benchmark and/or screen rate (with consequent amendment to the terms of the relevant Series of Notes and, potentially, the application of an adjustment spread (which could be positive or negative)). See <i>"Terms and Conditions of the Notes – Interest and other Calculations – Benchmark discontinuation"</i> .

Early Redemption

The Final Terms relating to each issue of Notes will state whether such Notes can be redeemed prior to their stated maturity following the occurrence of a Capital Disqualification Event (in the case of Subordinated Notes only) or a Loss Absorption Disqualification Event (in the case of Senior Non-Preferred Notes where "*Senior Non-Preferred Notes: Loss Absorption Disqualification Event Redemption*" is expressed to be "Applicable" in the applicable Final Terms) or following any change in or amendment to the laws or regulations of the United Kingdom, where the Issuer is required to pay additional amounts as described in Condition 8, or (in the case of Senior Non-Preferred Notes or Subordinated Notes only) the Issuer would not be entitled to claim a deduction in respect of any interest payable in respect of the Notes or the amount of any such deduction would be materially reduced, as further described in "*Terms and Conditions of the Notes – Redemption, Purchase, Substitution, Variation and Options – Redemption for Taxation Reasons*". The relevant Final Terms will specify the basis for calculating any redemption amounts payable.

Optional Redemption

The Final Terms relating to each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.

Pre-conditions to Redemption, Purchase, Substitution or Variation

The early redemption or purchase of Subordinated Notes will be subject to additional requirements as described in "*Terms and Conditions of the Notes – Redemption, Purchase, Substitution, Variation and Options – Pre-condition to Redemption or Purchase of Subordinated Notes*". The early redemption, purchase, substitution or variation of Senior Non-Preferred Notes will be subject to additional requirements as described in "*Terms and Conditions of the Notes – Redemption, Purchase, Substitution, Variation and Options – Pre-condition to Redemption, Purchase, Substitution or Variation of Senior Non-Preferred Notes*".

Substitution and Variation in respect of Senior Non-Preferred Notes

If so specified in the relevant Final Terms for a Series of Senior Non-Preferred Notes, upon the occurrence of a Loss Absorption Disqualification Event, the Issuer may, subject to certain conditions and without the consent of the Noteholders, either substitute all (but not some only) of the relevant Series of Senior Non-Preferred Notes for, or vary the terms of such Series of Senior Non-Preferred Notes so that they remain or become, Loss Absorption Compliant Notes (as defined in the Terms and Conditions of the Notes).

Status of the Senior Preferred Notes

The Senior Preferred Notes and the Coupons relating to them will be direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject to the provisions of Condition 4) constitute ordinary non-preferential debt for the purposes of the Ranking Legislation. The Senior Preferred Notes and any Coupons relating to them rank *pari passu* without any preference among themselves. The Issuer and, by virtue of its holding of any Senior Preferred Note or any beneficial interest therein, each holder of a Senior Preferred Note and each holder of a Coupon relating to a Senior Preferred Note acknowledge and agree that (subject to the provisions of Condition 4) the Senior Preferred Notes and any such Coupons rank *pari passu* with all other outstanding unsecured and unsubordinated deposits with, and loans to, the Issuer, present or future (other than Senior Non-Preferred Notes and other obligations which rank or are expressed to rank junior to the Senior Preferred Notes and other than such deposits or loans which are given priority pursuant to applicable statutory provisions), save only where the

Ranking Legislation provides otherwise for ordinary non-preferential debt generally, in which case the Senior Preferred Notes and such Coupons will (subject to the provisions of Condition 4) rank as provided in the Ranking Legislation for ordinary non-preferential debt generally.

Status of the Senior Non-Preferred Notes

The Senior Non-Preferred Notes and the Coupons relating to them are direct, unconditional and unsecured obligations of the Issuer and constitute secondary non-preferential debt for the purposes of the Ranking Legislation. Subject to the Ranking Legislation, the Senior Non-Preferred Notes and any Coupons relating to them rank junior to the Senior Preferred Notes and any Coupons relating to them, and rank *pari passu* without any preference among themselves. The Issuer and, by virtue of its holding of any Senior Non-Preferred Note or any beneficial interest therein, each holder of a Senior Non-Preferred Note and each holder of a Coupon relating to a Senior Non-Preferred Note acknowledge and agree that the claims of the Trustee, the Noteholders and the Couponholders against the Issuer in respect of, or arising under, the Senior Non-Preferred Notes or the Coupons relating thereto (including, without limitation, any damages awarded for breach of the Issuer's obligations) in respect of the Senior Non-Preferred Notes and any such Coupons will, in the event of the winding-up or dissolution of the Issuer, rank in the manner specified in Condition 3(b).

Status of the Subordinated Notes

The Subordinated Notes and any Coupons relating to them will be direct, unconditional and unsecured obligations of the Issuer and constitute tertiary non-preferential debt for the purposes of the Ranking Legislation. Subject to the Ranking Legislation, the Subordinated Notes and any Coupons relating thereto rank junior to the Senior Non-Preferred Notes and any Coupons relating thereto. The Subordinated Notes and the Coupons relating to them rank *pari passu* without any preference among themselves. The Issuer and, by virtue of its holding of any Subordinated Note or any beneficial interest therein, each holder of a Subordinated Note and each holder of a Coupon relating to a Subordinated Note acknowledge and agree that in the event of the winding up or dissolution of the Issuer, the claims of the Trustee, the Noteholders and the Couponholders against the Issuer in respect of, or arising under, the Subordinated Notes or the Coupons relating to them (including, without limitation, any damages awarded for breach of the Issuer's obligations) will be subordinated in the manner specified in Condition 3(c).

Negative Pledge

Applicable to Senior Preferred Notes only. See "*Terms and Conditions of the Notes – Negative Pledge*".

Cross Default

Applicable to Senior Preferred Notes and Unrestricted Default Senior Non-Preferred Notes only. See "*Terms and Conditions of the Notes – Events of Default – Senior Preferred Notes, Unrestricted Default Senior Non-Preferred Notes and Enforcement*".

Rating

Tranches of Notes (as defined in "*Overview of the Programme – Method of Issue*") to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Notes already issued. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. 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.

Withholding Tax

All payments of principal and interest in respect of the Notes and Coupons will be made free and clear of withholding taxes of the UK unless the withholding is required by law. In such event, the Issuer shall, subject to customary exceptions:

- (i) in the case of (A) all Senior Preferred Notes and (B) each Series of Senior Non-Preferred Notes unless the applicable Final Terms expressly specifies "*Senior Non-Preferred Notes: Gross-up of principal*" as "Not Applicable", in respect of payments of interest or principal; or
- (ii) in the case of (A) all Subordinated Notes and (B) each Series of Senior Non-Preferred Notes for which the applicable Final Terms expressly specifies "*Senior Non-Preferred Notes: Gross-up of principal*" as "Not Applicable", in respect of payments of interest only,

pay such additional amounts as shall result in receipt by the Noteholder or Couponholder of the amounts which would otherwise have been received by it in respect of the Notes and Coupons had no withholding or deduction been made, all as described in "*Terms and Conditions of the Notes – Taxation*".

For the avoidance of doubt, in the case of (A) all Subordinated Notes and (B) each Series of Senior Non-Preferred Notes for which the applicable Final Terms expressly specifies "*Senior Non-Preferred Notes: Gross-up of principal*" as "Not Applicable", the Issuer will not pay any such additional amounts in respect of principal.

Governing Law

English.

Listing

Application will be made to the FCA for the Notes to be listed on the Official List and to the London Stock Exchange for the Notes to be admitted to trading.

Selling Restrictions

The United States, the UK, the European Economic Area, Singapore and Japan. See "*Subscription and Sale*".

The Issuer is Category 2 for the purposes of Regulation S under the Securities Act.

The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**")) (the "**D Rules**") unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form for purposes of Section 4701 of the Code) (the "**C Rules**") or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

RISK FACTORS

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

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

Factors which the Group believes may be material for the purpose of assessing the market risks associated with the Notes in issue are also described below.

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

Factors that may affect the Group's ability to fulfil its obligations under the Notes

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

The Group is directly and indirectly subject to risks arising from general economic conditions in the UK and elsewhere, and to the state of global financial markets both generally and as they specifically affect financial institutions. There have been periods of significant volatility in financial markets around the world since the financial crisis in 2007, and the global economy continues to face a range of challenges, including, but not limited to, a slowdown in the US and Chinese economies, trade tensions between the US and China, and friction between EU states, including the rise of populist parties at varying ends of the political spectrum. The financial turbulence since 2007 and its after-effects on financial institutions and on the wider economy have led to generally more difficult earning conditions for the financial sector, which also faces the costs of higher levels of regulation. The impact of such global stresses on the UK economy could adversely affect the Group, including by exposing it to potential losses in its lending operations and on its portfolio of treasury assets and through adverse impacts on the cost and level of competition for retail funding, and on the cost and availability of wholesale funding, with a resultant impact on the Group's net interest margin.

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

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

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

On 23 June 2016 the UK voted to leave the EU and as a consequence the UK government (the "Government") invoked article 50 of the Lisbon Treaty relating to withdrawal from the EU on 29 March 2017. Under article 50, the Treaty on the European Union and the Treaty on the Functioning of the European Union cease to apply in the relevant state from the date of entry into force of a withdrawal agreement or, failing that, two years after the notification of intention to withdraw, although this period may be extended in certain circumstances.

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

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

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

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

The Group's core lending business is that of residential mortgage lending in the UK. The performance of the UK residential mortgage market is generally correlated to the UK economic cycle. As well as fluctuations at a national level, the UK residential mortgage market is subject to significant regional variations. The Group's natural concentration in the UK market could be exacerbated by over-exposure to one regional location, or by reliance on particular product types within the portfolio.

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

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

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

While the Group's buy-to-let mortgage book has performed well to date and is subject to prudent loan-to-value limits, there can be no assurance that, in the event of a material downturn in the private rental market, the performance of the Group would not be adversely affected. Such a downturn could be precipitated by a range of factors, which may include (but are not limited to) a reduction in margins for buy-to-let mortgage loans, increased competition, an expansion of owner-occupied lending which reduces demand for rental property, and/or legislative or regulatory changes which negatively affect the sector.

Regulatory changes to the treatment of buy-to-let lending, such as this being reclassified as non-residential lending by the regulator in a manner which would impact the level of risk weighted assets ("**RWAs**") reported by the Group, would detrimentally impact the Group's risk based measures of capital. Any reduction in margin or volumes of the Group's buy-to-let mortgage book, or impact on the level of RWAs reported by the Group may adversely affect the ability of the Group's results of operations, financial condition and prospects.

The Government has passed legislation restricting the amount of income tax relief that individual landlords can claim for residential property finance costs (such as mortgage interest) to the basic rate of tax. The introduction of this measure has impacted the attractiveness of the private residential rental market in England and Wales as an investment, and new purchases of properties for rental purposes have reduced, with some existing landlords leaving the market. This change could further impact demand in this area of the market, and could impact the ability of individual borrowers of buy to let loans to meet their obligations under those Loans. Legislation has also been passed which increased the rate of (i) stamp duty land tax ("**SDLT**") in England and Northern Ireland, (ii) land and buildings transaction tax ("**LBTT**") in Scotland, and (iii) land transactions tax ("**LTT**") in Wales, in the case of certain acquisitions of residential property (including where an individual acquires a second residential property on a buy to let basis). The broad impact of this legislation is to increase the rate at which SDLT, LBTT or LTT applies and the increased rate for each of these taxes is currently 3 per cent. above the standard rates in these circumstances, although from 25 January 2019 the relevant LBTT increased rate will change from 3 per cent. to 4 per cent. These increased rates could also further impact demand in this area of the market. A sustained period of reduced demand for buy-to-let properties may impact on the Group's results of operations, financial condition and prospects.

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

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

Any rise in interest rates may impact on the payment obligations of borrowers, either where their loans with the Group are linked to the base rate or are otherwise variable in nature, or where borrowers have other commitments which are subject to variable interest rates. Borrowers may have become accustomed to the current low interest rate environment, and will need to adjust spending behaviours to respond to any increase in the cost of borrowing, which may be challenging for some borrowers. A significant portion of the Group's outstanding mortgage loan products are potentially subject to changes in interest rates, and as such these borrowers are exposed to the risk of increased monthly payments as and when their mortgage interest rate adjusts upward. In an increasing interest rate environment, borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates (and any decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance), which could lead to an increase in arrears in the Group's retail lending portfolios as well as an increase in the Group's retail loan impairment charges. These events, alone or in combination, may contribute to higher delinquency rates and losses for the Group, and impact the Group's ability to satisfy its obligations under the Notes.

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

The Group's business is subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding such as retail deposits or its access to wholesale funding markets

becomes limited and/or becomes more expensive, and this may have an adverse effect on its business and profitability

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

The Group raises funds principally through accepting retail deposits and issuing bonds in the wholesale funding market. If access to liquidity is constrained for a prolonged period of time, the Group's cost of funding would increase as competition for retail deposits would intensify and the cost of accessing the wholesale markets would rise. This could adversely affect the Group's profitability.

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

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

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

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

In past years the Government, acting through the BoE or otherwise, has provided significant funding support to UK financial institutions through a range of measures, including the FLS and the TFS. The availability of funding through central bank schemes has supported a benign funding environment for UK banks and building societies in terms of both the cost and availability of funding. While the Group has an outstanding drawdown under the TFS and its final contractual repayment under the TFS is scheduled to occur in February 2022, the FLS and the TFS are no longer available for any further funding.

The availability of Government support for UK financial institutions, to the extent that it provided access to cheaper and more attractive funding than other sources, reduced the need for those institutions to fund themselves in the retail or wholesale markets and, by participating in schemes such as FLS and TFS, the Group has, in common with other participants in the schemes, reduced the need to fund itself in the wholesale and retail markets. The cessation of the FLS and TFS can be expected to result in an increase in competition for other forms of funding, which can be expected to increase funding costs across the industry. The Group may see a reduction in the availability of funding, and an increase in the cost of such funding, as a result. A decrease in the availability of funding may adversely impact the Group's ability to support its lending operations. Any increase in the cost of funding, driven by this increased competition or by other factors, will adversely impact the Group's net interest margin, results of operations and financial position, which in turn could affect the ability of the Group to satisfy its obligations under the Notes.

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

Since 2008 there has been unprecedented monetary policy activity within the UK, including a "quantitative easing" programme and a sustained period of low interest rates. Any unwinding of quantitative easing may result in falls in Gilt prices which in turn could lead to valuation adjustments within the portfolios of liquid assets that the Group holds, impacting capital levels. Similarly, if interest rates rise, the market rate for variable rate deposits may begin to increase, and the extent to which the Group is able to maintain its net interest margin will be dependent on how this is managed and upon the availability of variable rate mortgage assets where rates can also be increased. Insufficient availability of rates that the Group can administer at its discretion may lead to margin compression. In circumstances where such flexibility exists, a material increase in interest rates on mortgages could lead to increases in arrears levels were this discretion to be exercised, or to an erosion of the Group's relative competitiveness which may have wider consequences for the Group's business. Variation of interest rates is also a matter which the FCA may look to challenge or intervene in – see also *"Failure of the Group to manage its regulatory and conduct risk may have a material adverse effect on the Group's business, financial condition and reputation"*.

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

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

If sentiment towards banks, building societies and/or other financial institutions operating in the UK personal financial services (including the Group) were to deteriorate, or if the ratings of the Group and/or the ratings of the sector were to be adversely affected, this may have a materially adverse impact on the Group. Such a change in sentiment or reduction in ratings could result in an increase in the cost, and a reduction in the availability, of wholesale market funding across the financial services sector which could have a material adverse effect on the liquidity and funding of all UK financial services institutions, including the Group. Any such events could affect the market value of the Notes and/or their liquidity in the secondary market.

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

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

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

elsewhere, and other adverse developments in the UK or global financial markets could have an adverse impact on its results of operations.

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

Developments in the Group's industry, including increased competition, could have a material adverse impact on its operations. The Group operates in the UK personal financial services market, which has historically been very competitive. Factors such as the entrance of new participants to the market, and new technological developments, including, but not limited to, the wide use of price comparison websites, have increased the level of competition in recent years.

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

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

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

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

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

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

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

The Group is exposed to market risk as a result of changes in interest rates, foreign currency prices, asset prices or other financial contracts. The most significant market risks the Group faces are interest rate risks (including swap spread risk), along with, to a lesser extent, risks relating to foreign exchange rates and bond prices. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in currency rates, particularly in the sterling-euro exchange rates, affect the value of assets and liabilities denominated in foreign currencies. The

performance of financial markets may also cause changes in the value of the Group's investment portfolios. Changes in economic or market conditions may have an adverse effect on the Group's financial performance and business operations.

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

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

Credit Risk

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

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

Credit losses in the Group's treasury operations could adversely impact profitability and the Group's ability to make payments on the Notes

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

Regulatory and Conduct Risk

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

United Kingdom authorised firms are subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations thereof in the United Kingdom and the European Union. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking and building society sector, which the Group expects to continue for the foreseeable future. The Government, the Prudential Regulation Authority (the "**PRA**"), the FCA and other regulators in the United Kingdom or the European Union may intervene further in relation to areas of industry risk already identified, or in new areas, each of which could adversely affect the Group. The effects that such regulation may have on the Group include, without limitation, the imposition of additional costs or the limitation or restriction on the manner in which the Group conducts elements of its business. The Group continues to work closely with regulatory authorities and industry associations to

ensure that it is able to identify and respond to proposed regulatory changes and mitigate the risks posed, although future changes are difficult to predict and could materially adversely affect the business of the Group.

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

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

Operational Risk

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

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

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

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

The pace and scope of change facing the financial services sector and individual firms continues unabated. The Group maintains an ongoing programme designed to keep pace with developments in the industry. The increasing pace of IT change in the industry may raise obsolescence risk with the result that services become less stable or relevant or costs increase. The Group maintains a change management framework (comprising governance committees, people, processes and technology), in line with industry practice.

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

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

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

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

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

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

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

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

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

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

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

The UK Banking Act 2009 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 Group or any Notes could materially adversely affect the value of any Notes and/or the rights of Noteholders

Under the UK Banking Act 2009, as amended (the "**Banking Act**"), substantial powers are granted to HM Treasury, the Bank of England acting through the PRA, FCA and the Bank of England (together, the "**Authorities**") as part of a special resolution regime (the "**SRR**"). These powers enable the Authorities to deal with, amongst other entities, a UK bank or building society (each a "**relevant entity**") in circumstances in which the Authorities consider that the resolution conditions are satisfied, through a series of stabilisation options.

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

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

In addition, the Banking Act contains a separate power, often referred to as the "capital write-down tool", enabling the Authorities to cancel or transfer common equity tier 1 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 common equity tier 1 instruments (which, in the case of the Group, could be core capital deferred shares), if the Authorities consider that the institution or the Group 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. Subordinated Notes issued under the Programme may be Tier 2 capital instruments, and any such Subordinated Notes would 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 Issuer) 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 a relevant institution as described above (including the Group), such action may (amongst other things) affect the ability of the relevant entity to satisfy its obligations under the Notes (including limiting its capacity to meet its repayment obligations) and/or result in other modifications to the Terms and

Conditions of the Notes. In particular, modifications may be made pursuant to permitting (i) certain trust arrangements to be removed or modified, (ii) contractual arrangements between relevant entities and other parties to 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 Notes 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 the Group was made subject to the SRR, HM Treasury or the Bank of England may exercise extensive share transfer powers (applying to a wide range of securities) and property transfer powers (including powers for partial transfers of property, rights and liabilities) in respect of the Group and/or its securities (subject to certain protections). Exercise of these powers could involve taking various actions in relation to any securities issued by the Group (including any Notes issued under the Programme) without the consent of the Noteholders, including (among other things):

- transferring the Notes out of the hands of the holders;
- delisting the Notes;
- writing down (which may be to nil) the Notes or converting the Notes into another form or class of securities; and/or
- modifying or disapplying certain terms of the Notes, 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), and may result in the disapplication of acceleration rights or events of default under the terms of the Notes 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 Noteholders) 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 Notes in insolvency can be expected to have a direct impact on the relative losses imposed on Noteholders in a resolution.

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 Group, could be core capital deferred shares), any Tier 1 capital instruments and Tier 2 capital instruments (including Subordinated Notes issued under the Programme) 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 economy of an EEA member state and to preserve financial stability. Subordinated Notes issued under the Programme 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 would 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 holders of Subordinated Notes, and such exercise (or the perception that such exercise may occur) could materially

adversely affect the price or value of their investment in Subordinated Notes and/or the ability of the Issuer to satisfy its obligations under the Notes, and/or may adversely affect liquidity and/or volatility in any market for such Subordinated Notes.

As at the date of this Prospectus, the UK authorities have not made an instrument or order under the Banking Act in respect of the Group 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 Noteholders 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 Noteholders would recover compensation promptly and equal to any loss actually incurred. It should also be noted that any extraordinary public financial support provided to a relevant institution through any stabilisation action (such as temporary public ownership) would likely only be used by the UK authorities as a last resort after having assessed and exploited, to the maximum extent practicable, the resolution tools and powers described above.

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

The Group is subject to capital and liquidity requirements, including through the implementation of regulations such as Basel III and CRD IV (each as defined below) that could have an impact on its operations.

On 16 December 2010, 13 January 2011, 12 January 2014 and 7 December 2017, the Basel Committee issued guidance on a number of fundamental reforms to the regulatory capital framework (such reforms being commonly referred to as "**Basel III**"), 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 was implemented in the EEA through a regulation (the Capital Requirements Regulation (the "**CRR**")) and an associated directive (the Capital Requirements Directive (the "**CRD**")) (together, "**CRD IV**"), which were published in the Official Journal of the European Union on 27 June 2013. The regulation established a single set of harmonised prudential rules which apply directly to all credit institutions in the EEA, with the directive containing less prescriptive provisions to be transposed into national law. The regulation gives express recognition for Common Equity Tier 1 ("**CET1**") capital instruments for mutual and co-operative entities and permits the use of a cap or restriction to safeguard the interests of members and reserves. Full implementation began from 1 January 2014, with particular elements being phased in over a period of time, to be fully effective by 2027.

The Group's capital is reported as a ratio of capital to risk-weighted assets expressed as a percentage in different measures – CET1 capital, Tier 1 capital and total capital, and through a leverage ratio (on a quasi-voluntary basis). The Group is required to maintain certain minimum levels of regulatory capital referred to in Article 92 of the CRR (the "**Pillar 1 Requirement**"). The Group will also be required to meet certain capital buffer requirements above such minimum level. If the Group fails, or is perceived to be likely to fail, to meet its regulatory capital requirements, this may result in administrative actions or regulatory sanctions against it.

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

In June 2017, the PRA published a policy statement relating to residential mortgage risk weights, including proposals to align firms' IRB modelling approaches for residential mortgage risk weighted assets. This sets out a number of modifications to the IRB modelling methodologies for residential mortgages, and sets the expectation for firms to update IRB models by the end of December 2020. This could result in risk based requirements increasing following implementation of new models.

