

Prospectus dated 17 April 2019



Principality Building Society

(incorporated in England and Wales under the Building Societies Act 1986 with Registered Number 155998)

£1,000,000,000 (excluding Deposit Notes) Euro Medium Term Note Programme

Under this £1,000,000,000 Euro Medium Term Note Programme (the **Programme**), Principality 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, Deposit Notes and Subordinated Notes (each as defined herein)) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The aggregate nominal amount of Notes (other than Deposit Notes) outstanding will not at any time exceed £1,000,000,000 (or the equivalent in other currencies and subject to increase as provided herein).

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Overview of the Programme" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. Reference in this Prospectus to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "Risk Factors".

Application has been made to the Financial Conduct Authority in its capacity as competent authority (the **FCA**) for Senior Preferred Notes, Senior Non-Preferred Notes and Subordinated Notes issued within 12 months from the date of this Prospectus to be admitted to the official list of the FCA (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**).

The requirement to publish a prospectus under the Prospectus Directive (as defined under "Important Information" below) only applies to Notes which are to be admitted to trading on a regulated market in the European Economic Area and/or offered to the public in the European Economic Area other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive (as implemented in the relevant Member State(s)).

References in this Prospectus to Notes being **listed** (and all related references) shall mean that such Notes have been admitted, as appropriate, to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The London Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2014/65/EU).

The Senior Preferred Notes, the Deposit 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.

Notes may be issued pursuant to the Programme which are listed on such further or other stock exchange(s) as may be agreed between the Issuer and the relevant Dealer or Dealers. The applicable Final Terms (as defined in “*Overview of the Programme*”) in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the Market or any other agreed stock exchange.

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive (2003/71/EC), the minimum denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under “*Terms and Conditions of the Notes*”) of Notes will be set out in a final terms document (the **Final Terms**) which will be delivered to FCA and the London Stock Exchange. Copies of Final Terms in relation to Notes to be listed on the London Stock Exchange will also be published on the website of the London Stock Exchange through a regulatory information service.

The Programme has been rated Baa2 (senior unsecured)/Baa3 (subordinated)/P-2 (short term) by Moody's Investors Service Limited (**Moody's**) and BBB+ (long-term senior unsecured)/F2 (short-term senior unsecured) by Fitch Ratings Ltd (**Fitch**). Tranches of Notes (as defined in “*Overview of the Programme – Method of Issue*”) to be issued under the Programme will be rated or unrated by the rating agency referred to above. Each of Fitch and Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such each of Fitch and Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. Where a Tranche of Notes is to be rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the rating assigned to the Programme or any Notes already issued.

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.

Amounts payable on Floating Rate Notes will be calculated by reference to LIBOR, EURIBOR or SONIA as specified in the relevant Final Terms. As at the date of this Prospectus, the administrator of LIBOR is included in ESMA's register of administrators under Article 36 of the Regulation (EU) No. 2016/1011 (the **Benchmarks Regulation**). As at the date of this Prospectus, the administrators of EURIBOR and SONIA are not included in ESMA's register of administrators under Article 36 of the Benchmarks Regulation. As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that European Money Markets Institute (as administrator of EURIBOR) is not currently required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence 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. For a discussion of “*Risk Factors*”, see page 17 below.

Arranger

HSBC

Dealers

Barclays
HSBC

BNP PARIBAS
Lloyds Bank Corporate
Markets

NatWest Markets

IMPORTANT INFORMATION

This Prospectus comprises a base prospectus in respect of all Notes issued under this Programme for the purposes of Article 5.4 of the Prospectus Directive. When used in this Prospectus, **Prospectus Directive** means Directive 2003/71/EC (as amended or superseded), and includes any relevant implementing measure in a relevant Member State of the European Economic Area.

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 (having 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”* below).

This Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Prospectus as completed by final terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.

Each Series (as defined in *“Overview of the Programme”*) 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**). 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. If the relevant Global Note is stated in the applicable Final Terms to be issued in new global note (**NGN**) form, or the relevant Global Certificate is intended to be held under the new safekeeping structure (**NSS**), the Global Note or Global Certificate, as applicable, will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**). A Global Note which is not issued in NGN form (**Classic Global Notes** or **CGNs**), or a Global Certificate which is not intended to be held under the NSS will be deposited on the issue date of the relevant Tranche with a common depositary on behalf of Euroclear and Clearstream, Luxembourg. 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 by the Issuer 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 (each as defined in *“Overview of the Programme”*). Neither the delivery of this Prospectus nor any offer, sale or delivery of Notes made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Group 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. Investors should review the most recently published information incorporated by reference into this Prospectus when deciding whether or not to purchase any Notes. See “*Documents Incorporated by Reference*”.

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*”.

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.

To the fullest extent permitted by law, none of the Dealers or the Arranger accept any responsibility for the contents of this Prospectus or for any other statement, made or purported to be made by the Arranger or a Dealer or on its behalf in connection with the Issuer or the issue and offering of the Notes. The Arranger and each Dealer 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 that any recipient of this Prospectus or any other financial statements should purchase any 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 or the Arranger 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 or the Arranger.

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 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 / 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.

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

In connection with the issue of any Tranche of Senior Preferred Notes, Senior Non-Preferred Notes or Subordinated Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) or any person acting on behalf of any Stabilisation 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 Stabilisation Manager(s) (or any person acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to **pounds, sterling** and **£** are to the currency of the UK, to **euro** or **€** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended from time to time, to **U.S. dollars** are to the lawful currency of the United States of America, to **yen** are to the currency of Japan, to **Australian dollars** are to the currency of Australia, to **New Zealand dollars** are to the currency of New Zealand and to the **Act** are to the Building Societies Act 1986 (as amended), which expression shall include, where applicable, any statutory modification or re-enactment thereof or any statutory instrument, order or regulations made thereunder or under any such statutory modification or re-enactment.

The Notes may not be a suitable investment for all Investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (d) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) 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. Sophisticated investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition or 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 a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments

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

Supplemental Prospectus

In respect of any Notes to be listed on the Market, if at any time the Issuer shall be required to prepare a supplemental prospectus pursuant to Section 87G of the FSMA, the Issuer will prepare and make available an appropriate amendment or supplement to this 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 FCA 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 change affecting any matter contained in this Prospectus whose inclusion would reasonably be required by investors and their professional advisers, and would reasonably be expected by them to be found in this Prospectus, for the purpose of making 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, Senior Non-Preferred Notes or Subordinated Notes, the Issuer shall prepare an amendment or supplement to this Prospectus or publish a replacement Prospectus for use in connection with any subsequent offering of the Senior Preferred Notes, Senior Non-Preferred Notes or Subordinated Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

TABLE OF CONTENTS

IMPORTANT INFORMATION.....	3
OVERVIEW OF THE PROGRAMME	8
RISK FACTORS.....	17
DOCUMENTS INCORPORATED BY REFERENCE.....	52
TERMS AND CONDITIONS OF THE NOTES.....	53
SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM	106
USE OF PROCEEDS.....	112
CERTAIN PROVISIONS OF THE BUILDING SOCIETIES ACT 1986 AND THE SUPERVISORY AUTHORITY	113
PRINCIPALITY BUILDING SOCIETY.....	115
TAXATION	121
SUBSCRIPTION AND SALE	124
FORM OF FINAL TERMS.....	127
GENERAL INFORMATION.....	139

OVERVIEW OF THE PROGRAMME

The following overview is qualified in its entirety by the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms.

Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” shall have the same meaning in the overview.

Issuer	Principality Building Society
Legal Identifier Number (LEI)	2138003CSNVJEPFZ3U52
Risk Factors	<p>There are certain factors that may affect the Issuer’s ability to fulfil its obligations under Notes issued under the Programme. These are set out under “<i>Risk Factors</i>” below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under “<i>Risk Factors</i>” and include certain risks relating to the structure of particular Series of Notes and certain market risks.</p>
Description	Euro Medium Term Note Programme
Size	<p>Other than in respect of Deposit Notes, up to £1,000,000,000 (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.</p>
Arranger	HSBC Bank plc
Dealers	<p>Barclays Bank PLC BNP Paribas HSBC Bank plc Lloyds Bank Corporate Markets plc NatWest Markets Plc</p> <p>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 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 Programme (and whose appointment has not been terminated) and to Dealers are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.</p>
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 supplemented, where necessary, with supplemental 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 the final terms (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 a 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 TEFRA D (as defined in "*Overview of the Programme – United States 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 a nominee for one or more clearing systems are referred to as **Global Certificates**.

Clearing Systems

Clearstream, Luxembourg and 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 a NGN, or the relevant Global Certificate is to be held under the NSS, the Global Note or the Global Certificate, as applicable, 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 intended to be held under the NSS, the relevant Global Note representing Bearer Notes or Exchangeable Bearer Notes or the Global Certificate, as applicable, will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Global Notes or Certificates 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 denominated in any currency agreed between the Issuer and the relevant Dealers.

Maturities

Notes may have any maturity as indicated in the applicable Final Terms subject to a minimum maturity of one month, save that (a) in the case of Senior Non-Preferred Notes, the minimum maturity will be one year, (b) in the case of Subordinated Notes, the minimum maturity will be five years and one day, (c) in the case of Deposit Notes, the maximum maturity will be five years, and (d) notwithstanding (a), (b) and (c) above, in any case such other maturity as may be required from time to time by the relevant monetary authority or any laws or regulations applicable to the relevant currency.

Specified Denomination

Definitive Notes will be in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable laws and regulations, save that:

- (i) in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in

a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, 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); and

- (ii) in the case of Deposit Notes, the minimum specified denomination will be £100,000 (or, if not denominated in Sterling, its equivalent in the currency in which it is denominated at the time when the Deposit Note is issued).

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 Reset Reference Rate. The rate of interest may be reset on more than one occasion.

Fixed Rate Notes

Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.

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 published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the issue date of the first Tranche of a Series; or
- (ii) by reference to LIBOR, EURIBOR or SONIA (as may be specified in the applicable Final Terms) as adjusted for any applicable margin.

The margin relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.

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. All such information will be set out in the 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 "*Terms and Conditions of the Notes—Interest and Other Calculations—Benchmark Discontinuation*".

Redemption

The Final Terms will specify the basis for calculating the redemption amounts payable.

Optional Redemption

The Final Terms issued in respect of 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.

Status of Notes

The Senior Preferred Notes and the Deposit Notes 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 the Deposit Notes rank *pari passu* without any preference among themselves. The Issuer and, by virtue of its holding of any Senior Preferred Note, Deposit Note or any beneficial interest therein, each holder of a Senior Preferred Note or Deposit Note acknowledge and agree that (subject to the provisions of Condition 4) the Senior Preferred Notes and the Deposit Notes 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 the Deposit 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 the

Deposit Notes will (subject to the provisions of Condition 4) rank as provided in the Ranking Legislation for ordinary non-preferential debt generally.

The Senior Non-Preferred Notes 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 rank junior to the Senior Preferred Notes and the Deposit Notes, 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 acknowledge and agree that the claims of the Trustee and the Noteholders against the Issuer in respect of, or arising under, the Senior Non-Preferred Notes (including, without limitation, any damages awarded for breach of the Issuer's obligations) in respect of the Senior Non-Preferred Notes will, in the event of the winding-up or dissolution of the Issuer, rank in the manner provided in the Trust Deed and as specified in Condition 3(b).