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

Key elements of CRD IV include the following:

- **Increased capital requirements** – higher minimum CET1 ratios (a risk-based ratio calculated (on the basis set out in CRD IV) as CET1 capital divided by risk weighted assets) and the introduction of conservation, countercyclical and systemic risk buffers, which became fully effective from 1 January 2019;
- **Definition of capital** – the Group's permanent interest bearing shares, and other subordinated debt which does not meet CRD IV recognition criteria, will be phased out over the period from 1 January 2014 to 31 December 2021;
- **Additional capital charges** – an additional capital charge for credit valuation adjustment ("CVA") risk is imposed. The majority of the Group's CVA charge relates to the use of derivative instruments (with highly-rated counterparties) to manage interest rate and foreign exchange risk;
- **Deductions from capital** – expected losses in excess of provisions are deducted in full from CET1 capital, gross of tax. Under Basel II, only 50 per cent. of the deduction was from Core Tier 1 capital and was net of tax;
- **Liquidity metrics** – a short-term liquidity stress ratio, referred to as the Liquidity Coverage Ratio, which is now in place, and a longer-term ratio, referred to as the Net Stable Funding Ratio;
- **Leverage ratio** – calculated by dividing Tier 1 capital by total assets (as defined by Basel III), is required to be maintained at a level of at least 3 per cent. This requirement was harmonised at EU level from 1 January 2018;
- **Additional valuation adjustments** – these are deductions from CET1 capital required for all assets (including derivatives) measured at fair value. The Group intends to follow the simplified approach to this requirement, recognising the beneficial impact of hedge accounting treatment of derivatives; and
- **Available For Sale reserve** – this reserve records the unrealised gains and losses on assets measured at fair value. CRD IV brought this within the scope of own funds included in CET1 capital.

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

Recognition as capital of the legacy Tier 1 capital and Tier 2 capital instruments (for example, certain permanent interest bearing shares and subordinated debt instruments) is subject to grandfathering in accordance with the provisions in CRD IV. In 2015 the PRA consulted on its approach to Pillar 2A capital and considered the extent to which firms should disclose Pillar 2A and the PRA's approach to the Pillar 2B PRA buffers. Following this consultation the PRA published new rules that came into force in January 2016. Under these new rules, the Group's Pillar 2A requirements must now be met with at least

56 per cent. in CET1 capital, no more than 44 per cent. in Additional Tier 1 capital and at most 25 per cent. in Tier 2 capital. This development may adversely impact on the competitiveness of the Group relative to banks and financial institutions subject to less stringent requirements.

The Basel III guidelines are subject to revision. In April 2016, the Basel Committee issued proposed revisions to the leverage ratio framework, which were subject to comment until July 2016. The proposed revisions could lead to amendments to the Basel III guidelines that are then reflected in European legislation and there is a risk that the Group will be required to hold higher levels of capitalisation than is currently anticipated or planned for.

The Basel Committee has been consulting (from October 2014 in various consultative documents) on revisions to the standardised approach for credit risk and operational risk as well as the new capital floor that will replace the Basel I floor. It proposes, among other things, to change the approach to risk weighting exposures to banks and corporates, with the aim of enhancing risk sensitivity, without leading to a significant overall increase in firms' capital requirements. Given that these proposals are yet to be finalised, it is unclear what effects they could have on the financial condition and prospects of the Group.

CRD IV introduces a non-risk based leverage ratio that is supplementary to the risk based capital requirements and was originally proposed as a 'backstop' measure. The calculation determines a ratio based on the relationship between Tier 1 capital and total exposures, including off-balance sheet items. The leverage ratio does not distinguish between unsecured and secured loans, nor recognise the ratio of loan to value of secured lending.

The UK implemented leverage ratio requirements in advance of the EU-wide implementation under CRD IV. In April 2015, secondary legislation was enacted writing the Financial Policy Committee's ("**FPC**") Leverage recommendations (published on 31 October 2014) into law. This grants the FPC powers of discretion over the leverage ratio. The requirements established include: a minimum leverage ratio of 3.0 per cent. as at the date of this Prospectus (this is at the same level as the European Banking Authority ("**EBA**") leverage ratio recommendation, but in the future, any changes to the proposed level of the EU-wide leverage ratio may also impact UK institutions); a countercyclical leverage ratio buffer; and, from 2019, a supplementary leverage ratio buffer. There are also requirements for leverage ratio reporting and disclosure. In July 2016, the FPC excluded central bank reserves from the measure of banks' exposures used to assess their leverage. This change was designed to avoid the FPC's leverage standards impeding the transmission of monetary policy. At that time, the FPC noted that it intended to introduce an off-setting adjustment to ensure that the resilience standard of the leverage requirements was maintained. On 20 September 2017, the FPC increased the minimum leverage ratio from 3.0 per cent. to 3.25 per cent. of exposures (excluding central bank reserve exposures), to reflect the removal of central bank deposits from the leverage exposure measure.

As at the date of this Prospectus, the United Kingdom leverage requirements apply only to financial institutions with retail deposits of £50 billion or more and does not apply to the Group as at the date of this Prospectus. However, the Group may, depending on business growth, become subject to the requirement in the future due to an increase in its retail deposit base, or these requirements could be extended to all United Kingdom financial institutions, or a broader range of financial institutions, in the future. It is therefore unclear what effects any future changes to the leverage ratio calibration could have on the financial condition and prospects of the Group. Any institution that fails, or is perceived likely to fail, to meet applicable leverage requirements may become subject to administrative actions or regulatory sanctions.

The BoE announced new rules in November 2016 that are designed to make it easier to manage the failure of banks and building societies in an orderly way, as part of reforms to prevent future taxpayer bail-outs in the UK. These rules require all institutions to meet an individual minimum requirement for eligible liabilities ("**MREL**") which may be bailed-in, calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities. Items eligible for inclusion in MREL will include an institution's own funds, along with "eligible liabilities".

The rules require the Group to meet an interim MREL requirement of 18 per cent. of risk weighted assets by 1 January 2020 with the full requirements to be met by 1 January 2022. MREL capital requirements are split into two elements. Firstly a loss absorption amount, to cover losses up to and in resolution, based on a firm's minimum going concern capital requirement, and secondly a recapitalisation amount, to

enable the firm to continue post resolution, likely to be at least equal to the minimum going concern capital requirement. The BoE will set MREL requirements on a firm-specific basis, informed by the resolution strategy for that firm. The BoE will review the timing and calibration of the end-state requirement before the end of 2020.

The preferred resolution strategy for the Group has been set by the BoE as bail-in, reflecting the size of the Group and consequential risks of an insolvency process, and of being able to affect a partial transfer at short notice. Notwithstanding this, the actual approach taken, should the Group require resolution, will depend on the circumstances at the time of a failure, and all available options would be considered. The Group continues to monitor regulatory developments that could lead to increased capital requirements. These include the Basel Committee review of the standardised approach to calculating credit risk capital requirements, output floors and MREL.

In general, prospective investors should consult their own advisers as to the regulatory capital requirements in respect of the Notes and as to the consequences and effect on them of any changes to the Basel framework (including the changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

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

The Group is regulated by the PRA and the FCA. The regulatory regime requires the Group to be compliant across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Group fails to be compliant with any relevant regulations, there is a risk of an adverse impact on its business due to sanctions, fines or other action imposed by the regulatory authorities.

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

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

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

- The Mortgage Directive was implemented in the UK on 21 March 2016 by way of the Mortgage Credit Directive Order 2015 (the "**MCD Order**") which contains amendments to legislation including the FSMA, the Consumer Credit Act 1974 and the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. In outline, the MCD Order (i) puts in place a new regulatory regime for consumer buy-to-let mortgages ("**CBTL mortgages**"); (ii) widens the definition of regulated mortgage contract to include second charge mortgages; and (iii) transfers the regulation of some existing agreements (e.g. Consumer Credit Act regulated first charge mortgages) from the FCA's consumer credit regime to the FCA's mortgage regime. For the most part the Government has sought to put in place what it has described as the minimum requirements to meet its legal obligations under the Mortgage Directive in respect of buy-to-let mortgages. The legislation provides that firms do not need to apply the Government's appropriate framework for buy-to-let mortgages where a borrower is acting wholly or predominantly for the purposes of a business. HM Treasury has stated that they would expect CBTL activity to represent a small proportion of total buy-to-let transactions; and
- In September 2016, following a consultation by the PRA earlier that year, the PRA published Policy Statement PS28/16 and a final Supervisory Statement SS 13/16 both entitled "Underwriting standards for buy-to-let mortgage contracts". The Policy Statement applies to all PRA regulated firms that undertake buy-to let lending that are not already subject to FCA regulation. The Supervisory Statement does not apply to regulated mortgage contracts, CBTL

mortgages, buy-to-let mortgages ("**BTL mortgages**") with corporates or which have a term of 12 months or less or to an application from an existing customer for consent to let. The Supervisory Statement contains the PRA's minimum standards that firms should follow when underwriting BTL mortgages (affordability testing) (including when dealing with portfolio landlords who have four or more buy-to-let mortgaged properties), clarifies the PRA's expectation regarding the application of the small and medium sized supporting factor on BTL mortgages and details the PRA's expectations regarding adequate risk management and controls. The PRA expects that regulated firms ensure that the standards are followed by other firms undertaking buy-to-let lending within their group.

- The EU General Data Protection Regulation ("**GDPR**") took direct effect in all EU Member States from 25 May 2018 and replaced the EU data privacy laws then in place. Although a number of basic existing principles will remain the same, the GDPR introduced new obligations on data controllers and rights for data subjects. The GDPR also introduces new fines and penalties for a breach of requirements, including fines for serious breaches of up to the higher of 4 per cent. of annual worldwide turnover or €20 million and fines of up to the higher of 2 per cent. of annual worldwide turnover or €10 million for other specified infringements. The GDPR identifies a list of points to consider when imposing fines (including the nature, gravity and duration of the infringement). The implementation of the GDPR has required substantial amendments to the Group's procedures and policies. There is a risk that the measures will not be implemented correctly or that individuals within the Group will not be fully compliant with the new procedures. If there are breaches of these measures, the Group could face significant administrative and monetary sanctions as well as reputational damage which may have a material adverse effect on the Group's operations, financial condition and prospects.
- In June 2017, the PRA published a policy statement relating to residential mortgage risk weights, including proposals to align firms' IRB modelling approaches for residential mortgage risk weighted assets. This sets out a number of modifications to the IRB modelling methodologies for residential mortgages, and sets the expectation for firms to have updated their IRB models by the end of December 2020. This could result in risk based requirements increasing following implementation of new models.
- The BoE conducts an annual stress testing exercise of the UK banking system, which currently covers the seven largest UK banks and building societies. If such exercises reveal inadequate systemic resilience, the FPC could consider a variety of actions, including recommendations to the PRA and FCA to adjust a range of regulatory capital buffers, including the UK countercyclical buffer, sectorial capital requirements and the PRA buffer. The Group was not part of this review. The criteria applied to stress tests are not intended to be indicative of prospective changes to the capital requirements, however, if the PRA or BoE were to formally increase capital buffers across all UK lenders, this could have a significant adverse impact on the Group's CET1 and overall capital ratios.
- In addition, the European Banking Authority has conducted its own stress tests for certain European financial institutions. Whilst the Group was not the subject of such stress tests, if it were to become subject to future stress tests of this nature there is a risk that it would be required to raise further capital, including if the stress test methodology included standardised or minimum risk weights, whether generally or in respect of exposures to specified sectors, which afford higher risk-weightings to the Group's assets than the Group's own internal ratings-based model.
- On 15 May 2014, the Council and Parliament of the EU adopted the BRRD which has since largely been implemented in the UK through changes to the Banking Act (as discussed above). The BoE published a statement of policy on its approach to setting a minimum requirement for own funds and eligible liabilities as required under the BRRD in November 2016, although it noted in that paper that it may update the statement of policy in due course. Until this is finalised, the Group cannot predict the impact such rules will have on its overall capital requirements or how they will affect its compliance with the capital and loss absorbency requirements of Basel III. The BoE intends to conduct a review of its general approach to the calibration of minimum requirements for own funds and eligible liabilities by the end of 2020. The introduction of the new rules and proposals could require the Group to increase its capital, liquidity and funding requirements or otherwise adversely affect its business or profitability.

- Reforms in respect of interest rates and indices which are deemed to be "benchmarks" could impact the efficacy of the Group's hedging strategies for liabilities referencing these benchmarks, and the valuation of both assets and liabilities which reference such benchmarks. These reforms, and the uncertainty in relation thereto, could lead to volatility in the Group's reported results or otherwise impact the financial condition of the Group. See *"The regulation and reform of benchmarks may adversely affect the value of Notes linked to or referencing such 'benchmarks'".*

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

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

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

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

The International Accounting Standards Board has recently introduced IFRS 9: "Financial Instruments" as a new standard to replace IAS 39: "Financial Instruments: Recognition and Measurement". IFRS 9 will change the classification and measurement of some financial assets, the recognition and the financial impact of impairment and hedge accounting. Amongst other changes, IFRS 9 is replacing the incurred loss approach to impairment of IAS 39 with one based on expected credit losses ("**ECL**"), which will result in earlier recognition of credit losses. This introduces a number of new concepts and changes to the approach to provisioning compared with the methodology under IAS 39. ECLs are based on an assessment of the probability of default, loss given default and exposure at default, discounted to give a net present value. The estimation of ECL should be unbiased and probability-weighted, taking into account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes.

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

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

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

Demutualisation and Butterfill Act

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

The Act includes provisions under which a building society may demutualise by transferring the whole of its business to a company. In addition, the Act (as modified by the Mutual Societies (Transfers) Order 2009 made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (commonly known as the "**Butterfill Act**") includes provisions under which a building society may transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the Butterfill Act). At present, the claims of the Group's depositors and other unsecured and unsubordinated creditors would rank ahead of share accounts (which term excludes any deferred shares) and the Group's members' rights to any surplus in the event of its liquidation, and the claims of its subordinated creditors would rank behind share accounts but ahead of members' rights to any surplus in the event of its liquidation. If, however, the Group transfers its business to a specially formed company or an existing company (as defined in the Act) or to a subsidiary of another mutual society, all of its liabilities which immediately prior thereto were classified as share accounts will thereafter rank at least *pari passu* with all other unsecured and unsubordinated liabilities of its successor.

Following a transfer of business to a company (including where the transfer is to a subsidiary of another mutual society) by the Group, the obligations under the Notes will become obligations of any transferee entity and rank (i) in priority to both the rights of the holders of the equity share capital in the company to any repayment of capital or surplus on a liquidation and any obligations of the company (whether or not created prior to such transfer) expressed to rank junior to such Notes, (ii) equally with other unsecured and unsubordinated creditors (including inter-bank lenders and retail depositors) and (iii) behind any statutorily preferred creditors.

Certain of the Group's liabilities will be preferred by law in the event of its winding-up

As a result of changes to the UK building societies legislation (as described briefly below), from 1 January 2015 holders of Senior Preferred Notes and Senior Non-Preferred Notes and other unsubordinated creditors of the Group rank in an insolvency of the Group junior to member share accounts which are given preferential status (as described below). Subordinated Notes continue to rank junior to all such members and creditors, as well as ranking junior to Senior Preferred Notes and Senior Non-Preferred Notes.

Section 90B of the Act (which was inserted by the Butterfill Act), was brought into force with effect from 20 November 2014. HM Treasury exercised the power which was granted to it under Section 90B and powers conferred on it by section 2(2) of the European Communities Act 1972 by making the Banks and Building Societies (Depositor Preference and Priorities) Order 2014 (the "**Depositor Preference Order**"), which entered into force on 1 January 2015. As a result of these changes, provision has been made by HM Treasury for the purpose of ensuring that, on the winding up, or dissolution by consent, of a building society, any assets available for satisfying such society's liabilities to creditors (other than liabilities in respect of subordinated deposits, liabilities in respect of preferential debts; or any other category of liability which HM Treasury specifies in the order for these purposes) or to members (other than liabilities in respect of preferential debts and deferred shares) are applied in satisfying those liabilities *pari passu*.

The Depositor Preference Order (i) extended the scope of preferential debts in respect of deposits and (ii) further aligned creditor hierarchy in UK building societies with the depositor preference requirements introduced in consequence of the BRRD to ensure that any sums due to building society members in relation to their shareholding in respect of deposits that do not benefit from the depositor preference requirements will nevertheless rank *pari passu* with all other (non-preferred) senior unsecured creditors.

These changes also have the effect of granting:

- a first-ranking preference to those deposits and share accounts (or a relevant part thereof) of natural persons and micro, small and medium enterprises, which are actually protected by the Financial Services Compensation Scheme (the "FSCS") (i.e. are eligible for protection and do not exceed the FSCS coverage limit (currently £85,000), which will rank equally with all other preferential debts; and
- a second-ranking preference to deposits and share accounts (or a relevant part thereof) of natural persons and micro, small and medium enterprises, which would be eligible for FSCS protection but for the fact that they either (a) exceed the £85,000 coverage limit of the FSCS or (b) were made through a branch outside the EU. Such deposits and share accounts (or the relevant part thereof) will rank after the preferential debts referred to in paragraph (i) above but in priority to the claims of ordinary (i.e. non-preferred) unsecured creditors in the event of an insolvency.

The claims of the holders of Senior Preferred Notes and Senior Non-Preferred Notes (as well as claims in respect of Subordinated Notes) therefore rank junior to the claims in respect of liabilities afforded preferred status under (i) or (ii) above and, accordingly, in the event of insolvency or resolution of the Group, Senior Preferred Notes and Senior Non-Preferred Notes would all be available to absorb losses ahead of liabilities which benefit from such first-ranking or second-ranking preference (and Subordinated Notes would be available to absorb losses ahead of Senior Preferred Notes and Senior Non-Preferred Notes).

As a result, in the event of insolvency or winding up of the Group:

- the assets of the Group would be applied first to satisfying in full all claims in respect of those deposits and share accounts which enjoy preferential status (as described above) before any recovery would be made on claims in respect of Senior Preferred Notes and Senior Non-Preferred Notes (and the claims in respect of Senior Preferred Notes and Senior Non-Preferred Notes would rank *pari passu* with those deposits and share accounts which are not afforded preferential status); and
- no recovery would be made on claims in respect of Subordinated Notes unless and until the claims in respect of all deposit and share accounts, as well as claims in respect of Senior Preferred Notes and Senior Non-Preferred Notes and any other unsubordinated liabilities of the Group, have first been satisfied in full.

It is further expected that this ranking would be respected in the event that resolution action were to be taken in respect of the Group pursuant to the Banking Act (see *UK Banking Act 2009* above).

Therefore, in the event of insolvency, winding up or resolution of the Group, there is a real risk that investors in Senior Preferred Notes, Senior Non-Preferred Notes and/or Subordinated Notes would lose some or the entire amount of their investment. Furthermore, the market price of Senior Preferred Notes, Senior Non-Preferred Notes and Subordinated Notes can be expected to be materially adversely affected if the Group's financial condition deteriorates such that the market anticipates the insolvency, winding-up or resolution of the Group.

The Group may be adversely affected by increased levies payable under the FSCS

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

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

There can also be no assurance that there will be no actions taken under the Banking Act that may lead to further claims against the FSCS, and concomitant increased FSCS levies payable by the Group (and other

regulated UK deposit takers). Any such increases in the Group's costs and liabilities related to the levy may have a material adverse effect on its results and operations. Further costs and risks to the Group may also arise from discussions at national and EU levels around the future design of financial services compensation schemes, including increasing the scope and level of protection and moving to pre-funding of compensation schemes.

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

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

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

Factors which are material for the purpose of assessing the market risks associated with the Notes

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

The Group is entitled, without the consent of the holders of any Senior Notes, to issue further Senior Notes

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

The Notes are not protected liabilities of the Group and holders of the Notes will not benefit from a government compensation scheme

The FSCS established under the Financial Services and Markets Act 2000 is the statutory fund of last resort for customers of authorised financial services firms, such as the Group, paying compensation to customers if the Group 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 Notes are not, however, Protected Liabilities of the Group and, moreover, are not guaranteed or insured by any government, government agency or compensation scheme of the UK or any other jurisdiction.

The High Court has primary jurisdiction to hear and determine all disputes relating to the Group and the Notes

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

Risks related to succession and transfer of the Group's business

Condition 12 contains provisions applicable to the Notes upon an amalgamation by the Group 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 Group of the whole of its business in accordance with section 97 of the Act to a company.

Those provisions enable (in the context of such amalgamation or transfer only) certain amendments to be made to the terms of the Notes without the consent of the Noteholders, which potentially could be adverse to the interests of Noteholders, subject to certain restrictions.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the Group

An optional redemption feature is likely to limit the market value of Notes. During any period when the Group may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Group may be expected to redeem Notes when its cost of borrowing is lower than the Interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Redemption following a Capital Disqualification Event

In certain circumstances where the Group is unable to achieve the Tier 2 capital recognition of Subordinated Notes, the relevant Subordinated Notes may be redeemed early. The exercise of these rights by the Group may have an adverse effect on the position of holders of the Subordinated Notes.

Resetable Notes

In the case of any Series of Resetable Notes, the rate of interest on such Resetable Notes will be reset by reference to the then prevailing Mid-Swap Rate, as adjusted for any applicable margin, on the reset dates specified in the relevant Final Terms. This is more particularly described in Condition 5(b) (*Interest on Resetable Notes*). The reset of the rate of interest in accordance with such provisions may affect the secondary market for and the market value of such Resetable Notes. Following any such reset of the rate of interest applicable to the Notes, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest on the relevant Resetable Notes may be lower than the Initial Rate of Interest, the First Reset Rate of Interest and/or any previous Subsequent Reset Rate of Interest.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Notes which are linked to "benchmarks"

The London Interbank Offer Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other interest rate or other types of rates and indices which are deemed to be "benchmarks" are the subject of ongoing national and international regulatory reform. Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. For example, on 27 July 2017, the FCA announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark (including but not limited to Floating Rate Notes whose interest rates are linked to LIBOR). Any such consequence could have a material adverse effect on the value of and return on any such Notes.

The Group's obligations under Subordinated Notes are subordinated

The Group's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority to the Senior Claims (as defined in Condition 3). Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Subordinated Notes will lose all or some of his investment should the Group become insolvent.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification, waivers and substitution

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

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes in the circumstances described in Condition 11 of the Terms and Conditions of the Notes or (ii) the substitution of another company as principal debtor under any Notes in place of the Group, in the circumstances described in Condition 12 of the Terms and Conditions of the Notes.

Change of law

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice or tax treatment after the date of issue of the relevant Notes.

Integral multiples of less than €100,000

In relation to any issue of Notes which have a denomination consisting of the minimum Specified Denomination of €100,000 plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of €100,000 (or its equivalent). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Risks related to the market generally

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

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Group will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency 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. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**") from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are

endorsed by an EU-registered credit rating agency or the relevant non-EU 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).

Factors which are material for the purpose of assessing the market risks associated with the Notes

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

The Group is entitled, without the consent of the holders of any Notes, to issue further Notes

The Group is entitled, without the consent or approval of Noteholders, to issue further Senior Preferred Notes that are consolidated and form a single series with any Senior Preferred Notes and/or other instruments ranking *pari passu* with the Senior Preferred Notes. The Group is entitled, without the consent or approval of Noteholders, to issue further Senior Non-Preferred Notes that are consolidated and form a single series with any Senior Non-Preferred Notes and/or other instruments ranking *pari passu* with the Senior Non-Preferred Notes. The Group is entitled, without the consent or approval of Noteholders, to issue further Subordinated Notes that are consolidated and form a single series with any Subordinated Notes and/or other instruments ranking *pari passu* with the Subordinated Notes. The Issuer may also issue other securities in the future which rank junior to the Senior Non-Preferred Notes and in priority to the Subordinated Notes. An offering of such securities may adversely affect the amounts (if any) which holders of the Senior Preferred Notes, Senior Non-Preferred Notes or Subordinated Notes may be eligible to receive on a winding up or dissolution of the Group, and could have an adverse effect on the market price of the Senior Preferred Notes, Senior Non-Preferred Notes or Subordinated Notes as a whole.

The Notes are not protected liabilities of the Group and holders of the Notes will not benefit from a government compensation scheme

The FSCS established under the Financial Services and Markets Act 2000 is the statutory fund of last resort for customers of authorised financial services firms, such as the Group, paying compensation to customers if the Group 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 Notes are not, however, Protected Liabilities of the Group and, moreover, are not guaranteed or insured by any government, government agency or compensation scheme of the UK or any other jurisdiction.

Risks related to succession and transfer of the Group's business

Condition 12 contains provisions applicable to the Notes upon an amalgamation by the Group 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 Group of the whole of its business in accordance with section 97 of the Act to a company.

Those provisions enable (in the context of such amalgamation or transfer only) certain amendments to be made to the terms of the Notes without the consent of the Noteholders, which potentially could be adverse to the interests of Noteholders, subject to certain restrictions.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the Group

An optional redemption feature is likely to limit the market value of Notes. During any period when the Group may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. The Issuer may be entitled to redeem Notes at its option (if so specified in the applicable Final Terms) and/or

following the occurrence of a Capital Disqualification Event (in the case of Subordinated Notes) or a Loss Absorption Disqualification Event (in the case of certain Senior Non-Preferred Notes) or following any change in or amendment to the laws or regulations of the United Kingdom, where the Issuer is required to pay additional amounts as described in Condition 8, all as further described in the Terms and Conditions of the Notes.

The Group may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time. See also "*Redemption of Senior Non-Preferred Notes following a Loss Absorption Disqualification Event*" below.

Redemption of Senior Non-Preferred Notes following a Loss Absorption Disqualification Event

If so specified in the applicable Final Terms, the Issuer may redeem the Senior Non-Preferred Notes upon the occurrence of a Loss Absorption Disqualification Event.

A Loss Absorption Disqualification Event shall be deemed to have occurred in respect of a Series of Senior Non-Preferred Notes if, as a result of any amendment to, or change in, any Loss Absorption Regulations (as defined in the Terms and Conditions of the Notes), or any change in the application or official interpretation of any Loss Absorption Regulations, in any such case becoming effective on or after the date on which agreement is reached to issue the first Tranche of such Series of Senior Non-Preferred Notes, such Senior Non-Preferred Notes are, or (in the opinion of the Issuer or the relevant Supervisory Authority (as defined in the Terms and Conditions of the Notes)) are likely to be, fully or (if so specified in the applicable Final Terms) partially excluded from the Issuer's minimum requirements (whether on an individual or consolidated basis) for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments, in each case as such minimum requirements are applicable to the Issuer (whether on an individual or consolidated basis) and determined in accordance with, and pursuant to, the relevant Loss Absorption Regulations; provided that a Loss Absorption Disqualification Event shall not occur where the exclusion of the Senior Non-Preferred Notes from the relevant minimum requirement(s) is due to the remaining maturity of such Senior Non-Preferred Notes being less than any period prescribed by any applicable eligibility criteria for such minimum requirements under the relevant Loss Absorption Regulations effective with respect to the Issuer on the Issue Date of such Series of Senior Non-Preferred Notes.

As the implementation of the minimum requirements for eligible liabilities under the BRRD is subject to the adoption of further legislation and implementation, including further legislative proposals in the EU with respect to (amongst other things) the necessary features of eligible liabilities, it is not possible to predict whether the Senior Non-Preferred Notes will be fully or partially excluded from the Issuer's minimum requirements referred to above. If any of the Senior Non-Preferred Notes are to be redeemed as a result of a Loss Absorption Disqualification Event or there is a perception that such Senior Non-Preferred Notes may be so redeemed, this may impact the market price of such Senior Non-Preferred Notes. In addition, there can be no assurance that Noteholders will be able to reinvest the amounts received upon any such redemption at a rate that will provide the same rate of return as their investment in the Senior Non-Preferred Notes.

Substitution and variation of Senior Non-Preferred Notes following a Loss Absorption Disqualification Event

If so specified in the applicable Final Terms, the Issuer may, following a Loss Absorption Disqualification Event in respect of any Series of Senior Non-Preferred Notes, without the need for any consent of the Noteholders, substitute all (but not some only) of such Series of Senior Non-Preferred Notes for, or vary the terms of such Series so that they remain or become, Loss Absorption Compliant Notes (as defined in the Terms and Conditions of the Notes). Whilst Loss Absorption Compliant Notes are required to have terms not materially less favourable to Noteholders than the terms of the relevant Senior Non-Preferred Notes (as reasonably determined by the Issuer in consultation with an independent adviser of recognised standing), no assurance can be given that any such substitution or variation will not adversely affect any particular holder. In addition, the tax and stamp duty consequences of holding such Loss Absorption Compliant Notes could be different for some categories of Noteholders from the tax and stamp duty consequences for them of holding the Senior Non-Preferred Notes prior to such substitution or

variation, and no assurance can be given by the Issuer as to the implications thereof for any holder, which may be adverse to any such holder.

The Senior Non-Preferred Notes and the Subordinated Notes rank junior to most of the Issuer's liabilities

Whilst the Issuer's Senior Non-Preferred Notes and Senior Preferred Notes both share the 'senior' designation under the Programme, the Senior Non-Preferred Notes rank junior to the Senior Preferred Notes (which, in turn, rank junior to those of the Issuer's obligations which are by law given priority over its Senior Preferred Notes, including its retail member deposits) and other unsecured and unsubordinated liabilities. Accordingly, prospective investors in Notes issued under the Programme should note that, in the event of the Issuer's insolvency or resolution, investors in the Senior Non-Preferred Notes would generally be expected to lose their entire investment before losses are imposed on holders of the Senior Preferred Notes, and investors in the Subordinated Notes would generally be expected to lose their entire investment before losses are imposed on holders of the Senior Non-Preferred Notes. The Subordinated Notes rank junior to the Senior Non-Preferred Notes, and the Issuer may also issue other securities in the future which rank junior to the Senior Non-Preferred Notes and in priority to the Subordinated Notes. Further, investors in the Subordinated Notes and (if so specified in the applicable Final Terms) Senior Non-Preferred Notes will not be entitled to exercise any rights of set-off against the Issuer in respect of such Notes.

If the Issuer is declared insolvent and a winding up is initiated, the Issuer will, before it can make any payments on the Subordinated Notes, be required to pay in full the holders of its senior-ranking debt (including in respect of the Senior Preferred Notes and Senior Non-Preferred Notes) and meet its obligations to all of its retail member depositors and other creditors, other than its obligations (i) with respect to its Additional Tier 1 Capital, CET1 Capital or Tier 2 Capital (each as defined in the Terms and Conditions of the Notes) or (ii) which otherwise rank *pari passu* with, or junior to, the claims in respect of the Subordinated Notes. Accordingly, on a winding-up of the Issuer, if the assets of the Issuer are insufficient to enable the Issuer to repay the claims of more senior-ranking creditors in full, the holders of Subordinated Notes will lose their entire investment in such Notes. If there are sufficient assets to enable the Issuer to pay the claims of senior-ranking creditors in full but insufficient assets to enable it to pay claims in respect of its obligations under the Subordinated Notes and all other claims that rank *pari passu* with the Subordinated Notes, holders of Subordinated Notes will lose some (which may be substantially all) of their investment in such Notes.

The ranking of Notes in a winding up or dissolution of the Issuer can also be expected to have a direct impact on the relative losses imposed on Noteholders in a resolution of the Issuer or 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.

On 28 December 2017, Directive (EU) 2017/2399 (the "**Article 108 Amending Directive**") entered into force, amending Article 108 of the BRRD and designed to create a new category of unsecured debt for banks and other credit institutions. Whilst the European Commission considers this new category as "still being part of the senior unsecured debt category (only as an un-preferred tier senior debt)", it nevertheless ranks junior to ordinary unsecured creditors and other senior unsecured and preferred debts. Accordingly, the Article 108 Amending Directive differentiates between a class of 'ordinary unsecured claims' and a new, lower-ranking 'un-preferred' senior class.

The Order came into effect on 19 December 2018, implementing the Article 108 Amending Directive into UK insolvency law. Under the Order, the debts of a relevant institution (which would include the Issuer) which are 'non-preferential' debts (i.e. those debts which are not presently given priority over ordinary unsecured claims under UK insolvency law) will no longer be treated as a single *pari passu* class, and instead will be split into three distinct tiers:

- (1) 'ordinary non-preferential debts' (broadly equating to ordinary senior unsecured liabilities);
- (2) 'secondary non-preferential debts' (which equates to the new un-preferred senior class under the Article 108 Amending Directive); and
- (3) 'tertiary non-preferential debts' (which would include liabilities in respect of tier 1 and tier 2 own funds instruments and other subordinated liabilities).

The Order provides that, in an insolvency of a relevant institution, ordinary non-preferential debts will be paid in priority to secondary non-preferential debts, which in turn will be paid in priority to tertiary non-preferential debts.

As further set out at Condition 3 (to which investors will be deemed to acknowledge and agree by acquiring the Notes):

- i. claims in respect of Senior Preferred Notes issued under the Programme and any Coupons relating to them will constitute part of the class of 'ordinary non-preferential debts' (or such other designation as may be attributed to the equivalent class of debts) under the Order, corresponding to the class of 'ordinary unsecured claims' under the Article 108 Amending Directive;
- ii. claims in respect of Senior Non-Preferred Notes issued under the Programme and any Coupons relating to them will constitute part of the class of 'secondary non-preferential debts' (or such other designation as may be attributed to the equivalent class of debts) under the Order, corresponding to the new un-preferred senior class under the Article 108 Amending Directive; and
- iii. claims in respect of Subordinated Notes issued under the Programme and any Coupons related to them will constitute part of the class of 'tertiary non-preferential debts' (or such other designation as may be attributed to the equivalent class of debts) under the Order.

The new class of 'secondary non-preferential debts' is designed to contribute towards institutions' 'eligible liabilities' for the purposes of their MREL requirement. MREL is designed to be available to resolution authorities for write-down, write-off or conversion to equity in order to absorb losses and recapitalise a failing institution in the event of resolution action being taken, and before more senior-ranking creditors suffer losses. The amount of MREL the Issuer is required to maintain over time will be based on the expected required capacity to resolve and, if appropriate, recapitalise the Issuer in the event of its failure. Accordingly, if such calibration is accurate, it may be the case that, in a resolution, investors in Senior Non-Preferred Notes may lose all or substantially all of their investment whilst investors in Senior Preferred Notes suffer lower (or no) losses (although there can be no assurance that investors in Senior Preferred Notes will not also suffer substantial losses). The market value of the Senior Non-Preferred Notes may therefore be more severely adversely affected and/or more volatile if the Issuer's financial condition deteriorates than the market value of the Senior Preferred Notes. Accordingly, holders of Senior Non-Preferred Notes may bear significantly more risk than holders of Senior Preferred Notes (notwithstanding that both share the 'senior' designation under the Programme).

Investors should ensure they understand the relative ranking of Notes issued under the Programme – including as between Senior Preferred Notes, Senior Non-Preferred Notes and Subordinated Notes – and the risks consequent thereon, before investing in any Notes.

The Subordinated Notes contain and the Senior Non-Preferred Notes may contain limited events of default and the remedies available thereunder are limited

The only events of default under the Conditions of the Subordinated Notes and any Series of Senior Non-Preferred Notes for which the applicable Final Terms specifies "Senior Non-Preferred Notes: Restricted Events of Default" as being "Applicable" are (i) where there is a failure to pay principal or interest for a period of 14 days or more when it otherwise becomes due and payable or (ii) in the event of the commencement of the winding-up or dissolution of the Issuer or (iii) in the event of a cancellation of the Issuer's registration under the Act, all as more particularly described in Condition 10(b).

The sole remedy against the Issuer available to the Trustee for recovery of amounts which have become due in respect of the Subordinated Notes or any such Series of Senior Non-Preferred Notes will be the institution of proceedings for the winding-up of the Issuer. Otherwise, the Trustee and the Noteholders may not take any further or other action to enforce, prove or claim any such payment, including, in the case of a failure to pay interest, any action to accelerate a repayment of the nominal amount of the relevant Subordinated Notes or Senior Non-Preferred Notes, as the case may be.

In the event of the commencement of the winding up or dissolution of the Issuer or the cancellation of the Issuer's registration under the Act (each as more particularly described in Condition 10(b)), the Trustee, at its discretion, may, and, if so requested in writing by the holders of at least one quarter in nominal amount

of the Notes then outstanding or so directed by an Extraordinary Resolution of the Noteholders, shall (subject to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the relevant Series of Notes are due and repayable immediately (and the relevant Series of Notes shall thereby become so due and repayable) at their nominal amount together with accrued interest (if any).

Limitation on gross-up obligation under the Subordinated Notes and certain Senior Non-Preferred Notes

The Issuer's obligation to pay additional amounts in respect of any withholding or deduction in respect of UK taxes under the terms of (i) each Series of Subordinated Notes and (ii) any Series of Senior Non-Preferred Notes for which the applicable Final Terms specifies "*Senior Non-Preferred Notes: Gross-up of principal*" as "Not Applicable", applies only to payments of interest due and paid under such Notes and not to payments of principal. As such, the Issuer would not be required to pay any additional amounts under the terms of any Series of Subordinated Notes or any such Series of Senior Non-Preferred Notes to the extent any withholding or deduction applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal under any Series of Subordinated Notes or any such Series of Senior Non-Preferred Notes, holders of such Notes would, upon repayment or redemption of such Notes, be entitled to receive only the net amount of such redemption or repayment proceeds after deduction of the amount required to be withheld. Therefore, in such circumstances, holders will receive less than the full amount due under such Notes, and the market value of such Notes may be adversely affected as a result.

Resettable Notes

In the case of any Series of Resettable Notes, the rate of interest on such Resettable Notes will be reset by reference to the then prevailing Mid-Swap Rate, as adjusted for any applicable margin, on the reset dates specified in the relevant Final Terms. This is more particularly described in Condition 5(b) (*Interest on Resettable Notes*). The reset of the rate of interest in accordance with such provisions may affect the secondary market for and the market value of such Resettable Notes. Following any such reset of the rate of interest applicable to the Notes, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest on the relevant Resettable Notes may be lower than the Initial Rate of Interest, the First Reset Rate of Interest and/or any previous Subsequent Reset Rate of Interest (each as defined in the Terms and Conditions of the Notes).

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The regulation and reform of benchmarks may adversely affect the value of Notes linked to or referencing such "benchmarks"

Reference rates and indices, including interest rate benchmarks such as EURIBOR, LIBOR and SONIA (each as defined below), which are deemed to be "benchmarks" and which may be used to determine the amounts payable under financial instruments or the value of such financial instruments have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such a benchmark. The Benchmarks Regulation was published in the Official Journal of the EU on 29 June 2016 and has been in effect since 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities (such as the Issuer) of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes linked to or referencing a benchmark, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the benchmark.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. For example, the sustainability of the London interbank offered rate ("**LIBOR**") has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, the FCA announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark (including, but not limited to, Floating Rate Notes whose interest rates are linked to LIBOR).

In addition, on 29 November 2017, the Bank of England and the FCA announced that, from January 2018, its Working Group on Sterling Risk-Free Rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average ("**SONIA**") over the next four years across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021 (as further described under "*The market continues to develop in relation to SONIA as a reference rate*" below).

Separate workstreams are also underway in Europe to reform the euro interbank offered rate ("**EURIBOR**") using a hybrid methodology and to provide a fallback by reference to a euro risk-free rate (based on a euro overnight risk-free rate as adjusted by a methodology to create a term rate).

It is not possible to predict with certainty whether, and to what extent, LIBOR and/or EURIBOR will continue to be supported going forwards. This may cause LIBOR and/or EURIBOR to perform differently than they have done in the past, and may have other consequences which cannot be predicted. The potential transition from LIBOR to SONIA or the elimination of LIBOR, EURIBOR or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the Terms and Conditions of the Notes, or result in other consequences, in each case in respect of any Notes referencing such benchmark. Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to, referencing, or otherwise dependent (in whole or in part) upon, a benchmark.

The Terms and Conditions of the Notes provide for certain fallback arrangements if a published benchmark, including an inter-bank offered rate such as LIBOR, EURIBOR or other relevant reference rates (including, without limitation, mid-swap rates and any page on which such benchmark may be published), becomes unavailable. Where the Rate of Interest (as defined in the Terms and Conditions of the Notes) is to be determined by reference to the Relevant Screen Page and the Relevant Screen Page is not available or the relevant rate does not appear on the Relevant Screen Page, the Terms and Conditions of the Notes provide for the Rate of Interest to be determined by the Calculation Agent by reference to quotations from banks communicated to the Calculation Agent.

Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of such Original Reference Rate (as defined in the Terms and Conditions of the Notes)), the ultimate fallback for the purposes of calculation of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page or, in the case of Resettable Notes, the application of the Reset Rate of Interest

for a preceding Reset Period or, as the case may be, the application of the initial Rate of Interest applicable to such Notes on the Interest Commencement Date (as defined in the Terms and Conditions of the Notes). Uncertainty as to the continuation of the Original Reference Rate, the availability of quotes from reference banks, and the rate that would be applicable if the Original Reference Rate is discontinued may adversely affect the value of, and return on, the Notes.

If a Benchmark Event (as defined in Condition 5(i)) (which, amongst other events, includes the permanent discontinuation of an Original Reference Rate) occurs, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser (as defined in the Terms and Conditions of the Notes), to determine a Successor Rate or Alternative Rate (as defined in the Terms and Conditions of the Notes) to be used in place of the Original Reference Rate. The use of any such Successor Rate or Alternative Rate to determine the Rate of Interest will result in Notes linked to or referencing the Original Reference Rate performing differently (which may include payment of a lower Rate of Interest) than they would do if the Original Reference Rate were to continue to apply in its current form.

Furthermore, if a Successor Rate or Alternative Rate for the Original Reference Rate is determined by the Independent Adviser, the Terms and Conditions of the Notes provide that the Issuer may vary the Terms and Conditions of the Notes, as necessary to ensure the proper operation of such Successor Rate or Alternative Rate, without any requirement for consent or approval of the Noteholders.

If a Successor Rate or Alternative Rate is determined by the Independent Adviser, the Terms and Conditions of the Notes also provide that an Adjustment Spread (as defined in the Terms and Conditions of the Notes) may be determined by the Independent Adviser and applied to such Successor Rate or Alternative Rate. The aim of the Adjustment Spread is to reduce or eliminate, to the extent reasonably practicable, any economic prejudice or benefit (as the case may be) to Noteholders and Couponholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate. However, it may not be possible to determine or apply an Adjustment Spread and even if an Adjustment Spread is applied, such Adjustment Spread may not be effective to reduce or eliminate economic prejudice to Noteholders and Couponholders. If no Adjustment Spread can be determined, a Successor Rate or Alternative Rate may nonetheless be used to determine the Rate of Interest. The use of any Successor Rate or Alternative Rate (including with the application of an Adjustment Spread) will still result in Notes linked to or referencing the Original Reference Rate performing differently (which may include payment of a lower Rate of Interest) than they would if the Original Reference Rate were to continue to apply in its current form.

The Issuer may be unable to appoint an Independent Adviser or the Independent Adviser may not be able to determine a Successor Rate or Alternative Rate in accordance with the Terms and Conditions of the Notes.

Where the Issuer is unable to appoint an Independent Adviser in a timely manner, or the Independent Adviser is unable to determine a Successor Rate or Alternative Rate before the next Interest Determination Date (as defined in the Terms and Conditions of the Notes), the Rate of Interest for the next succeeding Interest Period will be the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, or, where the Benchmark Event occurs before the first Interest Determination Date, the Rate of Interest will be the initial Rate of Interest. Applying the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, will result in Notes linked to or referencing the relevant benchmark performing differently (which may include payment of a lower Rate of Interest) than they would do if the relevant benchmark were to continue to apply, or if a Successor Rate or Alternative Rate could be determined.

Where the Issuer has been unable to appoint an Independent Adviser, or the Independent Adviser has failed to determine a Successor Rate or Alternative Rate in respect of any given Interest Period, the Issuer will continue to attempt to appoint an Independent Adviser in a timely manner before the next succeeding Interest Determination Date to determine a Successor Rate or Alternative Rate to apply the next succeeding and any subsequent Interest Periods, as necessary.

If the Issuer is unable to appoint an Independent Adviser, or the Independent Adviser fails to determine a Successor Rate or Alternative Rate for the life of the relevant Notes, the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of

the Benchmark Event, will continue to apply to maturity. This will result in the Floating Rate Notes, in effect, becoming fixed rate Notes.

The market continues to develop in relation to SONIA as a reference rate

Investors should be aware that the market continues to develop in relation to SONIA as a reference rate in the capital markets and its adoption as an alternative to Sterling LIBOR. In particular, market participants and relevant working groups are exploring alternative reference rates based on SONIA, including term SONIA reference rates (which seek to measure the market's forward expectation of an average SONIA rate over a designated term). The market or a significant part thereof may adopt an application of SONIA that differs significantly from that set out in the Terms and Conditions of the Notes, as applicable to Notes referencing a SONIA rate that are issued under the Programme. Furthermore, the Issuer may in future issue Notes referencing SONIA that differ materially in terms of interest determination when compared with any previous SONIA-referenced Notes issued under the Programme. The nascent development of Compounded Daily SONIA (as defined in the Terms and Conditions of the Notes) as an interest reference rate for the Eurobond markets, as well as continued development of SONIA-based rates for such market and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of any SONIA-referenced Notes issued under the Programme from time to time.