The Subordinated Notes 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 rank junior to the Senior Non-Preferred Notes. The Subordinated Notes 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 acknowledge and agree that in the event of the winding up or dissolution of the Issuer, the claims of the Trustee and the Noteholders against the Issuer in respect of, or arising under, the Subordinated Notes (including, without limitation, any damages awarded for breach of the Issuer's obligations) will be subordinated in the manner provided in the Trust Deed and as specified in Condition 3(d).

Negative Pledge

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

Cross Default

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

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 be disclosed in the

applicable Final Terms and will not necessarily be the same as the rating assigned to the Programme. 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.

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 Regulatory 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.. See "*Terms and Conditions of the Notes–Redemption, Purchase and Options*".

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*". 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 – Precondition 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).

Withholding Tax

All payments of principal and interest in respect of the Notes will be made without withholding or deduction for or

on account of taxes imposed by the UK, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is made, the Issuer will, subject to customary exceptions:

- (i) in the case of (A) all Senior Preferred Notes and Deposit 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,

be required to pay additional amounts to cover the amounts so withheld or deducted, 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

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

Listing

The Notes may be admitted to the Official List and admitted to trading on the Market or admitted to listing, trading and/or quotation by any other listing authority, stock exchange or exchanges and/or quotation system as may be agreed between the Issuer and the relevant Dealer and set out in the applicable Final Terms.

Selling Restrictions

There are restrictions on the offer, sale and transfer of the Notes in the United States, European Economic Area, UK and Japan and such other restrictions as may be required in connection with the offering and sale of particular Tranches of Notes. See "*Subscription and Sale*".

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

United States Selling Restrictions

The Notes in bearer form for U.S. federal income tax purposes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor U.S. Treasury Regulation Section including, without limitation, regulations

issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (**TEFRA D**) 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 U.S. Treasury Regulation Section including, without limitation, regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (**TEFRA C**) or (ii) the Notes are issued other than in compliance with TEFRA D or TEFRA C 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 applicable Final Terms as a transaction to which TEFRA is not applicable.

RISK FACTORS

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

In purchasing Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Prospectus a number of factors which could materially adversely affect its business and ability to make payments due under the Notes.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below. Prospective investors should note that the risks described below are not the only risks the Issuer faces. The Issuer has described only those risks relating to its operations that it considers to be material.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive.

The range of risks that could affect the Issuer and the impact and degree to which the Issuer's business could be impacted are difficult to quantify and ultimately predictions can be educated but speculative. The exact nature and impact of the risks that the Issuer faces are particularly difficult to predict in the face of the UK's proposed exit from the EU. This is firstly a reflection of the interrelated nature of the risks involved, secondly, the difficulties in predicting the outcome of the negotiations to determine the future terms of the UK's relationship with the EU and finally the fact that the risks and potential repercussions are totally or partially outside the control of the Issuer.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme

The Group's results may be adversely affected by general economic conditions and other business conditions in the UK, Eurozone and internationally.

The Issuer's business activities are dependent on the level of mortgage, savings and financial services required by its customers. As the Issuer currently conducts all of its business in the UK, its performance is influenced by the level and cyclical nature of business activity in the UK, which is in turn affected by both domestic and international economic and political events. Adverse developments in the UK economy could negatively affect the revenue and profitability of the Issuer's business.

A deterioration in the UK economy accompanied by falling house prices could increase credit losses. Government policies, the Bank of England's monetary policy and interest rate strategy or changes to fiscal policy, could have a material effect on the housing market.

Generally, economic data published throughout 2018 has indicated a steady slowdown in global trade. Growth in the Chinese economy and to a lesser extent the U.S. economy has been slowing and are significant but not the only causes of this slowdown. Trade tensions between these two countries with the possible escalation in tariff charges on respective imports, could lead to an acceleration in the global economic slowdown. Trade tensions are also in focus to a degree between primarily the U.S. and other economic blocs, notably the EU states. There has been a marked rise in global political tensions involving China, the U.S., EU states, the UK and Russia to name a few. Tensions have increased within the Eurozone among various member states. Whether as a cause or as a result, there has been a significant rise in populist political parties with polarised interests, that are mounting challenges to the established political landscape. The Italians governing populist coalition has been in direct conflict with EU authorities over its proposed budget deficit which is wider than the permitted EU parameters. This could lead to uncertainty in established financial markets and the likely increase in volatility could have an adverse effect on the Issuer's business.

Any detrimental effect on the UK economy could adversely affect the Issuer's business by reducing the level of demand for, and supply of, the Issuer's products and services. This could expose the Issuer to lower asset values and increased negative fair value adjustments as well as impairments of investments and other assets, which could materially and adversely impact the Issuer's operating results, financial condition and prospects.

Key risk drivers for the Issuer's business include movements in residential property prices and the underlying ability of current and prospective borrowers to service mortgage debt. Market indices from both Halifax Plc and Principality Building Society continue to show a modest house price inflation year on year, but a slowing during the latter part of 2018 and into 2019.

A further risk could materialise as a result of the withdrawal of the Bank of England Term Funding Scheme (**TFS**) and the increased competition for funds in the retail and wholesale markets for 'traditional' funding to replace monies utilised under these schemes becoming repayable following the TFS' closure.

Political uncertainty

On 23 June 2016 the UK held a referendum on whether the UK should remain a member of the EU. The UK voted to leave the EU and the UK Government invoked article 50 of the Lisbon Treaty relating to withdrawal on 29 March 2017. Under article 50, the Treaty on the European Union and the Treaty on the Functioning of the European Union will cease to apply in the UK 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 was subsequently extended, and may be subject to further extension.

There are a number of uncertainties in connection with the future of the UK and its relationship with the EU. 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 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 Issuer.

In addition, 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 Issuer is subject and therefore its financing availability and terms. Consequently, no assurance can be given that the Issuer's operating results, financial condition and prospects would not be adversely impacted as a result. No assurance can be given that any of the matters outlined above would not adversely affect the ability of the Issuer to satisfy its obligations under the Notes and/or the market value or liquidity of the Notes.