Furthermore, interest on Notes which reference Compounded Daily SONIA is only capable of being determined at the end of the relevant Observation Period (as defined in the Terms and Conditions of the Notes) and immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Notes which reference Compounded Daily SONIA to estimate reliably the amount of interest which will be payable on such Notes, and some investors may be unable or unwilling to trade such Notes without changes to their IT systems, both of which could adversely impact the liquidity of such Notes. Further, in contrast to LIBOR-based Notes, if Notes referencing Compounded Daily SONIA become due and payable as a result of an event of default under Condition 10, the rate of interest payable for the final Interest Accrual Period in respect of such Notes shall only be determined immediately prior to the date on which the Notes become due and payable and shall not be reset thereafter.

In addition, the manner of adoption or application of SONIA reference rates in the Eurobond markets may differ materially compared with the application and adoption of SONIA in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SONIA reference rates across these markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Notes referencing Compounded Daily SONIA.

Investors should consider these matters when making their investment decision with respect to any such relevant Notes.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification, waivers and substitution

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

The Terms and Conditions of the Notes also provide that the Trustee may (and, in the case of (iii), shall), without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes in the circumstances described in Condition 11 of the Terms and Conditions of the Notes; (ii) the substitution of another company as principal debtor under any Notes in place of the Group, in the circumstances described in Condition 12 of the Terms and Conditions of the Notes or (iii) subject as provided in Condition 5(i), any modification to the Terms and Conditions which it is requested to make by the Issuer in relation to any Successor Rate or Alternative Rate for the Original Reference Rate.

Change of law

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice or tax treatment after the date of issue of the relevant Notes.

Integral multiples of less than €100,000

In relation to any issue of Notes which have a denomination consisting of the minimum Specified Denomination of €100,000 plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of €100,000 (or its equivalent). In such a case a Noteholder who, as a result of trading such amounts, holds a nominal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a nominal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Risks related to the market generally

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

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Group will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency 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. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**") from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU 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).

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. The full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to Notes are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by an amended and restated trust deed dated 14 February 2019 (as amended and/or supplemented from time to time) (the "**Trust Deed**") between the Issuer and HSBC Corporate Trustee Company (UK) Limited (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Coupons and Talons referred to below. An Agency Agreement (as amended, restated or supplemented as at the Issue Date, the "**Agency Agreement**") dated 14 February 2019 has been entered into in relation to the Notes between the Issuer, the Trustee, HSBC Bank plc as initial issuing and paying agent and registrar and the other agents named in it. The issuing and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Issuing and Paying Agent**", the "**Paying Agents**" (which expression shall include the Issuing and Paying Agent), the "**Registrar**", the "**Transfer Agents**" (which expression shall include the Registrar) and the "**Calculation Agent(s)**". Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours and upon reasonable notice at the specified offices of the Paying Agents and the Transfer Agents. The applicable Final Terms will be published on the website of the London Stock Exchange plc (the "**London Stock Exchange**") through a regulatory information service.

The Noteholders, the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement and the relevant Final Terms.

1. **Form, Denomination and Title**

Each Series (as defined below) of Notes is issued (i) in bearer form and in registered form ("**Exchangeable Series**"), (ii) in bearer form ("**Bearer Series**") or (iii) in registered form ("**Registered Series**"). Bearer Notes (as defined below) will be issued in the Specified Denomination(s) shown hereon. Registered Notes (as defined below) will be issued in multiples of the Specified Denomination shown hereon. The minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

Notes in bearer form ("**Bearer Notes**") comprised in an Exchangeable Series ("**Exchangeable Bearer Notes**") are exchangeable for Notes in registered form ("**Registered Notes**") and Registered Notes comprised in an Exchangeable Series ("**Exchangeable Registered Notes**") are exchangeable for Exchangeable Bearer Notes.

This Note is a Fixed Rate Note, a Floating Rate Note, a Resettable Note, a Zero Coupon Note or a combination of any of the foregoing, depending upon the interest basis shown hereon. This Note is a Senior Preferred Note, a Senior Non-Preferred Note or a Subordinated Note as so indicated in the applicable Final Terms.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as required by applicable law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), "**holder**" (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2. **Exchanges of Exchangeable Bearer Notes and Transfers of Registered Notes**

(a) ***Exchange of Exchangeable Bearer Notes***

Subject as provided in Condition 2(g), Exchangeable Bearer Notes may be exchanged for the same nominal amount of Exchangeable Registered Notes at the request in writing of the relevant Noteholder and upon surrender of each Exchangeable Bearer Note to be exchanged, together with all unmatured Coupons and Talons relating to it, at the specified office of any Transfer Agent; **provided that** Exchangeable Bearer Notes surrendered in exchange for Exchangeable Registered Notes during the period from and including the Record Date in respect of any Interest Payment Date up to and including such Interest Payment Date will not be required to be surrendered with the Coupon relating to the interest payable on such Interest Payment Date.

Interest on an Exchangeable Registered Note issued in exchange for an Exchangeable Bearer Note will accrue as from the Interest Payment Date immediately preceding the date of surrender as aforesaid or, if none, the Interest Commencement Date, except where issued in respect of an Exchangeable Bearer Note surrendered during the period from and including the Record Date in respect of an Interest Payment Date up to and including such Interest Payment Date, in which event interest shall accrue as from such last mentioned Interest Payment Date.

Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes that are not Exchangeable Bearer Notes may not be exchanged for Registered Notes.

(b) ***Exchange of Exchangeable Registered Notes***

Subject as provided in Condition 2(g), Exchangeable Registered Notes may be exchanged for the same nominal amount of Exchangeable Bearer Notes at the request in writing of the relevant Noteholder and upon surrender of the Certificate representing such Exchangeable Registered Notes to be exchanged at the specified office of any Transfer Agent.

Interest on an Exchangeable Registered Note to be exchanged for Exchangeable Bearer Notes will cease to accrue as from the Interest Payment Date immediately preceding the date of surrender as aforesaid or, if none, the Interest Commencement Date, except where the date of such surrender falls in the period from and including the Record Date in respect of an Interest Payment Date up to and including such Interest Payment Date, in which event interest will cease to accrue as from such last-mentioned Interest Payment Date.

Where relevant, Exchangeable Bearer Notes issued in exchange for Exchangeable Registered Notes will be issued together with all Coupons in respect of all Interest Payment Dates falling after the date of such surrender as aforesaid or, if such surrender falls during the period from and including the Record Date in respect of an Interest Payment Date up to and including such Interest Payment Date, with Coupons in respect of all Interest Payment Dates falling after such Interest Payment Date, together with any Talons maturing after such date.

Registered Notes that are not Exchangeable Registered Notes may not be exchanged for Bearer Notes.

(c) ***Transfer of Registered Notes***

Subject as provided in Conditions 2(g) and (h), Registered Notes may be transferred in whole or in part in a multiple of a Specified Denomination upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor.

(d) ***Exercise of Options or Partial Redemption in respect of Registered Notes***

In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(e) ***Delivery of New Certificates***

Each new Certificate to be issued pursuant to Conditions 2(a), (b), (c) or (d) shall be available for delivery within three business days of receipt of the request for exchange, form of transfer or Exercise Notice (as defined in Condition 6(e)) or surrender of the Certificate for exchange.

Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(e), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(f) ***Exchange Free of Charge***

Exchange and transfer of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(g) ***Closed Periods***

No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note or Exchangeable Registered Note to be exchanged (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(b)(ii)).

(h) ***Regulations***

All transfers of Registered Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be made available by the Registrar to any holder of a Registered Note upon request.

3. **Status, Ranking and Subordination**

(a) ***Status and Ranking of Senior Preferred Notes***

The Senior Preferred Notes (being those Notes that specify their status as Senior Preferred) and the Coupons relating to them are direct, unconditional and (subject to Condition 4) unsecured obligations of the Issuer and (subject to the provisions of Condition 4) constitute ordinary non-preferential debt for the purposes of the Ranking Legislation. The Senior Preferred Notes and the Coupons relating to them rank *pari passu* without any preference among themselves. The Issuer and, by virtue of its holding of any Senior Preferred Note or any beneficial interest therein, each holder of a Senior Preferred Note and each holder of a Coupon relating to a Senior Preferred Note acknowledge and agree that (subject to the provisions of Condition 4) the Senior Preferred Notes and any such Coupons rank *pari passu* with all other outstanding unsecured and unsubordinated deposits with, and loans to, the Issuer, present or future (other than (i) Senior Non-Preferred Notes and other obligations which rank or are expressed to rank junior to the Senior Preferred Notes and (ii) such deposits or loans which are given priority pursuant to applicable statutory provisions), save only where the Ranking Legislation provides otherwise for ordinary non-preferential debt generally, in which case the Senior Preferred Notes and such Coupons will (subject to the provisions of Condition 4) rank as provided in the Ranking Legislation for ordinary non-preferential debt generally.

(b) ***Status and Ranking of Senior Non-Preferred Notes***

(i) ***Status and Ranking***

The Senior Non-Preferred Notes (being those Notes that specify their status as Senior Non-Preferred) and the Coupons relating to them are direct, unconditional and unsecured obligations of the Issuer and constitute secondary non-preferential debt for the purposes of the Ranking Legislation. Subject to the Ranking Legislation, the Senior Non-Preferred Notes and the Coupons relating to them rank junior to the Senior Preferred Notes and any Coupons relating to them, and rank *pari passu* without any preference among themselves. The Issuer and, by virtue of its holding of any Senior Non-

Preferred Note or any beneficial interest therein, each holder of a Senior Non-Preferred Note and each holder of a Coupon relating to a Senior Non-Preferred Note acknowledge and agree that the claims of the Trustee, the Noteholders and the Couponholders against the Issuer in respect of, or arising under, the Senior Non-Preferred Notes or the Coupons relating thereto (including, without limitation, any damages awarded for breach of the Issuer's obligations) will, in the event of the winding up or dissolution of the Issuer (other than an Excluded Dissolution), rank:

- (A) junior in right of payment to all Senior Claims;
- (B) *pari passu* with all other Senior Non-Preferred Claims; and
- (C) in priority to all Subordinated Claims,

save only where the Ranking Legislation provides otherwise for claims in respect of secondary non-preferential debt generally, in which case such claims will rank as the Ranking Legislation provides for claims in respect of secondary non-preferential debt generally (whether or not the Senior Non-Preferred Notes and any Coupons relating to them then constitute secondary non-preferential debt of the Issuer for the purposes of the Ranking Legislation).

(ii) *No Set-off*

This Condition 3(b)(ii) applies unless "Senior Non-Preferred Notes: No Set-off" is expressly specified to be "Not Applicable" hereon.

Subject to applicable law, no holder of Senior Non-Preferred Notes or holder of a Coupon relating to Senior Non-Preferred Notes may exercise or claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Senior Non-Preferred Notes or any Coupons relating to them and each Noteholder and Couponholder of any Senior Non-Preferred Note shall, by virtue of being the holder of any such Senior Non-Preferred Note or Coupon (as the case may be), be deemed to have waived all such rights of set-off, compensation or retention both before and during any winding up, liquidation or administration of the Issuer.

Notwithstanding the provisions of the foregoing sentence, if any amounts owed to any Noteholder or Couponholder of Senior Non-Preferred Notes by the Issuer arising under or in connection with any Senior Non-Preferred Notes or any Coupon relating to a Senior Non-Preferred Note is discharged by set-off, compensation or retention, such Noteholder or Couponholder will immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of the winding up or administration of the Issuer, the liquidator or (as the case may be) administrator or other insolvency official of the Issuer (and until such payment is made shall hold an amount equal thereto on trust for the Issuer or, as the case may be, the liquidator, administrator or other insolvency official) and accordingly such discharge will be deemed not to have taken place.

N.B. Attention is drawn to "Certain Provisions of the Building Societies Act 1986 (as amended) and the Supervisory Authority" elsewhere in this Prospectus.

(c) ***Status and Ranking of Subordinated Notes***

- (i) The Subordinated Notes (being those Notes that specify their status as Subordinated) and the Coupons relating to them constitute direct, unconditional and unsecured obligations of the Issuer and constitute tertiary non-preferential debt for the purposes of the Ranking Legislation. Subject to the Ranking

Legislation, the Subordinated Notes and any Coupons relating thereto rank junior to the Senior Non-Preferred Notes and any Coupons relating thereto. The Subordinated Notes and the Coupons relating to them rank *pari passu* without any preference among themselves. The Issuer and, by virtue of its holding of any Subordinated Note or any beneficial interest therein, each holder of a Subordinated Note and each holder of a Coupon relating to a Subordinated Note acknowledge and agree that in the event of the winding up or dissolution of the Issuer (other than an Excluded Dissolution), the claims of the Trustee, the Noteholders and the Couponholders against the Issuer in respect of, or arising under, the Subordinated Notes or the Coupons relating to them (including, without limitation, any damages awarded for breach of the Issuer's obligations) will:

- (A) be subordinated in right of payment to (I) all Senior Claims, (II) all Senior Non-Preferred Claims and (III) all Subordinated Claims (if any) which rank, or are expressed to rank, in priority to claims in respect of the Subordinated Notes;
- (B) rank at least *pari passu* with the claims of the holders of all other subordinated obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, as at their respective issue dates, Tier 2 Capital; and
- (C) rank in priority to the claims of holders of any subordinated obligations whose claims rank or are expressed to rank junior in right of payment to the Subordinated Notes or the Coupons relating to them, as the case may be, and, for the avoidance of doubt, ahead of all claims in respect of any Deferred Shares (as defined below) in the Issuer,

save only where the Ranking Legislation provides otherwise for claims in respect of tertiary non-preferential debt generally, in which case such claims will rank as the Ranking Legislation provides for claims in respect of tertiary non-preferential debt generally (whether or not the Subordinated Notes and any Coupons relating to them then constitute tertiary non-preferential debt of the Issuer for the purposes of the Ranking Legislation).

- (ii) Subject to applicable law, no holder of Subordinated Notes or holder of a Coupon relating to Subordinated Notes may exercise or claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Subordinated Notes or any Coupons relating to them and each Noteholder and Couponholder of any Subordinated Note shall, by virtue of being the holder of any such Subordinated Note or Coupon (as the case may be), be deemed to have waived all such rights of set-off, compensation or retention, both before and during any winding-up, liquidation or administration of the Issuer.

Notwithstanding the provisions of the foregoing sentence, if any amounts owed to any Noteholder or Couponholder of Subordinated Notes by the Issuer arising under or in connection with any Subordinated Notes or any Coupon relating to a Subordinated Note is discharged by set-off, compensation or retention, such Noteholder or Couponholder will immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of the winding-up or administration of the Issuer, the liquidator or (as the case may be) administrator or other insolvency official of the Issuer (and until such payment is made shall hold an amount equal thereto on trust for the Issuer or, as the case may be, the liquidator, administrator or other insolvency official) and accordingly such discharge will be deemed not to have taken place.

N.B. Attention is drawn to 'Certain Provisions of the Building Societies Act 1986 (as amended) and the Supervisory Authority' elsewhere in this Prospectus.

(d) **Definitions**

"**Additional Tier 1 Capital**", "**CET1 Capital**" and "**Tier 2 Capital**", have the meanings given to them by the Supervisory Authority in accordance with the Applicable Rules (each as defined in Condition 6(j));

"**Deferred Shares**" means deferred shares within the meaning of the Building Societies Act 1986 (as amended) (the "**Act**" which includes, where applicable, any statutory modification thereof or re-enactment or any statutory instrument, order or regulations made thereunder);

"**Excluded Dissolution**" means each of (i) a winding up or dissolution of the Issuer for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a Successor in Business (as defined in the Trust Deed) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed), and (ii) a dissolution of the Issuer by virtue of the amalgamation and transfer provisions set out in sections 93, 94 and 97 of the Act, or by virtue of a transfer pursuant to an order made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, as amended (or any successor provisions thereto);

"**Order**" means The Banks and Building Societies (Priorities on Insolvency) Order 2018, as the same may be amended, supplemented or replaced from time to time;

"**Ranking Legislation**" means the Order and any law or regulation applicable to the Issuer which is amended by the Order;

"**Senior Claims**" means the aggregate amount of all claims admitted in the winding up or dissolution of the Issuer (including, without limiting the generality of the foregoing, (i) all claims in respect of deposits with or loans to the Issuer and all claims to interest thereon, (ii) all claims in respect of Senior Preferred Notes and (iii) (only in respect of a winding up while the Issuer remains a building society) all claims of members holding shares in the Issuer and any interest due in respect of those shares (other than members holding Deferred Shares whose claims rank or are expressed to rank *pari passu* with or junior to the claims of the Senior Non-Preferred Noteholders and related Couponholders (whether only in the event of a winding up of the Issuer or otherwise)) but excluding all Senior Non-Preferred Claims and all Subordinated Claims;

"**Senior Non-Preferred Claims**" means the aggregate amount of all claims admitted in the winding up or dissolution of the Issuer which are claims of creditors in respect of obligations (including, without limitation, Senior Non-Preferred Notes and any other secondary non-preferential debt under the Order) which rank or are expressed to rank junior to (or have or are expressed to have a lower priority ranking compared to) claims in respect of the Senior Preferred Notes and all other Senior Claims of the Issuer, other than Subordinated Claims; and

"**Subordinated Claims**" means the aggregate amount of all claims admitted in the winding up or dissolution of the Issuer which rank, or are expressed to rank, junior to claims in respect of the Senior Non-Preferred Notes or other Senior Non-Preferred Claims, including (without limitation) (i) claims of creditors in respect of the Subordinated Notes and (ii) the obligations of the Issuer which constitute, or would but for any applicable limitation on the amount of such capital constitute, Tier 2 Capital, Additional Tier 1 Capital or CET1 Capital, including, for the avoidance of doubt, all claims in respect of Deferred Shares.

4. **Negative Pledge**

This Condition 4 does not apply to Senior Non-Preferred Notes or Subordinated Notes.

(a) ***Restriction***

So long as any of the Senior Preferred Notes or Coupons remain outstanding (as defined in the Trust Deed) the Issuer will neither create nor have outstanding any mortgage, lien pledge, charge or other security interest (other than Permitted Security Interests) upon the whole or any part of its undertaking or assets, present or future (including any uncalled capital), to secure any Loan Stock, or any guarantee of or indemnity in respect of any Loan Stock without at the same time or prior thereto securing the Senior Preferred Notes and Coupons equally and rateably therewith to the satisfaction of the Trustee or providing such other security or other arrangements for the Senior Preferred Notes and Coupons as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the holders of the Senior Preferred Notes or which shall be approved by an Extraordinary Resolution of the holders of the Senior Preferred Notes.

(b) ***Definitions***

For the purposes of this Condition:

"Government Entities" means any body, agency, ministry, department, authority, statutory corporation or other entity of or pertaining to the United Kingdom or a member state of the European Economic Area or the government thereof or any political subdivision, municipality or local government thereof (whether autonomous or not);

"Loan Stock" means indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange, over-the-counter or other established securities market (whether or not initially distributed by way of private placement), but excluding any such indebtedness which has a stated maturity not exceeding one year; and

"Permitted Security Interest" means a lien arising by operation of law or any security interest created by the Issuer over the whole or any part of its present or future assets or revenues where such assets or revenues are comprised only of the following (or are otherwise qualifying collateral for issues of covered bonds (howsoever described) pursuant to any relevant contractual arrangements); (i) mortgage receivables; or (ii) receivables against Government Entities; or (iii) asset-backed securities backed by any of the assets under (i) or (ii); or (iv) any other assets permitted by English law (in force as at the date on which agreement is reached to issue the first Tranche of the relevant Series) to collateralise covered bonds, in each case **provided that** the creation of such security interest is pursuant to the relevant contractual arrangements or, as the case may be, specific provisions of the laws of England and Wales relating to covered bonds (howsoever described) applicable at the time of creation of such security interest.

5. **Interest and other Calculations**

(a) ***Interest on Fixed Rate Notes***

Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date.

The amount of interest payable shall be determined in accordance with Condition 5(g).

(b) ***Interest on Resettable Notes***

Each Resettable Note bears interest on its outstanding nominal amount:

- (i) from and including the Interest Commencement Date to but excluding the First Resettable Note Reset Date at the rate per annum (expressed as a percentage) equal to the Initial Rate of Interest;

- (ii) from and including the First Resettable Note Reset Date to but excluding the Second Resettable Note Reset Date or, if no such Second Resettable Note Reset Date is specified hereon, the Maturity Date, at the First Reset Rate of Interest;
- (iii) for each Subsequent Reset Period (if any), at the relevant Subsequent Reset Rate of Interest,

such interest being payable in arrear on each Interest Payment Date.

The amount of interest payable shall be determined in accordance with Condition 5(g).

(c) ***Interest on Floating Rate Notes***

(i) ***Interest Payment Dates***

Each Floating Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(g). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Specified Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) ***Rate of Interest for Floating Rate Notes***

The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) **ISDA Determination for Floating Rate Notes**

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as indicated hereon) the Margin (if any). For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes – not referencing SONIA

(x) where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined and the Reference Rate in respect of the relevant Series of Floating Rate Notes is not specified hereon as being SONIA, the Rate of Interest for each Interest Accrual Period will, subject to Condition 5(i) and as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question, plus or minus (as indicated hereon) the applicable Margin, all as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

(y) if the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Issuer shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and fewer than two Reference Banks provide offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by

leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, **provided that**, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period) from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period.

(C) Screen Rate Determination for Floating Rate Notes – referencing SONIA

Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined and the Reference Rate in respect of the relevant Series of Floating Rate Notes is specified hereon as being SONIA, the Rate of Interest for each Interest Accrual Period will, subject to Condition 5(i) and as provided below, be Compounded Daily SONIA plus or minus (as indicated hereon) the applicable Margin.

"Compounded Daily SONIA" means with respect to an Interest Accrual Period, the rate of return of a daily compound interest investment during the Observation Period corresponding to such Interest Accrual Period (with the daily Sterling overnight reference rate as reference rate for the calculation of interest) and will be calculated by the Calculation Agent as at the relevant Interest Determination Date, as follows, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{SONIA_{i-pLBD} \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

"d" is the number of calendar days in the relevant Interest Accrual Period;

" d_0 " is the number of London Banking Days in the relevant Interest Accrual Period;

" i " is a series of whole numbers from one to d_0 , each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day in the relevant Interest Accrual Period;

"**London Banking Day**" or "**LBD**" means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

" n_i ", for any London Banking Day " i ", means the number of calendar days from and including such London Banking Day " i " up to but excluding the following London Banking Day;

"**Observation Period**" means, in respect of an Interest Accrual Period, the period from and including the date falling " p " London Banking Days prior to the first day of the relevant Interest Accrual Period and ending on, but excluding, the date falling " p " London Banking Days prior to the Interest Payment Date for such Interest Accrual Period (or the date falling " p " London Banking Days prior to such earlier date, if any, on which the Notes become due and payable);

" p " means for any Interest Accrual Period, the number of London Banking Days by which the corresponding Observation Period precedes such Interest Accrual Period, as specified hereon (being no less than five London Banking Days unless otherwise agreed by the Calculation Agent and, if no such number is specified, five London Banking Days);

the "**SONIA reference rate**", in respect of any London Banking Day, is a reference rate equal to the daily Sterling Overnight Index Average (SONIA) rate for such London Banking Day as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors (on the London Banking Day immediately following such London Banking Day); and

"**SONIA_{i-pLBD}**" means, in respect of any London Banking Day " i ", the SONIA reference rate for the London Banking Day falling " p " London Banking Days prior to such London Banking Day " i ".

If, in respect of any London Banking Day in the relevant Observation Period, the Calculation Agent determines that the SONIA reference rate is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such SONIA reference rate shall be: (i) the Bank of England's Bank Rate (the "**Bank Rate**") prevailing at 5.00p.m. (or, if earlier, close of business) on the relevant London Banking Day; plus (ii) the mean of the spread of the SONIA reference rate to the Bank Rate over the previous five London Banking Days on which a SONIA reference rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads).

Notwithstanding the paragraph above, if the Bank of England publishes guidance as to (i) how the SONIA reference rate is to be determined or (ii) any rate that is to replace the SONIA reference rate, the Calculation Agent shall, subject to receiving written instructions from the Issuer and to the extent that it is reasonably practicable, follow such guidance in

order to determine the SONIA reference rate for the purpose of the relevant Series of Notes for so long as the SONIA reference rate is not available or has not been published by the authorised distributors. To the extent that any amendments or modifications to these Conditions, the Trust Deed or the Agency Agreement are required in order for the Calculation Agent to follow such guidance in order to determine the SONIA reference rate, the Calculation Agent shall have no obligation to act until such amendments or modifications have been made in accordance with these Conditions, the Trust Deed or the Agency Agreement.

If the Rate of Interest cannot be determined in accordance with the foregoing provisions by the Calculation Agent, the Rate of Interest shall be (i) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest specified hereon is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period) or (ii) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to such Series of Notes for the first Interest Accrual Period had the Notes been in issue for a period equal in duration to the scheduled first Interest Accrual Period but ending on (and excluding) the Interest Commencement Date (but applying the Margin and any Maximum Rate of Interest or Minimum Rate of Interest applicable to the first Interest Accrual Period).

If the relevant Series of Notes become due and payable in accordance with Condition 10, the final Interest Determination Date shall, notwithstanding any Interest Determination Date specified hereon, be deemed to be the date on which such Notes became due and payable and the Rate of Interest on such Notes shall, for so long as any such Note remains outstanding, be that determined on such date.

(D) *Linear Interpolation*

Where "**Linear Interpolation**" is specified as applicable in respect of an Interest Period hereon, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the Relevant Screen Page, one of which shall be determined as if the Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period; **provided, however, that** if there is no rate available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

(iii) *Negative Interest Rates*

If, in accordance with Condition 5(g) below, the calculation of the amount of interest payable per Calculation Amount in respect of any Interest Payment Date results in a negative number, then such amount shall be deemed to be zero and

no interest shall be payable in respect of the Notes on such Interest Payment Date.

(d) ***Zero Coupon Notes***

Where a Note, the Interest Basis of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield specified in Condition 6(b)(i)(B).

(e) ***Accrual of Interest***

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest (or, in the case of Resetable Notes, at the First Reset Rate of Interest or at the relevant Subsequent Reset Rate of Interest as applicable) in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(f) ***Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding***

- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified hereon, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country of such currency.

(g) ***Calculations***

Subject to Condition 5(c)(iii), the amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest (or, in the case of Resetable Notes, the Initial Rate of Interest, the First Reset Rate of Interest or any Subsequent Reset Rate of Interest), the Calculation Amount specified hereon and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall

apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(h) ***Fallback Provision for Resettable Notes***

If on any Reset Determination Date the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page, the Calculation Agent shall request each of the Reference Banks (as defined below) to provide the Calculation Agent with its Mid-Market Swap Rate Quotation as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on the Reset Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period shall be the sum of the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant Mid-Market Swap Rate Quotations and the First Margin or Subsequent Margin (as applicable), all as determined by the Calculation Agent.

If on any Reset Determination Date only one or none of the Reference Banks provides the Calculation Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this Condition 5(h), the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) shall be determined to be the rate of interest as at the last preceding Resettable Note Reset Date or, in the case of the first Reset Determination Date, the First Reset Rate of Interest shall be the Initial Rate of Interest.

For the purposes of this Condition 5(h), "**Reference Banks**" means the principal office in the principal financial centre of the Specified Currency of four major banks in the swap, money, securities or other market most closely connected with the relevant Mid-Swap Rate as selected by the Issuer on the advice of an investment bank of international repute.

(i) ***Benchmark discontinuation***

(i) ***Independent Adviser***

If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 5(i)(ii)) and, in either case, an Adjustment Spread if any (in accordance with Condition 5(i)(iii)) and any Benchmark Amendments (in accordance with Condition 5(i)(iv)).

An Independent Adviser appointed pursuant to this Condition 5(i) shall act in good faith and in a commercially reasonable manner as an expert. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Trustee, the Paying Agents, the Noteholders or the Couponholders for any determination made by it pursuant to this Condition 5(i).

If (i) the Issuer is unable to appoint an Independent Adviser; or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 5(i) prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Accrual Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Accrual Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the

relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period. For the avoidance of doubt, this Condition 5(i) shall apply to the relevant next succeeding Interest Accrual Period only and any subsequent Interest Accrual Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 5(i).

(ii) *Successor Rate or Alternative Rate*

If the Independent Adviser determines that:

- (A) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 5(i)(iii)) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(i)); or
- (B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 5(i)(iii)) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(i)).

(iii) *Adjustment Spread*

If the Independent Adviser determines (i) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (ii) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(iv) *Benchmark Amendments*

If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 5(i) and the Independent Adviser determines (i) that amendments to these Conditions and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(i)(v), without any requirement for the consent or approval of Noteholders, vary these Conditions and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by two Directors of the Issuer pursuant to Condition 5(i)(v), the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed), provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

In connection with any such variation in accordance with this Condition 5(i)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

Notwithstanding any other provision of this Condition 5(i), no Successor Rate or Alternative Rate will be adopted, nor any Adjustment Spread applied, nor will any Benchmark Amendments be made, if and to the extent that, in the determination of the Issuer, the same could reasonably be expected either (i) to prejudice the qualification of the Notes as Tier 2 Capital of the Issuer and/or as eligible liabilities or loss absorbing capacity instruments for the purposes of the Loss Absorption Regulations or (ii) (in the case of Senior Non-Preferred Notes only) to result in the relevant Supervisory Authority treating the Interest Payment Date or Reset Date, as the case may be, as the effective maturity date of the Notes, rather than the relevant maturity date.

(v) *Notices, etc.*

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 5(i) will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Paying Agents and, in accordance with Condition 15, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer:

- (A) confirming (a) that a Benchmark Event has occurred, (b) the Successor Rate or, as the case may be, the Alternative Rate and, (c) where applicable, any Adjustment Spread and/or the specific terms of any Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 5(i); and
- (B) certifying that the Benchmark Amendments are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread.

The Trustee shall be entitled to rely on such certificate (without further enquiry and without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Calculation Agent, the Paying Agents and the Noteholders.

(vi) *Survival of Original Reference Rate*

Without prejudice to the obligations of the Issuer under Condition 5(i)(i), (ii), (iii) and (iv), the Original Reference Rate and the fallback provisions provided for in Condition 5(c)(ii)(B), Condition 5(c)(ii)(C) or Condition 5(h), as the case may be, will continue to apply unless and until a Benchmark Event has occurred.

(vii) *Definitions:*

As used in this Condition 5(i):

"Adjustment Spread" means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the Independent Adviser determines is required to be applied to the

Successor Rate or the Alternative Rate (as the case may be) to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders and Couponholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (A) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate)
- (B) the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); (or if the Issuer determines that no such industry standard is recognised or acknowledged)
- (C) the Independent Adviser determines to be appropriate.

"Alternative Rate" means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 5(i)(ii) is customary in market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes.

"Benchmark Amendments" has the meaning given to it in Condition 5(i)(iv).

"Benchmark Event" means:

- (A) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or
- (B) a public statement by the administrator of the Original Reference Rate that it will, by a specified date within the following six months, cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (C) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will, by a specified date within the following six months, be permanently or indefinitely discontinued; or
- (D) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes, in each case within the following six months; or
- (E) it has become unlawful for any Paying Agent, Calculation Agent or the Issuer to calculate any payments due to be made to any Noteholder using the Original Reference Rate.

"Independent Adviser" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 5(i)(i).

"Original Reference Rate" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes.

"Relevant Nominating Body" means, in respect of a benchmark or screen rate (as applicable):

- (F) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (G) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

"Successor Rate" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(j) ***Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts***

The Calculation Agent shall, as soon as practicable on each Interest Determination Date (and, in the case of Resetable Notes, each Reset Determination Date), or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period or Reset Period, calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest, the Reset Rate of Interest and the Interest Amounts for each Interest Accrual Period or Reset Period and the relevant Interest Payment Date or Resetable Note Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on the official list (the "**Official List**") of the Financial Conduct Authority (the "**UK Listing Authority**") in its capacity as competent authority under the Financial Services and Markets Act 2000 ("**FSMA**") or on any stock exchange or other relevant authority and the rules of the UK Listing Authority, such stock exchange or other relevant authority, as the case may be, so require, the UK Listing Authority, such stock exchange or other relevant authority, as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period and/or Reset Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest, Reset Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date, Resetable Note Interest Payment Date, Reset Date or Interest Period Date is subject to adjustment pursuant to Condition 5(l), the Interest Amounts and the Interest Payment Date or Resetable Notes Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period or Reset Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest or Reset Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest, Reset Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or

calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(k) ***Determination or Calculation by Trustee***

If (notwithstanding the provisions of Condition 5(n) below) the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest or Reset Rate of Interest for an Interest Accrual Period or Reset Period or any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee may, but is under no requirement to, do so (or may appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances. In no circumstances shall any liability whatsoever accrue to the Trustee as a result of acting or refraining to act under this Condition 5(k).

(l) ***Business Day Convention***

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then (subject to Condition 7(h) below), if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(m) ***Definitions***

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"Business Day" means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET system is operating (a **"TARGET Business Day"**); and/or
- (iii) in the case of a currency and/or one or more Additional Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Additional Business Centre(s) or, if no currency is indicated, generally in each of the Additional Business Centres;

"Day Count Fraction" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or Interest Accrual Period, the **"Calculation Period"**):

- (i) if **"Actual/Actual"** or **"Actual/Actual – ISDA"** is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if **"Actual/365 (Fixed)"** is specified hereon, the actual number of days in the Calculation Period divided by 365;
- (iii) if **"Actual/365 (Sterling)"** is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if **"Actual/360"** is specified hereon, the actual number of days in the Calculation Period divided by 360;
- (v) if **"30/360"**, **"360/360"** or **"Bond Basis"** is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D₁" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (vi) if **"30E/360"** or **"Eurobond Basis"** is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D₁**" is the first calendar day, expressed as a number, of the Calculation Period unless such number would be 31, in which case D₁ will be 30; and

"**D₂**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30;

- (vii) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D₁**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

"**D₂**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30;

- (viii) if "**Actual/Actual – ICMA**" is specified hereon:

- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

- (b) if the Calculation Period is longer than one Determination Period, the sum of:
 - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

"Determination Date" means the date(s) specified as such hereon or, if none is so specified, each Interest Payment Date;

"Determination Period" means the period from and including a Determination Date in any year to but excluding the next Determination Date;

"Effective Date" means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such hereon or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates;

"Euro-zone" means the region comprised of member states of the EU that adopt the single currency in accordance with the Treaty establishing the European Community, as amended;

"First Margin" means the margin specified as such hereon;

"First Resettable Note Reset Date" means the date specified as such hereon;

"First Reset Period" means the period from (and including) the First Resettable Note Reset Date until (but excluding) the Second Resettable Note Reset Date, or if no such Second Resettable Note Reset Date is specified hereon, the Maturity Date;

"First Reset Rate of Interest" means, subject to Condition 5(h) above, the rate of interest being determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate plus the First Margin;

"Initial Rate of Interest" means the initial rate of interest per annum specified as such hereon;

"Interest Accrual Period" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date;

"Interest Amount" means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

"Interest Commencement Date" means the Issue Date or such other date as may be specified hereon;

"Interest Determination Date" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

"Interest Period" means the period beginning on (and including) the Interest Commencement 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 Period Date" means each Interest Payment Date or Resettable Note Interest Payment Date unless otherwise specified hereon;

"ISDA Definitions" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon;

"Mid-Market Swap Rate" means for any Reset Period the mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (calculated on the basis of the Day Count Fraction specified hereon as determined by the Calculation Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term equal to the relevant Reset Period and commencing on the relevant Resettable Note Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (iii) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Mid-Swap Maturity (as specified hereon) (calculated on the basis of the Day Count Fraction specified hereon as determined by the Calculation Agent);

"Mid-Market Swap Rate Quotation" means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

"Mid-Swap Floating Leg Benchmark Rate" means:

- (i) where the Specified Currency is a currency other than euro, LIBOR;
and
- (ii) where the Specified Currency is euro, EURIBOR;

"Mid-Swap Maturity" means as specified hereon.

"Mid-Swap Rate" means, in relation to a Reset Determination Date and subject to Condition 5(h) above, either:

- (i) if Single Mid-Swap Rate is specified hereon, the rate for swaps in the Specified Currency:
 - (A) with a term equal to the relevant Reset Period; and
 - (B) commencing on the relevant Resettable Note Reset Date,

which appears on the Relevant Screen Page; or

- (ii) if Mean Mid-Swap Rate is specified hereon, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards) of

the bid and offered swap rate quotations for swaps in the Specified Currency:

- (A) with a term equal to the relevant Reset Period; and
- (B) commencing on the relevant Resettable Note Reset Date,

which appear on the Relevant Screen Page,

in either case, as at approximately 11.00 a.m. in the principal financial centre of the Specified Currency on such Reset Determination Date, all as determined by the Calculation Agent **provided, however, that** if there is no such rate appearing on the Relevant Screen Page for a term equal to the relevant Reset Period, then the Mid-Swap Rate shall be determined through the use of straight-line interpolation by reference to two rates, one of which shall be determined in accordance with the above provisions, but as if the relevant Reset Period were the period of time for which rates are available next shorter than the length of the actual Reset Period and the other of which shall be determined in accordance with the above provisions, but as if the relevant Reset Period were the period of time for which rates are available next longer than the length of the actual Reset Period;

"Rate of Interest" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon;

"Reference Banks" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon;

"Reference Rate" means the rate specified as such hereon;

"Relevant Screen Page" means such page, section, caption, column or other part of a particular information service as may be specified hereon;

"Reset Determination Date" means, in respect of the First Reset Period, the second Business Day prior to the First Resettable Note Reset Date, in respect of the first Subsequent Reset Period, the second Business Day prior to the Second Resettable Note Reset Date and, in respect of each Reset Period thereafter, the second Business Day prior to the first day of each such Reset Period;

"Reset Period" means the First Reset Period or a Subsequent Reset Period;

"Reset Rate of Interest" means the Initial Rate of Interest, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest, as applicable;

"Resettable Note Interest Payment Date" means each date specified as such hereon;

"Resettable Note Reset Date" means the First Resettable Note Reset Date, the Second Resettable Note Reset Date and every subsequent Resettable Note Reset Date as may be specified as such hereon;

"Second Resettable Note Reset Date" means the date specified as such hereon;

"Specified Currency" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated;

"Subsequent Margin" means the margin(s) specified as such hereon;

"Subsequent Reset Period" means the period from (and including) the Second Resettable Note Reset Date to (but excluding) the next Resettable Note Reset Date, and

each successive period from (and including) a Resettable Note Reset Date to (but excluding) the next succeeding Resettable Note Reset Date;

"Subsequent Resettable Note Reset Date" means the date or dates specified as such hereon;

"Subsequent Reset Rate of Interest" means, in respect of any Subsequent Reset Period and subject to Condition 5(h) below, the rate of interest being determined by the Calculation Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate plus the applicable Subsequent Margin; and

"TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(n) ***Calculation Agent***

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under these Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or financial institution engaged in the interbank market that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. **Redemption, Purchase, Substitution, Variation and Options**

(a) ***Final Redemption***

Unless previously redeemed, purchased and cancelled as provided below or its maturity is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(d) or 6(e), each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount).

(b) ***Early Redemption***

(i) ***Zero Coupon Notes***

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the amortised face amount ("**Amortised Face Amount**") (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (A) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c). Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) *Other Notes*

The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) ***Redemption for Taxation Reasons***

If the Issuer satisfies the Trustee immediately before the giving of such notice referred to below that (i) as a result of any change in or amendment to the laws or regulations of the United Kingdom or of any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the relevant Series, (A) on the next Interest Payment Date, the Issuer would be required to pay additional amounts as described under Condition 8 or (B) (in the case of Senior Non-Preferred Notes and Subordinated Notes only) the Issuer would not be entitled to claim a deduction in respect of any interest payable in respect of the Notes in computing its taxation liabilities or the amount of any such deduction would be materially reduced and (ii) such obligation or loss of entitlement (as applicable) cannot be avoided by the Issuer taking reasonable measures available to it, the Issuer may, at its option (but subject to Condition 6(j) in the case of Subordinated Notes and Condition 6(k) in the case of Senior Non-Preferred Notes) having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15 (which notice shall be irrevocable) redeem all, but not some only, of the Notes on any Interest Payment Date (if this Note is a Floating Rate Note) or at any time (if this Note is not a Floating Rate Note) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption). Prior to the publication of any notice of redemption pursuant to Condition 6(c), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the relevant requirements referred to above will apply on the next Interest Payment Date and the Trustee shall be entitled to accept and rely on such certificate without liability to any person as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on Noteholders and Couponholders.

(d) ***Redemption at the Option of the Issuer***

If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) (but subject to Condition 6(j) in the case of Subordinated Notes

and Condition 6(k) in the case of Senior Non-Preferred Notes) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed, or the Issuer's option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of an Issuer's option, the notice to Noteholders shall also contain the certificate numbers of the Notes to be redeemed or in respect of which such option has been exercised, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange requirements. Where the Notes are listed on the Official List of the UK Listing Authority or any stock exchange or other relevant authority and the rules of the UK Listing Authority, such stock exchange or other relevant authority, as the case may be, so require, the Issuer shall, once in each year in which there has been a partial redemption of the Notes, cause to be published in a leading newspaper of general circulation as specified by the UK Listing Authority such stock exchange, a notice specifying the aggregate nominal amount of Notes outstanding and a list of the Notes drawn for redemption but not surrendered.

(e) ***Redemption at the Option of Noteholders***

This Condition 6(e) does not apply to Subordinated Notes.

If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' irrevocable notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) ***Redemption Upon Capital Disqualification Event***

This Condition 6(f) applies to Subordinated Notes only.

If this Condition 6(f) is specified as being applicable hereon, then, following the occurrence of a Capital Disqualification Event (as defined below), the Issuer may (subject to Condition 6(j)) on giving not less than 15 nor more than 30 days' notice (ending, in the case of Floating Rate Notes, on an Interest Payment Date) to the Trustee (with a copy to the Principal Paying Agent) and to the Noteholders in accordance with Condition 15, redeem all, but not some only, of the Subordinated Notes at the Capital Disqualification Event Early Redemption Price specified hereon, together with interest accrued and unpaid, if any, to the date fixed for redemption.

Prior to giving the above notice to the Trustee pursuant to this Condition 6(f), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that a Capital Disqualification Event has occurred and is continuing, and the

Trustee shall accept and rely on such certificate (without further enquiry and without liability to any person) as sufficient evidence of the same and it shall be conclusive and binding on the Noteholders.

For these purposes, a "**Capital Disqualification Event**" shall be deemed to have occurred in respect of a Series of Subordinated Notes if the Issuer determines, in good faith and after consultation with the Supervisory Authority, at any time after the Issue Date, that by reason of non-compliance with the applicable criteria for Tier 2 capital:

- (i) if "Capital Disqualification Event: Full Exclusion" is specified hereon, the entire nominal amount of such Series of Subordinated Notes is excluded from the Tier 2 capital of the Issuer; or
- (ii) if "Capital Disqualification Event: Full or Partial Exclusion" is specified hereon, the entire nominal amount of such Series of Subordinated Notes or any part thereof is excluded from the Tier 2 capital of the Issuer,

in each case, excluding for these purposes any non-recognition as a result of any applicable limitations on the amount of such capital of the Issuer.

(g) ***Redemption following a Loss Absorption Disqualification Event***

This Condition 6(g) applies in respect of all Series of Senior Non-Preferred Notes except for any Series where "Senior Non-Preferred Notes: Loss Absorption Disqualification Event Redemption" is expressly specified to be "Not Applicable" hereon.

If a Loss Absorption Disqualification Event has occurred, then the Issuer may, in its sole discretion, subject to compliance with Condition 6(k), and having given not less than 15 nor more than 30 days' notice to the Trustee (with a copy to the Principal Paying Agent) and, in accordance with Condition 15, the Noteholders, redeem all, but not some only, of the Senior Non-Preferred Notes at the Loss Absorption Disqualification Event Early Redemption Price specified hereon, together with interest accrued and unpaid (if any) to the date fixed for redemption.

The Issuer may exercise its right to redeem the Senior Non-Preferred Notes notwithstanding the prior exercise by any Holder thereof of its option to require the redemption of the Senior Non-Preferred Note(s) held by it under Condition 6(e) above if the due date for redemption under this Condition 6(g) would occur prior to that under Condition 6(e) but not otherwise and, in such circumstances, the exercise of the option under Condition 6(e) shall be rendered ineffective.

Prior to giving the above notice to the Trustee pursuant to this Condition 6(g), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that a Loss Absorption Disqualification Event has occurred and is continuing, and the Trustee shall accept and rely on such certificate (without further enquiry and without liability to any person) as sufficient evidence of the same and it shall be conclusive and binding on the Noteholders.