Following the general election on 8 June 2017, the UK's Conservative party won but with a much reduced majority. The level of political risk has increased as conflict and fragmentation of the major political parties has heightened because of ideological differences around the relationship between the UK and the EU. The Prime Minister and the government have been undermined by a number of defeats on motions brought before Parliament, mainly around the issue of the terms on which the UK would leave the EU. The Prime Minister survived a vote of no confidence from disaffected members of her own party taking any further challenge off the table for twelve months from December 2018. However, there is a risk that a vote of no confidence could challenge the government. A number of Members of Parliament from both sides of the house have defected and formed The Independent Group. The risk of political instability has increased because of the removal of their votes from the major political parties. There is a risk that the government could be forced into, or indeed decide of its volition, to call a mid-term general election contest. Any change of UK government could lead to further reforms of the market and financial system and significant changes to amongst others legislative and regulatory proposals (see further the risk factor below entitled "*The FCA, PRA, and other bodies such as the Financial Ombudsman Service (the FOS), could impose further regulations or obligations in relation to current and past dealing with retail customers. As a result, the Issuer 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*"). The uncertainty surrounding the UK government's future tenure and any reforms that may be undertaken could have an impact on the financial stability of the UK as a whole which in turn could affect the financial performance of the Issuer.

Wholesale funding markets risk

As at 31 December 2018, 82.20 per cent. of the Issuer's loans and advances were funded by customer deposits and 22.41 per cent. of its funding requirements from wholesale funding sources. The short-term unsecured money market continues to rely on a relatively small number of counterparties. There were a small number of new entrants into this market with the Issuer adding four new wholesale counterparty providers through 2018. The reasons for the current market conditions range from a lack of available funds, due, for example to local authorities receiving smaller central government contributions, increased credit requirements and a gradual move to managed money market funds and repurchase agreements. The long-term secured and unsecured wholesale funding markets have been subject to prolonged periods of volatility, particularly following the EU referendum vote and the resultant market uncertainty. Regulatory requirements introduced following Directive 2014/65/EU (**MIFID II**) exclude local authorities from being treated as 'professional clients' for the purposes of those requirements, subject to the possibility that they can elect to be treated as such if they can confirm their level of competency and expertise. It is possible that if a local authority does not have the appropriate expertise to be designated as a 'professional client' that their participation in some areas of the financial markets could be restricted. This increases the risk that there will be fewer providers of cash to the broker money markets and consequently less liquidity. Market uncertainty grew stronger and towards the end of 2018, market issuance in the secured markets became more difficult. Q1 2019 has seen this trend continue and as a consequence, there have been relatively few issuances when compared to historic supply.

Q1 2019 has seen a number of issuers issue covered bonds, as issuers have sought to satisfy the risk averse appetite of potential investors. The changes to the regulations governing the issuance of Residential Mortgage Backed Security to the new Simplified, Transparent and Standardised (STS) regime has held back potential issuers in the class. The substitution of LIBOR for a new risk free rate in 2021 is also holding back potential supply as issuers' work to ensure that any new bond issuances will comply with these new standards. There is a financial risk that margins on potential issues could increase significantly because of market uncertainty and caution amongst investors regarding market conditions and supply expectations. In 2019, the Issuer will continue to monitor the market with input from their bank arrangers' and their syndication desks. The Issuer would look to take advantage if

market conditions become conducive to an appropriate bond issuance. These would form part of the Issuer's on going management of its funding requirements through a combination of retail, wholesale and long-term capital market issuances. To diversify the risk of market concentration, these options are supplemented by the Issuer's participation in central bank support facilities, in particular the Indexed Long Term Repo Facility (**ILTR**) and the TFS prior to its closure on 28 February 2018. The Bank of England facilities have added substantial additional liquidity to the markets, resulting in greatly improved levels of liquidity for major UK banks and building societies. However, the Issuer does not have influence over the policy which led to the introduction and the termination of such measures. Further, there can be no assurance that these conditions will not lead to an increase in the overall concentration risk and cost of funding of the Issuer or otherwise adversely affect the Issuer.

A number of other UK banks and building societies have availed themselves of the same measures as the Issuer and will be seeking to refinance these maturing obligations. The resultant competition for replacement funds may affect the Issuer's ability to access wholesale funding arrangements on satisfactory market terms in order to meet these continuing funding requirements which would have a material impact on the Issuer's liquidity. The Issuer has mitigated the impact of this refinancing concentration and secured funds from alternative sources, and a Medium Term Plan encapsulates the strategy to support those aims of growth coupled with balance sheet solidity of the business. The Issuer has drawn down from the TFS but in real terms this amount represents a much smaller proportion of available funding when compared to other financial institutions who have drawn down under this scheme. There can be no assurance that such refinancing plans will be successful. The Issuer's available funding options are regularly reviewed by the Prudential Regulation Authority (**PRA**). If such funding options are not successful in mitigating the impact of this refinancing concentration, the Issuer could face liquidity constraints. The Issuer manages its refinancing concentration under the government-backed liquidity schemes as part of its general ongoing financial requirements.

The Issuer holds buffer eligible liquidity over and above the requirements laid down by the PRA and these are under continuous review. The Issuer maintains liquid assets of a suitable quality known as High Quality Liquid Assets (**HQLAs**), in order to ensure all its internal liquidity limits and triggers are above the required regulatory limits. These include the Liquidity Coverage Ratio (**LCR**) and Net Stable Funding Ratio (**NSFR**). The Issuer has duration limits in place to reflect the requirements of all PRA guidelines and statements. The Issuer monitors and maintains strict adherence to wholesale funding maturities and concentration risk and dealer limits, on a rolling basis from one month through to three years. The Issuer has also signed a Statement of Commitment to the Money Market Code 2017 which has applied from 1 January 2018 and governs proper behaviour of the Issuer and all authorised representatives as market participants.

In addition, a full range of regulatory approved suites of robust stress testing scenarios are carried out monthly. A full report of the results is submitted to the Issuer's Finance Committee where any remedial action is sanctioned. These are reviewed regularly internally and by the PRA who conduct a review of the Issuer's Internal Liquidity Adequacy Assessment Process (**ILAAP**). Formal review by the PRA takes place on a bi-annual basis in the Liquidity-Supervisory Review and Evaluation Process (**L-SREP**). Additional Liquidity Monitoring Metrics, created by the European Banking Authority (the **EBA**) as part of the Common Reporting regime and adopted by the PRA, are included in the Issuer's monitoring process.

The Issuer as part of its liquidity monitoring process implements as a matter of course any recommendations from the PRA resulting from its L-SREP.

There is a risk that in extreme circumstances where all sections of the wholesale market are closed, it would not be possible to secure any funding even with the Programme in place.

Legal Ranking of Notes

As a result of changes to the UK building societies legislation (as briefly set out below), from 1 January 2015 holders of Senior Preferred Notes and Deposit Notes and other unsubordinated creditors of the Issuer rank junior to member share accounts which are given preferential status (as described below). Senior Non-Preferred Notes and Subordinated Notes continue to rank junior to all such members and creditors. In the event of a demutualisation of the Issuer, obligations to current UK retail member depositors will continue to rank *pari passu* with obligations to Senior Preferred Noteholders and Deposit Noteholders.

Section 90B of the Building Societies Act 1986 (the **Act**), as amended by the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, permitted HM Treasury, by order, to make certain alterations to rankings of creditors and shareholders on dissolution and winding up.

HM Treasury has exercised this power granted to it under Section 90B of the Act, in line with the intention to align the creditor hierarchy in UK building societies with the depositor preference requirements introduced by Directive 2014/59/EU (**BRRD**), 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 came into force on 1 January 2015.

The Depositor Preference Order (i) extended the scope of preferential debts in respect of deposits and (ii) aligned creditor hierarchy in UK building societies with the depositor preference requirements in the BRRD to ensure that any sums due to building society members in relation to their shareholding in respect of deposits (other than certain deposits which would be eligible for compensation under the Financial Services Compensation Scheme (**FSCS**) will rank *pari passu* with all other (non-preferred) senior unsecured creditors. This is subject to the further changes in hierarchy introduced by the Order (as defined and described under “*The Senior Non-Preferred Notes and the Subordinated Notes rank junior to most of the Issuer’s liabilities*” below.)

These changes also have the effect of granting:

- (a) 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 FSCS (i.e. are eligible for protection and do not exceed the £85,000 FSCS coverage limit), which will rank equally with all other preferential debts; and
- (b) 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 European Union (**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 Deposit Notes (as well as claims in respect of Senior Non-Preferred Notes and Subordinated Notes) therefore rank junior to the claims in respect of liabilities afforded preferred status under (a) or (b) above and, accordingly, in the event of insolvency or resolution of the Issuer, Senior Preferred Notes and Deposit Notes would 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 Non-Preferred Notes, which in turn would be available to absorb losses ahead of Senior Preferred Notes and Deposit Notes).

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

- (a) the assets of the Issuer 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 Deposit Notes (and the claims in respect of Senior Preferred Notes and Deposit Notes would rank *pari passu* with those deposits and share accounts which are not afforded preferential status, subject to the Order);
- (b) no recovery would be made on claims in respect of Senior Non-Preferred Notes unless and until the claims in respect of all deposit and share accounts (other than claims in respect of deferred shares), as well as claims in respect of Senior Preferred Notes and Deposit Notes and any other unsubordinated liabilities ranking *pari passu* with or in priority to Senior Preferred Notes and Deposit Notes, have first been satisfied in full; and
- (c) 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 Non-Preferred Notes, any other Senior Non-Preferred Claims and any more senior-ranking Subordinated Claims (if any) 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 Issuer pursuant to the Banking Act (as further described below under “*Risks relating to the Banking Act 2009 and the BRRD*”).

Therefore, in the event of an insolvency, winding up or resolution of the Issuer, there is a real risk that investors in the Notes would lose some or the entire amount of their investment. Furthermore, the market price of the Notes can be expected to be materially adversely affected if the Issuer’s financial condition deteriorates such that the market anticipates the insolvency, winding up or resolution of the Issuer.

UK Housing Market

One of the Issuer’s primary activities is mortgage lending in the United Kingdom, with the majority of loans secured against residential property. There is a risk that the housing market slows and therefore reduces the potential lending activity by the Issuer.

Activity in the UK housing market in terms of lending for purchases and completed sales has been subdued for the past three years. A strong jobs market and improvements in household finances are supporting lending to an extent, but prices are at an elevated level and the prospect of higher interest rates may be holding off buyers. At a national level, house price growth has slowed, in London prices are falling, but in the Midlands and the Northern regions they are rising. Average house prices in Wales which is the traditional heartland for the Issuer’s lending activity, reached a new peak in Q4 2018 at £186,699. The reasons for the peak were low historic mortgage rates, record employment with average weekly earnings rising above the rate of inflation, thereby increasing the real disposable income of households. Welsh Government housing schemes have also helped would-be property owners onto and up the housing ladder (source: Principality Building Society House Price Index Wales). The major risk to the downside is the uncertainty surrounding the Brexit outcome with many people deferring buy and sell decisions until greater certainty emerges. There are also more fundamental risks surrounding the structure of the market and the underlying dynamics between supply and demand.

After strong growth since the financial crisis until 2015, the number of Buy to-Let (**BTL**) mortgages for house purchases has dropped over the last two years. Both the wider slowdown in the housing market as well as a number of government interventions have had an impact on the sector. The main changes that have been introduced have been threefold: (i) changes in mortgage tax relief, (ii)

changes in stamp duty on second homes and (iii) tightening of underwriting standards for BTL mortgages.