As used herein:

A "**Loss Absorption Disqualification Event**" shall be deemed to have occurred in respect of a Series of Senior Non-Preferred Notes if, as a result of any amendment to, or change in, any Loss Absorption Regulations, or any change in the application or official interpretation of any Loss Absorption Regulations, in any such case becoming effective on or after the date on which agreement is reached to issue the first Tranche of such Series of Senior Non-Preferred Notes, either:

- (i) if "Loss Absorption Disqualification Event: Full Exclusion" is specified hereon, the entire nominal amount of such Series of Senior Non-Preferred Notes; or
- (ii) if "Loss Absorption Disqualification Event: Full or Partial Exclusion" is specified hereon, the entire nominal amount of such Series of Senior Non-Preferred Notes or any part thereof,

is or (in the opinion of the Issuer or the relevant Supervisory Authority) is likely to be excluded from the Issuer's minimum requirements (whether on an individual or consolidated basis) for (A) own funds and eligible liabilities and/or (B) loss absorbing capacity instruments, in each case as such minimum requirements are applicable to the Issuer (whether on an individual or consolidated basis) and determined in accordance with, and pursuant to, the relevant Loss Absorption Regulations; provided that a Loss Absorption Disqualification Event shall not occur where the exclusion of the Senior Non-Preferred Notes from the relevant minimum requirement(s) is due to the remaining maturity of such Senior Non-Preferred Notes being less than any period prescribed by any applicable eligibility criteria for such minimum requirements under the relevant Loss Absorption Regulations effective with respect to the Issuer on the Issue Date of such Series of Senior Non-Preferred Notes; and

"Loss Absorption Regulations" means, at any time, the laws, regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments of the United Kingdom (including, without limitation, any provisions of the Insolvency Act 1986, as amended from time to time), any relevant Supervisory Authority and/or of the European Parliament or of the Council of the European Union then in effect in the United Kingdom and applicable to the Issuer (whether on an individual or consolidated basis), including, without limitation to the generality of the foregoing, any applicable delegated or implementing acts (such as regulatory technical standards) adopted by the European Commission and any regulations, requirements, guidelines, rules, standards and policies relating to minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments adopted by any relevant Supervisory Authority from time to time (whether such regulations, requirements, guidelines, rules, standards or policies are applied generally or specifically to the Issuer).

(h) ***Purchases***

The Issuer and any of its Subsidiaries (as defined in the Trust Deed) (subject to Condition 6(j) in the case of Subordinated Notes and Condition 6(k) in the case of Senior Non-Preferred Notes) may at any time purchase Notes (**provided that** all Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

(i) ***Cancellation***

All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries (except in the case of a purchase made in the ordinary course of business of a dealer in securities) shall forthwith be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

(j) ***Pre-condition to Redemption or Purchase of Subordinated Notes***

This Condition 6(j) applies to Subordinated Notes only.

The Issuer may only exercise a right to redeem or purchase Subordinated Notes pursuant to Conditions 6(c), 6(d), 6(f) or 6(h), or modify the Conditions or the Trust Deed in respect of any outstanding series of Subordinated Notes as provided in Condition 11(a):

- (i) in the case of a redemption pursuant to Condition 6(f) where the date fixed for redemption falls before the fifth anniversary of the Issue Date, if the Issuer has first complied with the Regulatory Preconditions and obtained any Relevant Supervisory Consent; and
- (ii) in any other case, unless the relevant Subordinated Notes have (or will have on the date fixed for redemption or purchase) ceased fully to qualify as part of the Issuer's regulatory capital, if the Issuer has first:
 - (A) obtained any Relevant Supervisory Consent; and
 - (B) in the case of a redemption pursuant to Condition 6(c) where the date fixed for redemption falls before the fifth anniversary of the Issue Date, complied with the Regulatory Preconditions.

For these purposes, as between the Issuer and the holders of Subordinated Notes, the Issuer shall be deemed to have complied with items (i) or (ii) above (as and where applicable) if it has obtained a Relevant Supervisory Consent, and a certificate signed by two Directors of the Issuer stating that it has obtained a Relevant Supervisory Consent delivered to the Trustee (who shall accept and rely on such certificate (without further enquiry and without liability to any person) as sufficient evidence of the same) shall be conclusive as to the Issuer having obtained such consent and shall be binding on the holders of Subordinated Notes.

In these Conditions:

"Applicable Rules" means, at any time, the laws, regulations, requirements, guidelines and policies relating to capital adequacy (including, without limitation, as to leverage) then in effect in the United Kingdom (or if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, such other jurisdiction) including, without limitation to the generality of the foregoing, any delegated or implementing acts (such as implementing or regulatory technical standards) adopted by the European Commission and any regulations, requirements, guidelines and policies relating to capital adequacy adopted by the Supervisory Authority from time to time (whether or not such requirements, guidelines or policies are applied generally or specifically to the Issuer or to the Issuer and any holding or subsidiary company of it or any subsidiary of any such holding company) and including CRD IV and related technical standards;

"CRD IV" means the legislative package consisting of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, as the same may be amended or replaced from time to time and Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms of the European Parliament and of the Council of 26 June 2013, as the same may be amended or replaced from time to time;

"Regulatory Preconditions" means:

- (a) in the case of a redemption pursuant to Condition 6(c), the Issuer has demonstrated to the satisfaction of the Supervisory Authority, that the relevant Taxation Event is a change in the applicable tax treatment of the relevant Subordinated Notes which is material and was not reasonably foreseeable on the Issue Date; or
- (b) in the case of a redemption pursuant to Condition 6(f), the Issuer has demonstrated to the satisfaction of the Supervisory Authority, that the relevant change in the regulatory classification of the relevant Subordinated Notes was not reasonably foreseeable on the Issue Date;

"Relevant Supervisory Consent" means, in relation to any redemption, purchase or modification of any Subordinated Notes or any redemption, purchase, substitution or variation of any Senior Non-Preferred Notes, any required permission of the Supervisory Authority for such redemption, purchase, substitution or variation or modification under the prevailing Applicable Rules;

"Supervisory Authority" means the Bank of England acting as the Prudential Regulation Authority through its Prudential Regulation Committee and any successor organisation responsible for prudential or resolution matters concerning building societies or authorised persons under the FSMA in the United Kingdom (or if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, such other jurisdiction); and

"Taxation Event" means any of the applicable events or circumstances set out in item (i) of Condition 6(c).

(k) ***Pre-condition to Redemption, Purchase, Substitution or Variation of Senior Non-Preferred Notes***

This Condition 6(k) applies to Senior Non-Preferred Notes only.

The Issuer may only exercise a right to redeem, purchase, substitute or vary Senior Non-Preferred Notes pursuant to Conditions 6(c), 6(d), 6(e), 6(g), 6(h) or 6(l) (as the case may be), or modify the Conditions or the Trust Deed in respect of any outstanding Series of Senior Non-Preferred Notes as provided in Condition 11(a):

- (i) if the Issuer has obtained any Relevant Supervisory Consent therefor (if and to the extent required by the Supervisory Authority or the Loss Absorption Regulations at such time); and
- (ii) subject to compliance with any other pre-conditions to, or requirements applicable to, such redemption, purchase, substitution or variation as may be required by the relevant Supervisory Authority or the Loss Absorption Regulations at such time.

(l) ***Substitution and Variation of Senior Non-Preferred Notes***

This Condition 6(l) applies to each Series of Senior Non-Preferred Notes unless "Senior Non-Preferred Notes: Substitution and Variation" is expressly specified to be "Not Applicable" hereon.

Upon the occurrence of a Loss Absorption Disqualification Event in respect of a Series of Senior Non-Preferred Notes, the Issuer (in its sole discretion but subject to Condition 6(k)), having given notice of not more than 30 days nor less than 15 days prior to the date of substitution or variation (as the case may be) to the Trustee and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable and shall specify the date fixed for substitution or variation, as applicable) may, without any requirement for the consent or approval of the Noteholders or Couponholders, either substitute all (but not some only) of the Senior Non-Preferred Notes of such Series for, or vary the terms of the Senior Non-Preferred Notes of such Series so that they remain or, as appropriate, become, Loss Absorption Compliant Notes. Upon the expiry of the notice referred to above, the Issuer shall either substitute or, as the case may be, vary the terms of the relevant Senior Non-Preferred Notes and, subject as set out below, the Trustee shall agree to such substitution or variation.

In connection with any substitution or variation in accordance with this Condition 6(l), the Issuer shall comply with the rules of any stock exchange on which the relevant Senior Non-Preferred Notes are for the time being listed or admitted to trading.

Any substitution or variation in accordance with this provision is subject to the following conditions:

- (i) the Issuer complying with Condition 6(k);
- (ii) such substitution or variation not resulting in any event or circumstance which at that time gives the Issuer a redemption right in respect of the resulting Loss Absorption Compliant Notes; and
- (iii) prior to the publication of any notice of substitution or variation, the Issuer having delivered to the Trustee a certificate signed by two Directors of the Issuer stating that the Loss Absorption Disqualification Event giving rise to the right to substitute or vary the Senior Non-Preferred Notes has occurred as at the date of the certificate and that the conditions set out in Conditions 6(k)(i) and (ii) have been satisfied, and the Trustee shall be entitled to accept and rely on such certificate without liability to any person and without any further inquiry as sufficient evidence thereof, in which event it shall (in the absence of wilful default, manifest error or bad faith), and without prejudice to the Trustee's ability to rely on such certificate as aforesaid, be conclusive and binding on the Trustee and all Noteholders and Couponholders.

The Trustee shall, subject to the Issuer's compliance with Conditions 6(l)(i), 6(l)(ii) and 6(l)(iii) and the provision of the certificate signed by two Directors of the Issuer as referred to in the definition of Loss Absorption Compliant Notes, and at the expense and cost of the Issuer, use reasonable endeavours to assist the Issuer in any substitution or variation of the relevant Senior Non-Preferred Notes in accordance with this provision, except that the Trustee shall not be obliged to assist in any such substitution or variation if either such substitution or variation itself or the terms of the proposed Loss Absorption Compliant Notes would, in the Trustee's opinion, impose more onerous obligations upon it or expose the Trustee to any additional duties, responsibilities or liabilities in any respect or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any respect.

In connection with any such substitution or variation, the Trustee may rely without liability to any Noteholders, Couponholders or any other person on a report, confirmation, certificate or any advice of any accountants, financial advisers, financial institutions or any other experts, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate or advice and such report, confirmation, certificate or advice shall (in the absence of wilful default, manifest error or bad faith), and without prejudice to the Trustee's ability to rely on such certificate as aforesaid, be binding on the Issuer, the Trustee and the Noteholders and Couponholders.

In these Conditions:

"EEA regulated market" means a market as defined by Article 4.1(21) of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended;

"Loss Absorption Compliant Notes" means securities that comply with the following (which compliance has been certified to the Trustee in a certificate signed by two Directors of the Issuer and delivered to the Trustee prior to the relevant substitution or variation):

- (A) such securities are issued by the Issuer or any wholly-owned direct or indirect subsidiary of the Issuer with a guarantee of such obligations by the Issuer;
- (B) such securities and any relative coupons rank (or, if guaranteed by the Issuer, benefit from a guarantee that ranks) equally with the ranking of the relevant Senior Non-Preferred Notes;

- (C) such securities have terms not materially less favourable to Noteholders and Couponholders than the terms of the relevant Senior Non-Preferred Notes and relative Coupons (as reasonably determined by the Issuer in consultation with an independent adviser of recognised standing);
- (D) (without prejudice to paragraph (C) above) such securities: (1) contain terms such that they comply with the then applicable Loss Absorption Regulations in order to be eligible to qualify in full towards the Issuer's minimum requirements (on an individual or consolidated basis) for own funds and eligible liabilities and/or loss absorbing capacity instruments; (2) bear the same rate of interest from time to time applying to the relevant Senior Non-Preferred Notes and preserve the same interest payment dates; (3) do not contain terms providing for deferral of payments of interest and/or principal; (4) preserve the obligations (including the obligations arising from the exercise of any right of a Noteholder) of the Issuer as to redemption of the relevant Senior Non-Preferred Notes, including (without limitation) as to timing of, and amounts payable upon, such redemption; (5) do not contain terms providing for loss absorption through principal write-down or conversion to common equity tier 1 instruments (provided that any contractual acknowledgement of statutory loss absorption or resolution powers pursuant to the Loss Absorption Regulations shall not be prohibited by this Condition); and (6) preserve any existing rights to any accrued and unpaid interest and any other amounts payable under the relevant Senior Non-Preferred Notes and relative Coupons which has accrued to Noteholders or Couponholders and not been paid;
- (E) such securities are listed on the same stock exchange or market as the relevant Senior Non-Preferred Notes or the London Stock Exchange or any EEA regulated market or any market in an Organisation for Economic Co-operation and Development (OECD) member state selected by the Issuer; and
- (F) where the relevant Senior Non-Preferred Notes which have been substituted or varied had a published rating solicited by the Issuer from one or more Rating Agencies immediately prior to their substitution or variation, such securities 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 relevant Senior Non-Preferred Notes immediately prior to their substitution or variation; and

"Rating Agency" means any of S&P Global Ratings Europe Limited, Moody's Investors Service Limited and Fitch Ratings Ltd. and each of their respective affiliates or successors.

7. **Payments and Talons**

(a) ***Bearer Notes***

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of Notes (in the case of payments of principal and, in the case of interest, as specified in Condition 7(f)(v)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with a Bank. **"Bank"** means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) ***Registered Notes***

- (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office

of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

- (ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made in the relevant currency drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date and, subject as provided in paragraph (a) above, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

(c) ***Payments in the United States***

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) ***Payments subject to Fiscal Laws***

All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Conditions 8 and 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 or otherwise imposed pursuant to Sections 1471 through 1474 of that Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) ***Appointment of Agents***

The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. Subject as provided in the Agency Agreement the Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the prior approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, **provided that** the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where these Conditions so require, (v) Paying Agents having specified offices in at least two major European cities, including London, so long as the Notes are listed on the Official List of the Financial Conduct Authority and admitted to trading on the London Stock Exchange plc's Regulated Market and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

(f) ***Unmatured Coupons and unexchanged Talons***

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes, such Notes should be surrendered for payment together with all unmaturing Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmaturing Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmaturing Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).
- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, unmaturing Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note that provides that the relative unmaturing Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmaturing Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may reasonably require.
- (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender, if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) ***Talons***

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) **Non-Business Days**

If any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "Additional Financial Centres" hereon and:

- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
- (ii) (in the case of a payment in euro) which is a TARGET Business Day.

8. **Taxation**

All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deductions for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom, or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall (a) in the case of (i) all Senior Preferred Notes and (ii) each Series of Senior Non-Preferred Notes unless the applicable Final Terms expressly specifies "Senior Non-Preferred Notes: Gross-up of principal" as "Not Applicable", in respect of payments of interest (if any) or principal, or (b) in the case of (i) all Subordinated Notes and (ii) each Series of Senior Non-Preferred Notes for which the applicable Final Terms expressly specifies "Senior Non-Preferred Notes: Gross-up of principal" as "Not Applicable", in respect of payments of interest (if any) only, pay such additional amounts as may be necessary in order that the net amounts received after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or the Coupons, as the case may be, in the absence of the withholding or deduction, except that no such additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

(a) **Other connection**

To, or to a third party on behalf of, a holder who is liable to the Taxes in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Note or Coupon.

(b) **Presentation more than 30 days after the Relevant Date**

Presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the last day of such period of 30 days (assuming that day to have been a business day for the purpose of Condition 7(h)).

As used in these Conditions, "**Relevant Date**" in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate) or Coupon being made in accordance with these Conditions, such payment will be made, **provided that** payment is in fact made upon such presentation. References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Option Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other

amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

For the avoidance of doubt, if a Note is a Subordinated Note or a Senior Non-Preferred Note for which the applicable Final Terms expressly specifies "Senior Non-Preferred Notes: Gross-up of principal" as "Not Applicable", the Issuer will not pay any such additional amounts in respect of principal of such Note.

9. **Prescription**

Claims against the Issuer for payment in respect of the Notes and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. **Events of Default**

(a) ***Senior Preferred Notes and Unrestricted Default Senior Non-Preferred Notes: Enforcement***

This Condition 10(a) only applies if this Note is (i) a Senior Preferred Note or (ii) a Senior Non-Preferred Note which expressly specifies hereon "Senior Non-Preferred Notes: Restricted Events of Default" as being "Not Applicable" (an "**Unrestricted Default Senior Non-Preferred Note**"), and references in this Condition 10(a) to the Notes shall be construed accordingly.

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Notes are, and they shall accordingly thereby forthwith become, immediately due and repayable at their nominal amount, together with accrued interest as provided in the Trust Deed, in any of the following events (each an "**Event of Default**"):

- (i) if default is made in the payment of any interest or principal due in respect of the Notes or any of them and the default continues for a period of 14 days or more (in the case of interest) or seven days or more (in the case of principal); or
- (ii) if the Issuer fails to perform or observe any of its other obligations under the Notes or the Trust Deed and (except in any case where the Trustee considers the failure to be incapable of remedy when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
- (iii) if any payment in respect of the principal of or any premium or interest on any indebtedness for monies borrowed having an outstanding aggregate nominal amount of at least £10,000,000 (or its equivalent in any other currency or currencies) of the Issuer or any Subsidiary is not made on its due date (or by the expiry of any applicable grace period) or any such indebtedness of the Issuer or any Subsidiary becomes due and payable prior to its stated maturity by reason of default or if any guarantee of or indemnity in respect of any such payment in respect of any such indebtedness of any third party by the Issuer or any Subsidiary is not honoured when due and called upon; or
- (iv) if an administrative or other receiver or an administrator or other similar official is appointed in relation to the Issuer or any Material Subsidiary or in relation to

the whole or a material part of the assets of any of them or if an encumbrancer takes possession of the whole or any material part of the assets of the Issuer or any Material Subsidiary or a distress of execution is levied or enforced upon or sued out against the whole or any material part of the assets of the Issuer or any Material Subsidiary and, in any such case, is not discharged within 60 days; or

(v) if, except for the purposes of or pursuant to a Permitted Transfer (as defined below):

- (1) the Issuer stops payment to its creditors generally or ceases to carry on the whole or substantially the whole of its business; or
- (2) the Supervisory Authority presents a petition for the winding up of the Issuer or an effective resolution, instrument of dissolution or award for dissolution is passed, entered into or made or an order is made or an effective resolution is passed for the winding up or the dissolution of the Issuer or the Issuer is wound up or dissolved in any other manner; or
- (3) an order is made pursuant to the Act the effect of which is to prevent the Issuer from accepting the deposit of, or otherwise borrowing, any money or from accepting any payment representing the whole or any part of the amount due by way of subscription for a share in the Issuer, other than a payment which fell due before the making of the said order; or
- (4) the Issuer ceases to be an authorised person to carry on a deposit-taking business for the purposes of the FSMA or the registration of the Issuer as a building society is suspended or cancelled or the Issuer requests any such suspension or cancellation; or
- (5) the Issuer amalgamates with, or transfers the whole or a material part of its engagements or its business to, another person; or
- (6) the Issuer gives notice in writing pursuant to the FSMA that it wishes to renounce its authorisation to accept the deposit of, or otherwise borrow, any money; or

(vi) if, except for the purposes of a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders or for the purposes of a solvent winding up where the assets of a Material Subsidiary attributable directly or indirectly to the Issuer are distributed to any one or more of the Issuer and the other Material Subsidiaries:

- (1) a Material Subsidiary stops payment to its creditors generally or ceases to carry on the whole or substantially the whole of its business; or
- (2) an order is made by any competent court or resolution is passed for the winding up or dissolution of any Material Subsidiary,

provided, in the case of any Event of Default other than those described in sub-paragraphs (a) and (e)(2) above, the Trustee shall have certified to the Issuer that the Event of Default is, in its opinion, materially prejudicial to the interests of the Noteholders.

For the purposes of this Condition 10(a):

the "**Auditors**" shall mean the auditors for the time being of the Issuer or, any other auditors nominated or approved in writing by the Trustee in accordance with the Trust Deed.

a "**Material Subsidiary**" means at any time a Subsidiary of the Issuer whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) attributable to the Issuer represent (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest relevant audited consolidated accounts of the Issuer and its Subsidiaries relate, are equal to) not less than 10 per cent. of the consolidated total assets of the Issuer and its Subsidiaries attributable to the Issuer, all as calculated respectively by reference to the then latest audited accounts (consolidated or unconsolidated, as the case may be) of such Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries **provided that:**

- (1) in the case of a Subsidiary acquired after the end of the financial period to which the then latest relevant audited consolidated accounts relate, the reference to the then latest audited consolidated accounts for the purpose of the calculation above shall, until consolidated accounts for the period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts, adjusted as if such Subsidiary had been shown in such accounts;
- (2) in the case of a Subsidiary that has transferred or has had transferred to it assets to or from another Subsidiary since the end of the financial period to which the last available audited consolidated accounts relates, the reference to the relevant accounts of such Subsidiary (and the relevant accounts of such other transferor or transferee Subsidiary) shall be deemed to be a reference to such accounts, adjusted so as to take into account such transfer;
- (3) if, in the case of a Subsidiary which itself has Subsidiaries, no consolidated accounts are prepared and audited, its consolidated total assets shall be determined on the basis of pro forma consolidated accounts of the relevant Subsidiary and its Subsidiaries; and
- (4) in relation to total assets of a Subsidiary and consolidated total assets of the Issuer and its Subsidiaries, "attributable to the Issuer" means, respectively, such total assets after deducting amounts attributable directly to indirectly, assuming there are no liabilities to be deducted, to outside interests in such Subsidiary and its Subsidiaries, respectively.

For the purposes of this definition if there shall at any time not be any relevant audited consolidated accounts for the Issuer and its Subsidiaries, references thereto herein shall be deemed to refer to a consolidation by the Auditors of the relevant audited accounts of the Issuer and its Subsidiaries.

A certificate signed by any two directors of the Issuer that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties to the Trust Deed (including for this purpose the Noteholders and Couponholders).

a "**Permitted Transfer**" shall mean:

- (1) an amalgamation of the Issuer and one or more other building societies under section 93 of the Act;
- (2) a transfer by the Issuer of all or substantially all (being 90 per cent. or more of the Issuer's engagements including its obligations under the Notes, the Trust Deed and the Agency Agreement) or (on terms which have previously been approved

by the Trustee in writing or by an Extraordinary Resolution of the Noteholders) any smaller part of its engagements under section 94 of the Act;

- (3) a transfer by the Issuer of its business to a company under sections 97 to 102 of the Act;
- (4) an alteration in the status of the Issuer by virtue of any statute or statutory provision which alters, or permits the alteration of, the status of building societies generally or building societies which meet specified criteria to that of an authorised person under the FSMA or to a body which is regulated on a similar basis to an authorised person under the FSMA; or
- (5) any other reconstruction or amalgamation or transfer to a subsidiary of another mutual society pursuant to the 2007 Act, in each case the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders.

The Trustee shall not be bound to take any action to enforce the obligations of the Issuer under the Trust Deed or the Notes and Coupons, unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent. in nominal amount of the Notes outstanding and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to proceed, fails to do so within a reasonable period and such failure is continuing; and

a "**Subsidiary**" means, in relation to an entity, any company which is for the time being a subsidiary (within the meaning of Section 1159 of the Companies Act 2006) of such entity.

(b) ***Subordinated Notes and Restricted Default Senior Non-Preferred Notes: Enforcement***

This Condition 10(b) only applies if this Note is (a) a Subordinated Note or (b) a Senior Non-Preferred Note for which "Senior Non-Preferred Notes: Restricted Events of Default" is specified hereon as "Applicable" (a "**Restricted Default Senior Non-Preferred Note**"), and references in this Condition 10(b) to Notes shall be construed accordingly.

- (i) In the event of default being made for a period of 14 days or more in the payment of any principal or interest due on the Notes or any of them, in each case as and when the same ought to be paid, the Trustee may, in order to enforce the obligations of the Issuer under the Trust Deed, the Notes and Coupons, at its discretion and after notice to the Issuer, institute proceedings for the recovery of the moneys then due provided that the Issuer shall not by virtue of the institution of any such proceedings (other than proceedings for the winding up of the Issuer) be obliged to pay any sum or sums representing principal or interest in respect of the Notes or Coupons sooner than the same would otherwise have been payable by it.
- (ii) The Trustee may institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Trust Deed or the Notes or Coupons (other than any obligation for the payment of any principal or interest in respect of the Notes or Coupons) provided that the Issuer shall not by virtue of the institution of any such proceedings (other than proceedings for the winding up of the Issuer) be obliged to pay any sum or sums representing principal or interest in respect of the Notes or Coupons sooner than the same would otherwise have been payable by it.
- (iii) In the event of the cancellation of the Issuer's registration under the Act (except pursuant to Section 103(1)(a) of the Act), the commencement of the winding up

of the Issuer or the commencement of the dissolution of the Issuer (except in any such case a winding up or dissolution for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a Successor in Business (as defined in the Trust Deed) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution or as a result of an amalgamation pursuant to Section 93 of the Act or a transfer of engagements pursuant to Section 94 of the Act or a transfer of its business pursuant to Section 97 of the Act), the Trustee at its discretion may give notice to the Issuer that the Notes are, and they shall accordingly thereby forthwith become, immediately due and repayable at their nominal amount together with accrued interest (if any) as provided in the Trust Deed.

- (iv) The Trustee shall not be bound to take any of the actions referred to above to enforce the obligations of the Issuer under the Trust Deed and the Notes and Coupons, unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

11. Meetings of Noteholders, Modification, Waiver and Substitution

(a) *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed subject, in the case of modifications with respect to any series of Senior Non-Preferred Notes and/or Subordinated Notes, to obtaining Relevant Supervisory Consent therefor (if and to the extent required by the Supervisory Authority at such time). Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be one or more persons holding or representing not less than two thirds, or at any adjourned meeting not less than one third, in nominal amount of the Notes for the time being outstanding.

The Trust Deed provides that (i) an Extraordinary Resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than 75 per cent. of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the

Notes for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution. Any Extraordinary Resolution duly passed, signed or consented to as provided above shall be binding on all Noteholders (whether or not they were present at the meeting at which such resolution was passed or, as the case may be, whether or not they participated in the signing or electronic consent process referred to above) and on all Couponholders.

(b) ***Modification***

The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed that is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

In addition, the Trustee shall be obliged to concur with the Issuer in effecting any Benchmark Amendments in the circumstances and as otherwise set out in (and subject to the terms of) Condition 5(i) without the consent of the Noteholders or Couponholders.

The Trustee shall also be obliged to concur with the Issuer in effecting any substitution or variation of the Senior Non-Preferred Notes as set out in (and subject to the terms of) Condition 6(k) without the consent of the Noteholders or Couponholders.

The Trust Deed contains, in addition, provisions permitting the Trustee to agree in respect of Notes denominated or payable in, or which contain provisions for any payment in, a Relevant Currency, without consent of the Noteholders or Couponholders, on or after the Specified Date (as defined below) in respect of such Relevant Currency to such modifications to Notes and the Trust Deed in order to facilitate payment in euro at the euro equivalent of the Relevant Currency payment amount and, where appropriate, associated reconventioning, renominatisation and related matters as may be proposed by the Issuer (and confirmed by an independent financial institution approved by the Trustee to be in conformity with then applicable market conventions). For these purposes, "**Relevant Currency**" means a currency of a member state of the European Community, as amended (the "**Relevant Member State**") which is not as at the relevant Issue Date then participating in the third stage of economic and monetary union pursuant to the treaty establishing the European Community (the "**Treaty**") and "**Specified Date**" in respect of a Relevant Currency means the date on which the Relevant Member State participates in the third stage of European economic and monetary union pursuant to the Treaty or otherwise participates in European economic and monetary union in a similar manner.

(c) ***Entitlement of the Trustee***

In connection with the exercise of its functions (including but not limited to those referred to in these Conditions) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 8 or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

12. Substitution

- (i) If the Issuer shall amalgamate with one or more other building societies under section 93 of the Act or transfer all or substantially all (being 90 per cent. or more of the Issuer's engagements including its obligations under the Notes, the Trust Deed and the Agency Agreement) of its engagements to another building society under section 94 of the Act or transfer its business to a successor in accordance with sections 97 to 102D of the Act (as modified by the Mutual Societies (Transfers Order) 2009 (the "**Mutual Transfers Order**") or any other order made in the future by HM Treasury under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (the "**2007 Act**")), the successor will, pursuant to such provisions, automatically be substituted in place of the Issuer as principal debtor under the Trust Deed, the Notes and Coupons without prior approval thereof being required from the Noteholders, the Couponholders or the Trustee, **provided that** in the case of Subordinated Notes and Senior Non-Preferred Notes where there is a proposed transfer in accordance with Section 97 and other such applicable provisions:
- (a) either (1) the Issuer satisfies the Trustee that the successor will be or (as the case may be) remain an authorised person under the FSMA (or any statutory modification or re-enactment thereof) or (2) such transfer is approved by an Extraordinary Resolution of the Noteholders;
 - (b) in connection with such transfer, any variation or supplement to these Conditions must not be one which would or might cause any of the financial resources derived by the Issuer from the issue of the Notes to which the Trust Deed relates and which comprise Tier 2 capital to be excluded from the financial resources considered appropriate by the Supervisory Authority for the purposes of paragraph 4(1) of Schedule 6 to the FSMA;
 - (c) the circumstances in which such variation or supplement may take place are limited to dealing with matters arising out of the procedure by which the transfer takes place and the constitution of the transferee, which variation or supplement shall be effected by the execution of a trust deed supplemental to the Trust Deed and shall bind any successor as fully as if the successor had been named in the Trust Deed as principal debtor in place of the Issuer. A memorandum of any such supplemental trust deed shall be endorsed by the Trustee on the Trust Deed and by the Issuer on the duplicate of the Trust Deed; and
 - (d) no variation or supplement to the terms of the Trust Deed or of these Conditions shall be made which would or might cause:
 - (A) any qualifying own funds or capital resources of the Issuer for the purposes of the Applicable Rules prevailing at that time to be excluded from such own funds or capital resources; or
 - (B) any liabilities of the Issuer which, for the purposes of the Loss Absorption Regulations prevailing at that time, qualify towards the Issuer's minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments to be excluded from such minimum requirements for own funds and eligible liabilities and/or loss absorbing capacity instruments.
- (ii) Without prejudice to paragraph (i) above and subject as provided in the Trust Deed, the Trustee may agree, without the consent of the Noteholders or Couponholders, if it is satisfied that so to do would not be materially prejudicial to the interests of the Noteholders, to the transfer of the Issuer's business to a subsidiary of another mutual society pursuant to the 2007 Act or the substitution of either a Successor in Business to the Issuer (as defined in the Trust Deed) or a Subsidiary of the Issuer or a subsidiary of a Successor in Business to the Issuer, not being in any such case a building society formed by the amalgamation of the Issuer and one or more other building societies pursuant to section 93 of the Act or a building society to which the Issuer has transferred its

engagements pursuant to section 94 of the Act or the successor in accordance with sections 97 to 102D of the Act (as modified by the Mutual Transfer Order) or other applicable provisions of the Act, in place of the Issuer as principal debtor under the Trust Deed, the Notes and Coupons, **provided that** in the case of a substitution of a company which is a Subsidiary of the Issuer or a subsidiary of Successor in Business to the Issuer, the obligations of such substitute in respect of the Trust Deed, the Notes and Coupons shall be guaranteed by the Issuer or the Successor in Business to the Issuer, as the case may be, in such form as the Trustee may require and **provided further that** (in the case of Subordinated Notes) the obligations of such Successor in Business to the Issuer or Subsidiary of the Issuer or subsidiary of a Successor in Business to the Issuer, as the case may be, and any such guarantee shall be subordinated on a basis equivalent to that in respect of the Issuer's obligations in respect of the Notes and Coupons.

- (iii) Any substitution referred to in paragraphs (i) and (ii) above shall be binding on the Noteholders and the Couponholders and shall be notified to the Noteholders by the Issuer as soon as practicable thereafter in accordance with these Conditions.

13. **Replacement of Notes, Certificates, Coupons and Talons**

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, such Note or Notes may be replaced or substituted, subject to applicable laws, regulations and stock exchange regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

14. **Further Issues**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

15. **Notices**

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in the United Kingdom (which is expected to be *The Financial Times*). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in the United Kingdom. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

16. **Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified and/or secured and/or pre-funded to its satisfaction, in addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

17. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 except to the extent (if any) that the Notes expressly provide for such Act to apply to any of their terms.

18. **Governing Law**

The Trust Deed, the Notes, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Initial Issue of Notes

If the Global Notes or the Global Certificates are stated in the applicable Final Terms to be issued in NGN form or to be held under the NSS (as the case may be), such Global Notes or Global Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life ("**Eurosystem Eligibility**"). Such recognition will depend upon satisfaction of the Eurosystem Eligibility criteria.

Global Notes which are issued in CGN form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depositary.

If the Global Note is a CGN, upon the initial deposit of a Global Note with a Common Depositary or registration of Registered Notes in the name of any common nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is an NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time. Euroclear and Clearstream, Luxembourg will be notified for each issue where the Global Note is an NGN or where the Global Certificates are held under the NSS whether or not such issue is intended to be held in a manner which would allow Eurosystem Eligibility.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system ("**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or such Alternative Clearing System (as the case may be) for its share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes (as the case may be) and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

1. **Exchange**

(a) ***Temporary Global Notes***

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Final Terms indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "*Overview of the Programme – Selling*")

Restrictions"), in whole, but not in part, for the Definitive Notes defined and described below; and

- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

Each temporary Global Note that is also an Exchangeable Bearer Note will be exchangeable for Registered Notes in accordance with the Conditions in addition to any permanent Global Note or Definitive Notes for which it may be exchangeable and, before its Exchange Date, will also be exchangeable in whole or in part for Registered Notes only.

In relation to any issue of Notes which are represented by a Temporary Global Note which is expressed to be exchangeable for definitive Bearer Notes at the option of the Noteholders, such Notes shall be tradeable only in principal amounts of at least the Specified Denominations (or, if more than one Specified Denomination, the lowest Specified Denomination and multiples thereof).

(b) ***Permanent Global Notes***

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 1(d) below, in part for Definitive Notes or, in the case of 1(d) below, Registered Notes:

- (i) by the Issuer giving notice to the Noteholders, the Issuing and Paying Agent and the Trustee if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) or in change in interpretation thereof, of the jurisdiction of the Issuer which would not be suffered were the Notes in definitive form and a certificate to such effect is given to the Trustee (which certificate may be relied upon by the Trustee without liability to any person and without further enquiry);
- (ii) if the permanent Global Note is an Exchangeable Bearer Note, by the holder giving notice to the Issuing and Paying Agent of its election to exchange the whole or a part of such Global Note for Registered Notes;
- (iii) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; and
- (iv) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Issuing and Paying Agent of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

(c) ***Permanent Global Certificates***

If the Final Terms states that the Notes are to be represented by a permanent Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) if principal in respect of any Notes is not paid when due; or
- (iii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 1(c)(i) or (ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

(d) ***Partial Exchange of Permanent Global Notes and tradable amounts***

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions (i) for Registered Notes if the permanent Global Note is an Exchangeable Bearer Note and the part submitted for exchange is to be exchanged for Registered Notes, or (ii) for Definitive Notes if principal in respect of any Notes is not paid when due.

The Notes, including any Definitive Notes that a Global Note may be exchangeable for at the option of the Noteholders or any Definitive Notes that a Temporary Global Note may be exchangeable for on the giving of notice, shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) and multiples thereof.

(e) ***Delivery of Notes***

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be or if the Global Note is an NGN, the Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system. In this Prospectus, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons in respect of interest that has not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

(f) ***Exchange Date***

"**Exchange Date**" means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of an exchange for Registered Notes five days, or in the case of failure to pay principal in respect of any Notes when due 30 days,

after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

2. **Amendment to Conditions**

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

(a) **Payments**

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN Form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 8(d) will apply to the Definitive Notes only. If the Global Note is an NGN or if the Global Certificate is held under the NSS, the Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant clearing system and in the case of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under an NGN will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the appropriate entries in the records of the relevant clearing system shall not affect such discharge.

For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 7(h).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment (the Record Date), where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

(b) **Prescription**

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

(c) **Meetings**

For the purposes of any meeting of Noteholders the holder of a permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.

(d) ***Cancellation***

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note.

(e) ***Purchase***

Notes represented by a permanent Global Note may only be purchased by the Issuer or any of its subsidiaries if they are purchased together with the rights to receive all future payments of interest thereon.

(f) ***Issuer's Option***

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

(g) ***Noteholders' Option***

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the permanent Global Note is a CGN, presenting the permanent Global Note to the Issuing and Paying Agent, or to a Paying Agent acting on behalf of the Issuing and Paying Agent, for notation. Where the Global Note is an NGN or where the relevant Global Certificate is held under the NSS, the Issuer shall procure that details of such exercise shall be entered *pro rata* in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

(h) ***NGN nominal amount***

Where the Global Note is an NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

(i) ***Trustee's Powers***

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of any nominee or common nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes

and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

(j) ***Notices***

So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note.

USE OF PROCEEDS

The net proceeds of the issue of each Tranche of Notes will be used by the Society in its general business operations.

CERTAIN PROVISIONS OF THE BUILDING SOCIETIES ACT 1986 (AS AMENDED) AND THE SUPERVISORY AUTHORITY

In this section, "**Supervisory Authority**" means the PRA and any successor organisation responsible for the supervision of building societies or authorised persons under the FSMA in the UK.

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 resolution passed by the shareholding members of each amalgamating society and a borrowing members' resolution passed by the borrowing members of each amalgamating society. Confirmation by the Supervisory Authority is also required. The Act provides that on the date specified by the Supervisory Authority all of the property, rights and liabilities (which would include the Notes) 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.

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 a shareholding resolution passed by the shareholding members of the transferor society and the transferee society, and a borrowing members' resolution passed by the borrowing members 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 proceedings by a resolution of its board of directors only. The transfer must be confirmed by the Supervisory Authority. The Act provides that on the date specified by the Supervisory Authority and to the extent provided in the instrument of transfer, the property, rights and liabilities of the transferor society shall by virtue of the Act be transferred to and vested in the transferee society, whether or not otherwise capable of being transferred or assigned.

Transfer of business to a commercial company

Sections 97 to 102D of the Act permit a building society to transfer the whole of its business to a company which has been specially formed by the society wholly or partly for the purpose of assuming and conducting the society's business in its place or is an existing company which is to assume and conduct the society's business in its place. The transfer must be approved by a shareholding members' resolution, in accordance with Schedule 2, paragraph 30(2)-(5) of the Act, passed by the shareholding members and by a borrowing members' resolution passed by the borrowing members and the society must 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 Notes) of the society making the transfer, whether or not capable of being transferred or assigned, shall by virtue of the Act and in accordance with transfer regulations (then in force) be transferred to and vested in the successor.

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 investing members of the society who have held their shares in the society throughout the period of two years expiring on a qualifying day specified in the transfer agreement. Also, all investing members' shares are converted into deposits with the successor. If the transfer is to a company specially formed by the society, shareholders of the society who were eligible to vote on the transfer, are members on the qualifying day specified in the transfer agreement and who retain a deposit with the successor, must be given rights to a priority liquidation distribution (as defined by the Act) should the successor be wound up. These rights are protected by the successor granting a charge over its property or undertaking.

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

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 Notes, 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.

The Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (the "2007 Act")

The 2007 Act received Royal Assent on 23 October 2007 and amongst other things, contains enabling provisions which give wide powers to the UK Treasury to make secondary legislation in relation to the transfer of the whole of the business of a building society, friendly society, industrial and provident society, mutual insurance company or an equivalent European mutual to a subsidiary of another such society (whether or not the same type).

Under section 90B of the Act (which was inserted by the 2007 Act), HM Treasury may, by order, make provision for the purpose of ensuring that, on the winding up of a, or dissolution by consent, of a building society any assets available for satisfying the society's liabilities to creditors (other than liabilities in respect of subordinated deposits; liabilities in respect of preferential debts; or any other category of liability which HM Treasury specifies in the order for these purposes) or to shareholders (other than the liabilities in respect of deferred shares) are applied in satisfying those liabilities *pari passu*. HM Treasury exercised the power which was granted to it under Section 90B and powers conferred on it by section 2(2) of the European Communities Act 1972 by making the Banks and Building Societies (Depositor Preference and Priorities) Order 2014 (the "**Depositor Preference Order**"), which entered into force on 1 January 2015. As a result of these changes, provision has been made by HM Treasury for the purpose of ensuring the matters described above.

COVENTRY BUILDING SOCIETY

Introduction

Coventry Building Society is the second largest building society in the UK based on asset size with Group assets as at 31 December 2017 of £45,572.5 million. Except as otherwise stated, all figures in this section are extracted from the audited consolidated annual financial statements of the Society for the year ended 31 December 2017. The Society now operates a regional network of 70 branches, 18 agencies and has over 1.9 million members.

The Society

The Society was originally founded in 1884 and in its present form was created as a result of a merger between Coventry Economic Building Society and Coventry Provident Building Society on 30 June 1983 and, more recently, as a result of a merger between Coventry Building Society and Stroud & Swindon Building Society ("**Stroud & Swindon**") on 1 September 2010. The Society's principal office is Economic House, High Street, Coventry, CV1 5QN UK – telephone number +44 24 7655 5255.

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

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

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

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

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

Business

General

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

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

The Society concentrates on its core business of personal savings and residential mortgage lending. As at 31 December 2017, over 99 per cent. of loans were fully secured on residential property.

Mortgage lending activities

During 2017 the Society made mortgage and other loan advances of £8.6 billion gross, with a net increase in lending of £3.0 billion. The corresponding figures for 2016 were advances of £9.0 billion and a net increase in lending of £3.5 billion.

Personal savings activities

The Society's main source of funding continues to be the retail savings market. Members with savings in the Society are described in the Society's Rules as holding shares in the Society. Shares held principally by individuals amounted to £31.0 billion as at 31 December 2017, representing 77 per cent. of total shares and borrowings.

Cost control

As a result of its focus on containing costs, the Society's ratio of management expenses to mean total assets as at 31 December 2017 was 0.42 per cent. This was the lowest level of any of the ten largest UK building societies by assets (based on the latest annual financial statements published by each of the relevant societies); the corresponding figure for 2016 was 0.41 per cent.

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

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

	(£m)	(£m)
Total assets 2017	42,572.5	
Total assets 2016	<u>38,295.9</u>	
Mean total assets		<u>40,434.2</u>
Administrative expenses	148.9	
Amortisation of intangible assets	12.3	
Depreciation of property, plant and equipment	6.7	
Management expenses		167.9
Ratio of management expenses to mean assets		0.42%

Financial position and liability management

Capital base

The Society is well capitalised and had a Common Equity Tier 1 capital ratio of 34.9 per cent. at the end of 2017. The table below sets out the consolidated capital ratios of the Society (on an individual consolidated basis), based on the Society's current understanding of the applicable regulatory capital requirements.

	End-point 31 December 2017 (%)	Pro forma end-point 31 December 2016 (%)
Common Equity Tier 1 (as a percentage of risk weighted assets) ¹	34.9	32.2
Leverage ratio	4.1	4.1
Modified Leverage Ratio	4.6	4.4

¹ The Common Equity Tier 1 capital ratio is the sum of general reserves less various prescribed deductions, divided by risk weighted assets.

Subscribed Capital

The Society has further subscribed Tier 1 capital in the form of £40 million Permanent Interest Bearing Shares (the "**PIBS**") and £400 million Perpetual Contingent Convertible Additional Tier 1 Capital Securities ("**PCS**") issued in 2014:

	As at 31 December		
	First Call Date	2017 £m	2016 £m
£40 million Permanent Interest Bearing Shares	n/a	41.6	41.6
£400 million Perpetual Contingent Convertible Additional Tier 1 Capital Securities	1 November 2019	400.0	400.0

PIBS

Interest is payable in arrear on the PIBS at the rate of 12.125 per cent. per annum in half-yearly instalments, subject to the conditions of issue of the PIBS. The PIBS are repayable only in the event of a winding up of the Society or otherwise with the prior consent of the PRA.

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

The PIBS do not meet CRD IV recognition criteria and, accordingly, are being progressively de-recognised in accordance with transitional grandfathering provisions during the period from 1 January 2014 to 31 December 2021.

PCS

Interest is payable, subject to the conditions of issue of the PCS, semi-annually in arrear on the PCS, at a rate of 6.375 per cent. per annum up to, and including, the first call date on 1 November 2019 (the "**First Call Date**"). If the PCS in issue remain outstanding following the First Call Date, they will bear interest at a rate which is reset on the First Call Date and each fifth anniversary of the First Call Date, as the sum of the 5-year mid-swap rate prevailing at that time and a margin of 4.113 per cent.

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

Subordinated Liabilities

	As at 31 December	
	2017 £m	2016 £m
Fixed rate subordinated notes 2026 - 6.327%.....	10.2	10.2
Fixed rate subordinated notes 2032 - 7.54%.....	15.3	15.3
Total.....	25.5	25.5

All the subordinated notes are denominated in sterling. The subordinated notes are repayable in the years stated, or earlier in accordance with their terms at the option of the Society, with the prior consent of the PRA. The rights of repayment of the holders of the notes are subordinated to the claims of all depositors, creditors and members holding shares as to principal and interest.

Non-share ("wholesale") funding

As at 31 December 2017, the Society obtained 22.7 per cent. of its funding from sources other than shares held by individuals, compared to 27.16 per cent. as at 31 December 2016.

Wholesale funding

	As at 31 December	
	2017 £m	2016 £m
Amounts owed to credit institutions.....	3,499.0	2,937.5
Debt securities in issue	4,888.8	3,978.1
Other deposits and loans.....	739.5	826.4
Total	9,127.3	7,742.0

Liquidity

Whilst there is no statutory minimum level of liquidity, the Society is required by the PRA to maintain a sufficient level of liquidity that reflects the range and composition of its business. In practice the Society seeks to operate with a buffer over and above this.