Any impact on the UK economy as a result of falling house prices may have an adverse effect on the Issuer's operating results, financial condition and prospects.

Increasing competition in the personal financial services market may adversely affect the Issuer's income and business

Historically, increased competition has resulted in downward pressure on the industry's spread between deposit and loan rates. Further increases in competition, including by new bank entrants that are offering competitive rates and are able to operate from a lower operating cost base under their business models, may negatively affect the Issuer's financial position and the benefit it is able to return to its members.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market 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. Further, one or more credit rating agencies may from time to time release unsolicited credit ratings reports in relation to the Notes without the consent or knowledge of the Issuer. The Issuer does not have any control over such reports or analyses and any adverse credit rating of the Notes could adversely affect the value of the Notes.

In general, European regulated investors are restricted under Regulation 1060/2009/EC (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, subject to transitional provisions that apply in certain circumstances). 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, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

Any decline in the Issuer's credit rating may affect the market value of the Issuer's securities and the accessibility of wholesale funding

The Issuer's credit ratings are an assessment of its ability to service obligations, including those relating to any securities issued (including the Notes). Consequently, actual or anticipated downgrades in the Issuer's credit ratings may affect the market value of or any trading market for, the Issuer's securities (including the Notes).

A negative change of sentiment towards financial institutions generally operating in the UK's residential mortgage market (including the Issuer) could occur which may result in wholesale funding being more difficult to obtain and/or being more costly, which could have a material adverse effect on

the liquidity and funding of all UK financial services institutions, including the Issuer. In addition, any such events could affect the market value of the Notes.

The method of leaving the EU could have a detrimental effect on the UK's credit rating. The more severe the departure the greater the risk of a negative effect on the sovereign rating of the UK. A downgrade at a sovereign level increases the risk of negative rating action at an institutional level for banks and other UK financial bodies including building societies in which the Issuer could be captured.

The Issuer's hedging strategies may not prevent losses

The Issuer is continually managing its exposure to interest rate, currency and refinancing risks. If any of the variety of instruments and strategies the Issuer uses to hedge its exposure to these various types of risk is not effective, the Issuer may incur losses. The Issuer may not be able to obtain economically efficient hedging opportunities that will enable it to maintain its present hedging policies with respect to new assets and liabilities.

The Issuer's derivatives counterparties may not honour their contracts

The Issuer uses derivatives to manage its market risks. These derivatives are negotiated with and transacted with a range of counterparties. While to date there has not been a situation in which any of the Issuer's derivative counterparties have not honoured their obligations under the relevant derivative agreement, a failure by one or more counterparties to honour the terms of its derivatives contract with the Issuer could have an adverse effect on the business, operations and financial condition of the Issuer.

The Issuer is now centrally clearing all relevant derivative contracts as required by Regulation 648/2012/EU (**EMIR**). This means that the Issuer's exposure is with a centralised clearing body, LCH Ltd. There is full protection under these rules and margin management on an intra-day basis ensures any additional exposure due to mark to market changes in valuation are covered. Additionally, the Issuer has collateralised swap agreements in place with all major swap counterparties in order to minimise the risk of loss in the event of default by a counterparty. However, there can be no guarantee that such strategy will effectively prevent all counterparty-related loss.

Regulation

The Issuer is regulated by the Financial Conduct Authority (the **FCA**) and the PRA which regulate, amongst other things, the sale of residential mortgages, consumer lending, investment advice and general insurance products. The regulatory regime requires the Issuer to be compliant across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Issuer fails to be compliant with relevant regulations, there is a risk of an adverse impact on the business due to sanctions, fines or other action imposed by the regulatory authorities. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking, personal finance and real estate sectors. Future changes in regulation, accounting, fiscal or other policies are unpredictable and beyond the Issuer's control and could materially adversely affect its business or operations.

Future legislative and regulatory changes could force the Issuer to comply with certain operational restrictions, take steps to raise further capital, and/or increase the Issuer's expenses and/or otherwise adversely affect the Issuer's business results, financial condition or prospects. Minimum regulatory requirements may increase in the future and/or the FCA or the PRA may change the manner in which they apply existing regulatory requirements.

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

Regulators and other bodies in the UK and the EU have produced a range of proposals for future legislative and regulatory changes which could impose operational restrictions on the Issuer, requiring it to raise further capital, result in increased costs and/or otherwise adversely affect its business results, financial condition or prospects, some of which have now entered into effect. These include, among others:

- (1) The Financial Services (Banking Reform) Act 2013 (the **Banking Reform Act**). Certain measures contained in the Banking Reform Act relating to the ring-fencing of domestic retail banking services of UK banks have recently entered into force. The Government has excluded building societies from the ring fencing legislation but has the power to amend the UK Building Societies Act to bring building societies legislation into line with the ring-fencing requirements if it considers it necessary at a later date;
- (2) Following the review conducted by the Financial Policy Committee (the **FPC**) on the leverage ratio and the publication of its final report on 31 October 2014, the FPC made recommendations as to the overall leverage ratio framework for the UK banking system. For the majority of UK building societies this now requires a minimum leverage ratio of 3.25 per cent. and a countercyclical buffer of up to 1 per cent.
- (3) Consumer credit regulation transferred to the FCA on 1 April 2014 in accordance with provisions under the Financial Services Act 2012 (the **FS Act**). The carrying on of certain credit-related activities (including in relation to servicing credit agreements) otherwise than in accordance with permission from the FCA will render a credit agreement unenforceable without FCA approval and the FCA will have the power to render unenforceable contracts made in contravention of its rules on cost and duration of credit agreements or in contravention of its product intervention rules. The FS Act also provides for formalised co-operation to exist between the FCA and the FOS (which determines complaints by eligible complainants in relation to authorised financial services firms, consumer credit licensees and certain other businesses), particularly where issues identified potentially have wider implications with a view to the FCA requiring firms to operate consumer redress schemes.
- (4) The European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers in March 2011 (the **Mortgage Directive**). The Council of the European Union adopted the Mortgage Directive on 28 January 2014. The Mortgage Directive was required to be implemented by each member state of the European Union by 21 March 2016. Proposals for the implementation of the Mortgage Directive were set out by the FCA. The Mortgage Directive requires (among other things): standard information in advertising; standard pre-contractual information; adequate explanations to the borrower on the proposed credit agreement and any ancillary service; calculation of the annual percentage rate of charge in accordance with a prescribed formula; assessment of creditworthiness of the borrower; and a right of the borrower to make early repayment of the credit agreement. The Mortgage Directive also imposes prudential and supervisory requirements for credit intermediaries and non-bank lenders. 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. second charge mortgages) from the FCA's consumer credit regime to the FCA's mortgage regime. For the most part the UK Government has sought to put in place what it has described as the minimum requirements to meet its legal obligations under the Mortgage Directive in respect of buy-to-let mortgages. The legislation provides that firms do not need to apply the UK Government's appropriate framework for buy-to-let mortgages where a borrower is acting wholly or predominantly for the purposes of a business. The UK Treasury has stated that they would expect CBTL activity to represent a small proportion of total buy-to-let transactions. The effect of the implementation of the Mortgage Directive into UK law has had limited impact on the Issuer's mortgage business and operations so far but it is too early to tell if this will change in the longer term.

- (5) 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 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.
- (6) In December 2017, the Basel Committee on Banking Supervision (the **Basel Committee**) published its final revisions to the Basel III capital framework. These revisions are intended to enhance the robustness and risk sensitivity of the standardised approaches for credit risk and operational risk, constrain the use of internally modelled approaches, and to complement the risk-weighted capital ratio with a finalised leverage ratio and a revised and robust capital floor. These revisions are scheduled to be effective from 1 January 2022, with the capital floors phased in from 1 January 2022 to 1 January 2027. These revisions could result in requirements which exceed existing capital requirements. In particular, the revised capital floors will limit the extent of capital requirement reduction and increase in capital ratios that can be expected from the Issuer moving to an Internal Ratings Based (**IRB**) modelling approach for credit risk.
- (7) 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.
- (8) The International Accounting Standards Board has introduced IFRS 9: "Financial Instruments" as a new standard to replace IAS 39: "Financial Instruments: Recognition and Measurement". It will change the classification and measurement of some financial assets, the recognition and the financial impact of impairment and hedge accounting. The Issuer has implemented IFRS 9 for the financial year starting on 1 January 2018. The impact to the Issuer from transition to IFRS 9 is disclosed in the audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2018. See further "Changes in the Issuer's

accounting policies or in accounting standards could materially affect its capital ratios, how it reports its financial condition and results of operations” below.

- (9) The European Union General Data Protection Regulation (**GDPR**) has had direct effect in all European Union Member States since 25 May 2018 and has replaced previous European Union data privacy laws. Although a number of basic existing principles remain the same, the GDPR introduced new obligations on data controllers and rights for data subjects. The GDPR also introduced new fines and penalties for a breach of requirements, including fines for serious breaches of up to the higher of 4 per cent. of annual worldwide turnover or €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 Issuer’s procedures and policies and an increase in regular staff training and testing to ensure ongoing compliance with GDPR. The changes could adversely impact the Issuer’s business by increasing its operational and compliance costs. Further, there is a risk that the measures will not be implemented correctly or that individuals within the Issuer will not be fully compliant with the new procedures. If there are breaches of these measures, the Issuer could face significant administrative and monetary sanctions as well as reputational damage which may have a material adverse effect on the Issuer’s operations, financial condition and prospects.

As at the date of this Prospectus, it is impossible to predict the effect that any proposed or recent changes will have on the Issuer’s operations, business and prospects or how any of the proposals discussed above will be implemented. Depending on the specific nature of the requirements and how they are enforced, such changes could have a significant impact on the Issuer’s operations, structure, costs and/or capital requirements. Accordingly, the Issuer 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.

The Issuer is also investing significantly to ensure that it will be able to comply with developing regulatory requirements. If the Issuer is unsuccessful in efficiently adopting the requisite new compliance practices, this will adversely impact its ability to operate in the financial services markets and to deliver an appropriate level of operational and financial performance.

Senior Managers and Certification Regime

The Senior Managers and Certification Regime (the **SM&CR**), introduced by the Banking Reform Act, is intended to govern the conduct of senior persons within UK banks, building societies, credit unions, PRA-designated investment firms and branches of foreign banks operating in the UK. The SM&CR came into force for those firms on 7 March 2016 and for insurers on 10 December 2018. All other FCA solo regulated firms will fall within the scope of the SM&CR from 9 December 2019.

On 19 June 2013, the Parliamentary Commission on Banking Standards (the **PCBS**) published its final report (“Changing Banking for Good”). This was followed by the publication of the government’s response on 8 July 2013, accepting the overall conclusions of the final report and all of its principal recommendations. Among other things, this included proposals for: (i) a new senior persons regime governing the conduct of bank staff, (ii) the introduction of a criminal offence for reckless misconduct by senior bank staff and (iii) steps to improve competition in the banking sector. On 18 December 2013, the Banking Reform Act, which includes provisions to address certain of the PCBS’s recommendations, received royal assent.

The SM&CR comprises (i) a new senior managers regime requiring certain senior managers to be authorised by the relevant regulators (ii) a certification regime, under which firms are required to

certify the fitness and propriety of certain senior staff and (iii) a code of conduct governing the conduct of staff. The FCA and the PRA have now published the majority of their rules and guidance on the SM&CR. The new criminal offences relating to decisions causing financial institutions to fail introduced by the Banking Reform Act have applied from 7 March 2017.