The classes of instruments that may be held by the Society for liquidity purposes are prescribed by the PRA. The Society's liquidity is set out below:

	As at 31 December	
	2017 £m	2016 £m
Cash in hand and balances with the Bank of England	4,708.0	2,935.8

UK Government Securities and multi-lateral development banks		
Securities - On-balance sheet	669.6	9.9
Securities – FLS Treasury Bills	-	1,142.8
Other Securities		
Securities - On-balance sheet	10.7	15.5
Bank of England approved mortgage portfolios		
and self issued covered bonds and RMBS	2,183.2	2,720.8
Total	7,571.5	6,824.8

Business Developments

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

Borrowers

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

Savers

- Competitive product set which offers traditional fixed rate bonds, instant access accounts, ISAs, children's accounts, which are available through branch, telephone and internet channels.
- With no dividends to pay to outside shareholders and high levels of cost efficiency, the Society is able to offer competitive interest rates to both savers and borrowers, not only to attract new customers but also to ensure that existing customers are retained as well.
- Profits for the full year ending 31 December 2017 before tax totalled £242.7 million. Capital, reserves and subordinated liabilities and subscribed capital of £2,043.1 million enabled the Society to achieve a Common Equity Tier 1 ratio of 34.9 per cent. as at 31 December 2017 under current regulatory requirements.
- The Society's aim is to maintain a high level of service to all customers, both existing and new, which allows them to take advantage of the Society's wide range of savings and mortgage products.

Final Results

On 23 February 2018 the Society issued its final results for the year ending 31 December 2017. Selected financial highlights are as follows:

- Profit before tax increased by 2 per cent. to £242.7 million.
- Mortgage assets increased by £3.0 billion to £35.9 billion.
- New mortgage lending of £8.6 billion.
- Retail savings balances increased by £2.9 billion to £31.0 billion.

- Rated A/F1 by Fitch and A2/P1 by Moody's.
- Common Equity Tier 1 ratio of 34.9 per cent.
- Cost to mean assets ratio of only 0.42 per cent.
- 0.13 per cent. of mortgage balances were 2.5 per cent. or more in arrears.
- Impairment charge of £0.2m

Management

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

Board of Directors

Name	Position within the Society	Other Directorships and positions
G Hoffman	Chair	Hastings Group Holdings plc Visa Europe Limited
P Ayliffe	Deputy Chair	The Pennies Foundation truRating Limited
R Burnell	Senior Independent Non-Executive Director	Clarence Mansions Management Company Limited
C Doran	Independent Non-Executive Director	-
A Deeks	Product, Marketing and Strategy Director and Executive Director	-
M Faull	Chief Financial Officer and Executive Director	Arkose Funding Limited Godiva Mortgages Limited Coventry Financial Services Limited Coventry Property Services Limited Godiva Financial Services Limited Godiva Housing Developments Limited Godiva Savings Limited Godiva Securities and Investments Limited Five Valleys Property Company Limited ITL Mortgages Limited Bow Arts Trust
P Frost	Chief Operating Officer and Executive Director	Five Valleys Property Company Limited
M Stewart	Independent Non-Executive Director	Clayton Stewart Ltd
I Amiri	Independent Non-Executive Director	Bank of Wales
J Kenrick	Independent Non-Executive Director	BACS Payment Schemes Ltd Dwr Cymru Cyfyngedig Glas Cymru Holdings Cyfyngedig Safestore Holdings PLC Global Charities Global Charities (Trading) Ltd Lynmouth Colossus Way Management Ltd Rhapsody Court Freehold Ltd
M Parsons	Chief Executive Officer and Executive Director	Godiva Mortgages Limited ITL Mortgages Limited

The business address of the Directors and Executive Directors is Economic House, P.O. Box 9, High Street, Coventry CV1 5QN.

The Executive Directors have entered into service contracts which enable the Society to give not less than six months' notice of termination.

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

Subsidiaries

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

- Five Valleys Property Company Limited
- Godiva Mortgages Limited
- ITL Mortgages Limited

In addition, the Society has the following direct, wholly owned subsidiary companies, none of which are carrying on a business:

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

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

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

- Coventry Building Society Covered Bond LLP
- Mercia No.1 plc
- Offa No.1 plc

See note 14 (*Loans and advances to customers*) and note 16 (*Investments in group undertakings*) of the Society's audited consolidated financial statements for the financial year ended 31 December 2017 for further information.

Leofric No.1 plc is a securitisation vehicle which has redeemed its outstanding securities. It is in the process of being wound up along with its holding company.

External Auditors

Ernst & Young LLP of 1 More London Place, London SE1 2AF have audited without qualification the financial statements of the Society for the years ended 31 December 2016 and 2017, respectively.

TAXATION

UNITED KINGDOM TAXATION

The comments below are of a general nature based on current UK law (save to the extent that draft law has been expressly referred to) and Her Majesty's Revenue and Customs ("**HMRC**") current practice, which may not be binding on HMRC and which may be subject to change, sometimes with retrospective effect. They assume that the Finance (No 3) Bill 2017-2019 will be enacted as ordered to be printed on 9 January 2019. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their Notes and Coupons and may not apply to certain classes of persons such as dealers or certain professional investors. Noteholders and Couponholders should be aware that the particular terms of issue of any Tranche of Notes as specified in the relevant Final Terms may affect the tax treatment of that and other Tranches of that or another Series of Notes. The comments assume that there will be no substitution of the Issuer and do not consider the tax consequences of any such substitution. The comments below deal primarily with certain UK withholding tax issues which arise on payments of interest in respect of the Notes. They are not exhaustive and they do not address any other UK taxation implications of acquiring, holding or disposing of Notes and Coupons. Any Noteholders and Couponholders who are in doubt as to their personal tax position should consult their professional advisers. In particular, Noteholders and Couponholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK. The following is a general guide for information purposes 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 may be relevant to a prospective purchaser.

Interest

In relation to Notes which carry a right to interest that are and continue to be listed on a recognised stock exchange within the meaning of section 1005 Income Tax Act 2007 (the "**ITA**"), payments of interest and other distributions by the Issuer may be made without withholding or deduction for or on account of UK income tax (the "**quoted Eurobond exemption**"). The London Stock Exchange is a recognised stock exchange for these purposes. Notes will be treated as listed on the London Stock Exchange if they are and continue to be included in the Official List by the UK Listing Authority and are admitted to trading on the London Stock Exchange's Regulated Market.

In all other cases, interest will generally be paid by the Issuer under deduction of UK income tax at the basic rate (currently 20 per cent.) subject to the availability of other exemptions or reliefs or to any direction to the contrary from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Certain payments on Notes may constitute "dividends" within the meaning of section 889 of the ITA. Save to the extent such "dividends" fall within the quoted Eurobond exemption, such "dividends" will generally be paid under deduction of income tax at the basic rate (currently 20 per cent.), subject to the availability of other exemptions or reliefs or to any direction to the contrary from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Where Notes are to be, or may fall to be, redeemed at a premium as opposed to being issued at a discount, then any such element of premium or part thereof may constitute a payment of interest. Payments of interest are subject to UK withholding tax as outlined in this UK Taxation section.

Notes may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element on any such Notes should not generally constitute interest for UK withholding tax purposes and therefore should not be subject to any UK withholding tax (as applicable to interest).

Where interest has been paid under deduction of UK income tax, Noteholders and Couponholders who are not resident in the UK may be able to recover all or part of the tax deducted if there is an appropriate provision under an applicable double taxation treaty.

The references to "interest" in this section headed UK Taxation above mean "**interest**" as understood in UK tax law. The statements in this UK Taxation section do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation. Noteholders and Couponholders should seek their own professional advice as regards the withholding tax treatment of any payment on the Notes which does not constitute "interest" or "principal" as those terms are understood in UK tax law.

U.S. FOREIGN ACCOUNT TAX COMPLIANCE WITHHOLDING

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" may be required to withhold on certain payments it makes ("**foreign pass thru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the UK) 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 the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Noteholders and Couponholders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes.

THE PROPOSED FINANCIAL TRANSACTIONS TAX ("FTT")

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

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

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

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

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

Transactions involving the Notes may have tax consequences for purchasers which may depend, amongst other things, upon the status of the purchaser and laws relating to transfer and registration taxes. Purchasers who are in any doubt about the tax position of any aspect of transactions involving the Notes should consult their own tax advisers.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an amended and restated dealer agreement dated 14 February 2019 (as further amended and/or supplemented from time to time, the "**Dealer Agreement**") between the Issuer, the Permanent Dealers and the Arranger, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arranger for its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis will be stated in the relevant Final Terms.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States. Distribution of this Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States is prohibited.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Notes in bearer form having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme shall be required to agree, that except as permitted by the Dealer Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Notes of any identifiable Tranche, (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the Issuer, by the relevant Dealer, or in the case of Notes issued on a syndicated basis, the Lead Manager, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

UK

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme shall be required to agree, that:

- (i) 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 any Notes in circumstances in which section 21(1) of the FSMA would not, if it was not an authorised person, apply to the Issuer; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the UK.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme shall be required to agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

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

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

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

- ii. where no consideration is or will be given for the transfer;
- iii. where the transfer is by operation of law;
- iv. as specified in Section 276(7) of the SFA; or
- v. as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Prohibition of Sales to EEA Retail Investors

Unless the Final Terms in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision the expression 'retail investor' means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or
- (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive.

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed, and each further Dealer appointed under the Programme shall be required to agree, that it shall, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Prospectus, any other offering material or any Final Terms, in all cases at its own expense.

FORM OF FINAL TERMS

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS] – The Notes 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 European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), 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 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

MiFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ECPs ONLY TARGET MARKET – Solely for the purposes of [the/each] manufacturer['s/s'] product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended "**MiFID II**")/MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.

[In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes [are] / [are not] prescribed capital markets products (as defined in the CMP Regulations 2018) and [are] [Excluded] / [Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.)¹

FINAL TERMS DATED [•]

COVENTRY BUILDING SOCIETY

Legal Entity Identifier (LEI): 2138004G59FXEAZ6IO10

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the £5,000,000,000 Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 14 February 2019 [and the supplemental Prospectus dated [•]] which [together] constitute[s] a prospectus for the purposes of Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. [The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing [at [website] [and] during normal business hours at [address] [and copies may be obtained from [address].]]

¹ For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Prospectus dated [•] [and the supplemental Prospectus dated [•]] and which are incorporated by reference in the Prospectus dated 14 February 2019. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU) (the "**Prospectus Directive**") and must be read in conjunction with the Prospectus dated 14 February 2019 [and the supplemental Prospectus dated [•]], which [together] constitute[s] a prospectus for the purposes of the Prospectus Directive. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus dated 14 February 2019 [and the supplemental Prospectuses dated [•] and [•]]. [The Prospectuses [and the supplemental Prospectuses] are available for viewing [at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html> [and] during normal business hours at [address] [and copies may be obtained from [address]].]

1. Issuer: Coventry Building Society

TYPE OF NOTES

2. Status of the Notes: [Senior Preferred/Senior Non-Preferred/ Subordinated]

(i) [Senior Non-Preferred Notes: [Applicable/Not Applicable]]

No Set-Off:

(ii) [Senior Non-Preferred Notes: [Applicable/Not Applicable]]

Restricted Events of Default:

(iii) [Senior Non-Preferred Notes: [Applicable/Not Applicable]]

Gross-up of principal:

DESCRIPTION OF THE NOTES

3. [(i)] Series Number: [•]

(ii) Tranche Number: [•]

4. Specified Currency or Currencies: [•]

5. Aggregate Nominal Amount of Notes:

[(i)] Series: [•]

[(ii)] Tranche: [•]

6. Issue Price: [•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [•]]

7. (i) Specified Denominations: [•] [and integral multiples of [•] in excess thereof up to and including [•]]

(ii) Calculation Amount: [•]

8. (i) Issue Date: [•]

(ii) Interest Commencement Date: [[•]/Issue Date/Not Applicable]

9. Maturity Date: [•]

- | | | |
|-----|---------------------------|--|
| 10. | Interest Basis: | [[•] per cent. Fixed Rate]
[[SONIA/LIBOR/EURIBOR] +/- [•] per cent. Floating Rate]
[Zero Coupon] |
| 11. | Redemption/Payment Basis: | Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [100] per cent. of their nominal amount |
| 12. | Put/Call Options: | [Investor Put]

[Issuer Call] |

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- | | | |
|-----|--|---|
| 13. | Fixed Rate Note Provisions: | [Applicable/Not Applicable] |
| | (i) Rate[(s)] of Interest: | [•] per cent. Per annum payable in arrear on each Interest Payment Date |
| | (ii) Interest Payment Date(s): | [•] in each year [adjusted in accordance with [•]/not adjusted] |
| | (iii) Fixed Coupon Amount[(s)]: | [•] per Calculation Amount |
| | (iv) Broken Amount(s): | [•] per Calculation Amount payable on the Interest Payment Date falling [in/on] [•] |
| | (v) Day Count Fraction: | [Actual/Actual] [Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual-ICMA] |
| | (vi) Determination Dates: | [•] in each year |
| 14. | Resettable Note Provisions: | [Applicable/Not Applicable] |
| | (i) Initial Rate of Interest: | [•] per cent. Per annum payable in arrear on each Resettable Note Interest Payment Date |
| | (ii) Resettable Note Interest Payment Date(s): | [•] in each year [adjusted in accordance with [•]/not adjusted] |
| | (iii) First Margin: | [+/-] [•] per cent. Per annum |
| | (iv) Subsequent Margin: | [+/-] [•] per cent. Per annum |
| | (v) Day Count Fraction: | [Actual/Actual] [Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual-ICMA] |
| | (vi) First Resettable Note Reset Date: | [•] |
| | (vii) Second Resettable Note Reset Date: | [•] |
| | (viii) Subsequent Resettable Note Reset Date[s]: | [•] [•] |

- (ix) Reset Determination Date[s]: [•] [•]
 - (x) Relevant Screen Page: [•] [•]
 - (xi) Mid-Swap Rate [Single Mid-Swap Rate] [Mean Mid-Swap Rate]
 - (xii) Mid-Swap Maturity: [•] [•]
15. Floating Rate Note Provisions: [Applicable/Not Applicable]
- (i) Interest Period(s): [•]
 - (ii) Specified Interest Payment Dates: [•]
 - (iii) First Interest Payment Date [•]
 - (iv) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
 - (v) Interest Period Date: [•]
 - (vi) Business Centre(s): [•]
 - (vii) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Date Determination/ISDA/Determination]
 - (viii) Calculation Agent responsible for calculating the Rate(s) of Interest and/or Interest Amount(s): [•]
 - (ix) Screen Rate Determination: [Applicable/Not Applicable]
 - Reference Rate: [SONIA/LIBOR/EURIBOR]
 - Interest Determination Date(s): [Second London business day prior to the first day of each Interest Accrual Period]
 - [[•] London Banking Day prior to the end of each Interest Accrual Period]
 - [First day of each Interest Accrual Period]
 - [Second TARGET business day prior to the first day of each Interest Accrual Period]
 - Relevant Screen Page: [•]
 - For the purposes of the definition of "Observation Period", "p" means: [[•] London Banking Days]/[Not Applicable]

(The number of London Banking Days for the purposes of the definition of "Observation Period" should be no less than five London Banking Days)

	(x)	ISDA Determination:	[Applicable/Not Applicable]
		• Floating Rate Option:	[•]
		• Designated Maturity:	[•]
		• Reset Date:	[•]
	(xi)	Linear Interpolation:	[Not Applicable]/[Applicable – the Rate of Interest for the Interest Period ending on the Interest Payment Date falling in [•] shall be calculated using Linear Interpolation]
	(xii)	Margin(s):	[+/-] [•] per cent. per annum
	(xiii)	Minimum Rate of Interest:	[•] per cent. per annum
	(xiv)	Maximum Rate of Interest:	[•] per cent. per annum
	(xv)	Day Count Fraction:	[Actual/Actual] [Actual/Actual-ISDA] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360/360/360/Bond Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual-ICMA]
16.		Zero Coupon Note Provisions:	[Applicable/Not Applicable]
		Amortisation Yield:	[•] per cent. per annum
		PROVISIONS RELATING TO REDEMPTION	
17.		Call Option	[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s)	[•]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[•] per Calculation Amount
		(b) Maximum Redemption Amount:	[•] per Calculation Amount
	(iv)	Notice Period:	[•]
18.	(i)	Senior Non-Preferred Notes: Loss Absorption Disqualification Event Redemption:	[Applicable/Not Applicable]
	(ii)	Loss Absorption	[Full Exclusion/Full or Partial Exclusion/Not

	Disqualification Event:	Applicable]
(iii)	Loss Absorption Disqualification Event Redemption Price:	[[•] per cent.]
(iv)	Senior Non-Preferred Notes: Substitution and Variation:	[Applicable/Not Applicable]
19.	Subordinated Notes: Redemption upon Capital Disqualification Event:	[Applicable/Not Applicable]
(i)	Capital Disqualification Event:	[Full Exclusion/Full or Partial Exclusion/Not Applicable]
(ii)	Capital Disqualification Event Early Redemption Price:	
20.	Put Option:	[Applicable/Not Applicable]
(i)	Optional Redemption Date(s):	[•]
(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount
(iii)	Notice Period:	[•]
21.	Final Redemption Amount of each Note:	[•] per Calculation Amount
22.	Early Redemption Amount	
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption:	[As per Condition 6(b)/[•] per Calculation Amount]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

23.	Form of Notes:	Bearer Notes
		[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
		[Temporary Global Note exchangeable for Definitive Notes on [•] days' notice]
		[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
		Registered Notes:
		[Global Certificate registered in the name of a nominee for [a common depositary for Euroclear and

- | | | |
|-----|--|---|
| | | Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]] |
| 24. | New Global Note: | [Yes] [No] |
| 25. | Financial Centre(s) or other special provisions relating to payment dates: | [Not Applicable/[•]] |
| 26. | U.S. Selling Restrictions | Reg. S Compliance Category 2; C Rules/D Rules/TEFRA not applicable. |
| 27. | Prohibition of Sales to EEA Retail Investors | [Applicable/Not Applicable] |
- (If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.)*

THIRD PARTY INFORMATION

[•] has been extracted from [•]. [The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By:
Duly authorised

PART B – OTHER INFORMATION

1. **Listing**

- | | | |
|------|---|---|
| (i) | Admission to trading: | Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market with effect from [•] |
| (ii) | Estimate of total expenses related to admission to trading: | [•] |

2. **Ratings**

- | | |
|----------|--|
| Ratings: | [The Notes to be issued [have been]/[are expected to be] rated:

[•]

[and endorsed by [•]]

[The Notes to be issued have not been specifically rated] |
|----------|--|

3. **[Interests of Natural and Legal Persons involved in the [Issue/Offer]**

"Save as discussed in "*Subscription and Sale*", so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."

4. **[Fixed Rate Notes only – Yield**

- | | |
|----------------------|---|
| Indication of yield; | [•]

The yield is calculated at the Issue Date on the basis of the Issue price. It is not an indication of future yield.] |
|----------------------|---|

5. **Operational Information**

- | | |
|--|--|
| ISIN: | [•] |
| Common Code: | [•] |
| CFI Code: | [[•]/Not Applicable] |
| FISN: | [[•]/Not Applicable] |
| Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): | [Not Applicable/give name(s), address(es) and number(s)] |
| Delivery: | Delivery [against/free of] payment |
| Names and addresses of initial Paying Agent(s): | [•] |
| Names and addresses of additional Paying Agent(s) (if any): | [•] |
| Names and addresses of Dealer[s]: | [•] |
| Intended to be held in a manner | [Yes. Note that the designation "yes" simply means that |

which would allow Eurosystem eligibility:

the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [*include this text for Registered Notes which are to be held under the NSS*] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.][No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [*include this text for Registered Notes*]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

GENERAL INFORMATION

- (1) The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that each Tranche of the Notes which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of a temporary or permanent Global Note (or one or more Certificates) in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or about 14 February 2019. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.
- (2) The Issuer has obtained all necessary consents, approvals and authorisations in the UK in connection with the establishment and update of the Programme. The establishment of the Programme was authorised by a resolution of the Board of Directors passed on 11 April 2001 and the update of the Programme was authorised by a resolution of the Board of Directors passed on 27 September 2018.
- (3) There has been no significant change in the financial or trading position of the Issuer or the Group since 30 June 2018 and no material adverse change in the prospects of the Issuer or the Group since 31 December 2017.
- (4) There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) during the 12 months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer or any of its Subsidiaries and/or the Group.
- (5) Each Bearer Note having a maturity of more than one year, Coupon and Talon and each Exchangeable Registered Note having a maturity of more than one year, will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".
- (6) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code, the International Securities Identification Number (ISIN), the Classification of Financial Instruments (CFI) and the Financial Instrument Short Name (FISN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms. The address of Euroclear is 1 Boulevard du Roi Albert, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855, Luxembourg. The address of any alternative clearing system will be specified in the applicable final Terms.
- (7) The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issue of Notes.
- (8) For so long as Notes may be issued pursuant to this Prospectus, the following documents will be available during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Issuer:
 - (i) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons and the Talons);
 - (ii) the Rules and Memorandum of the Issuer;
 - (iii) the audited consolidated annual financial statements of the Issuer for the years ended 31 December 2016 and 31 December 2017, respectively (together in each case with the audit report thereon and the annual business statement and the directors' report in respect of each such year);
 - (iv) the interim unaudited consolidated financial statements of the Issuer for the six months ended 30 June 2018, together with the review report thereon;

- (v) each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Issuing and Paying Agent as to its holding of Notes and identity);
- (vi) a copy of this Prospectus together with any supplement to this Prospectus; and
- (vii) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Prospectus.

This Prospectus can also be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

- (9) Copies of the latest audited consolidated annual financial statements of the Issuer and the latest interim consolidated financial statements of the Issuer may be obtained, and copies of the Trust Deed will be available for inspection, at the specified offices of each of the Paying Agents during normal business hours and upon reasonable notice, so long as any of the Notes is outstanding.
- (10) Ernst & Young LLP, Registered Auditors (authorised and regulated by the FCA for designated investment business), have audited, and rendered unqualified audit reports on, the consolidated annual financial statements of the Issuer for the years ended 31 December 2016 and 31 December 2017.

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REGISTERED OFFICE OF THE ISSUER

Coventry Building Society

Economic House
PO Box 9
High Street
Coventry CV1 5QN

ARRANGER

HSBC Bank plc

8 Canada Square
London E14 5HQ

DEALERS

Barclays Bank PLC

5 The North Colonnade
Canary Wharf
London E14 4BB

BNP Paribas

10 Harewood Avenue
London NW1 6AA

Commerzbank Aktiengesellschaft

Kaiserstraße 16 (Kaiserplatz)
60311 Frankfurt am Main
Germany

HSBC Bank plc

8 Canada Square
London E14 5HQ

NatWest Markets Plc

250 Bishopsgate
London EC2M 4AA

TRUSTEE

ISSUING AND PAYING AGENT, REGISTRAR, TRANSFER AGENT AND CALCULATION AGENT

HSBC Corporate Trustee Company (UK) Limited

8 Canada Square
London E14 5HQ

HSBC Bank plc

8 Canada Square
London E14 5HQ

PAYING AGENTS AND TRANSFER AGENTS

AUDITORS

Banque Internationale à Luxembourg S.A.

69 route d'Esch
L-1470 Luxembourg

Ernst & Young LLP

1 More London Place
London SE1 2AF

LEGAL ADVISERS

To the Issuer

Dentons UK & Middle East LLP

One Fleet Place
London EC4M 7RA

To the Dealers and the Trustee

Linklaters LLP

One Silk Street
London EC2Y 8HQ