The SM&CR has had, and will continue to have a substantial impact on banks and building societies in the UK generally, including the Issuer, and when the extended application of the SM&CR comes into force, any of the Issuer's subsidiaries which are FCA solo regulated firms at that time.

Risks relating to the Banking Act 2009 and the BRRD

Under the Banking Act 2009 as amended (the **Banking Act**), substantial powers have been granted to HM Treasury, the Bank of England acting as the PRA through its Prudential Regulation Committee (**PRA**), the FCA and the Bank of England (together, the **Authorities**) as part of the 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 where 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) convert a building society into a company, (b) 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 (c) transfer securities issued by a relevant entity to a bail-in administrator.

In each case, the Authorities have wide powers under the Banking Act including powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to disapply or modify laws (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively. If an instrument or order were to be made under the Banking Act in respect of the Issuer, such instrument or order may (amongst other things) (i) result in a transfer of obligations under the Notes to another issuer via the mechanisms described above, (ii) affect the Issuer's ability to satisfy its obligations under the Notes and/or (iii) result in modifications to the terms of the Notes, which may have certain tax implications. In addition, the Banking Act contains particular powers for provision to be included in an instrument or order that such instrument or order (and possibly certain related events) be disregarded in determining whether certain widely defined "default event" provisions have occurred (which default events could include certain events of default under any Notes) and provides for the disapplication or modification of laws (with possible retrospective effect) and/or fiscal consequences in connection with the exercise of powers under the Banking Act.

Secondary legislation which makes provision for stabilisation tools to be used in respect of any "banking group company" came into force 01 August 2014. The definition of "banking group company" will encompass certain of the Issuer's subsidiaries and affiliates. The amendments to the Banking Act allow all of the current stabilisation options under the SRR and the bail-in stabilisation power to be applied to any of the Issuer's group companies that meet the definition of a "banking group company."

There can be no assurance that further amendments may not be made to the Banking Act or other legislation introduced in the UK which would have the effect of amending the SRR described above, and as a result, the position of Noteholders. In addition, there can be no assurance that no other legislation will be introduced which might have an adverse effect on the position of Noteholders.

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 Issuer, 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. **Additional Tier 1, Common Equity Tier 1 and Tier 2** have the meanings given to them (or any successor terms) in the Capital Adequacy Regulations (as defined in the Terms and Conditions of the Notes).

The BRRD also provides for a Member State as a last resort, after having assessed and used the above resolution tools to the maximum extent practicable whilst maintaining financial stability, and where certain other mandatory conditions of the BRRD have been satisfied, to be able to provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the EU state aid framework. The Banking Act therefore sets out additional conditions for the use of the temporary public ownership tool and provision of financial assistance.

Accordingly, the use of any stabilisation powers in respect of the Issuer may have an adverse effect on the Issuer’s ability to perform its obligations in respect of Notes, and the use (or perceived risk of use) of any stabilisation powers and/or (in the case of Subordinated Notes) the capital write down tool in respect of Notes themselves may impact the market price of the Notes and/or may adversely affect the rights of Noteholders in respect of their Notes. These risks are discussed further in the following paragraphs.

The Authorities have been granted wide powers under the Banking Act and the following paragraphs set out some of the possible consequences of the exercise of those powers under the SRR.

The SRR may be triggered prior to insolvency of the Issuer

The purpose of the stabilisation options 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 stabilising 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 exercised prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated.

EBA guidelines on the circumstances in which a relevant entity shall be deemed as “failing or likely to fail” by supervisors and resolution authorities have applied since 1 January 2016. The guidelines set out the objective criteria which should apply when supervisors and Authorities make such a determination.

Although the Banking Act provides for conditions to the exercise of any resolution powers and the EBA guidelines set out the objective elements for determining whether a relevant entity is failing or likely to fail, it is uncertain how the Authorities would assess such conditions in any particular situation. The relevant Authorities are also not required to provide any advance notice to Noteholders of their decision to exercise any resolution power. Therefore, Noteholders may not be able to anticipate a potential exercise of any such powers nor the potential effect of any exercise of such powers on the Issuer or the Notes.

Regulatory changes and tax reforms

As part of the Autumn 2018 Budget the UK government announced that the Taxation of Regulatory Capital Securities Regulations 2013 (**RCS Regulations**) will be revoked and replaced with new tax rules for, inter alia, hybrid capital instruments, generally with effect for accounting periods beginning on or after 1 January 2019 (or for that part of any accounting period falling after 1 January 2019). The new rules are intended to preserve coupon deductibility for hybrid capital instruments which are genuine debt instruments. However, the legislation providing for the new rules has not yet been enacted and could therefore be subject to change as part of the legislative process. Unless the drafting of the legislation changes materially, the Issuer is likely to make an irrevocable election for the new rules to apply to Subordinated Notes and other existing hybrid capital instruments for which the election is available and where it is appropriate in the circumstances to do so. Transitional provisions would apply to those instruments issued by the Issuer which were regulatory capital instruments for the purposes of the RCS Regulations immediately before 1 January 2019.

Various actions may be taken in relation to any securities issued by the Issuer (including the Notes) without the consent of the holders thereof

If the Issuer were 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 Issuer 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 Issuer (including the Notes) without the consent of the holders thereof, including (among other things):

- (i) transferring the Notes free from any restrictions on transfer and free from any trust, liability or encumbrance;
- (ii) delisting the Notes;
- (iii) writing down (which may be to nil) the Notes or converting the Notes into another form or class (for example, into equity securities);
- (iv) 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 of the effect thereof; or
- (v) where property is held on trust, removing or altering the terms of such trust.

The bail-in power includes the power to cancel or write-down (in whole or in part) certain liabilities (including the Notes) or modify the terms of certain contracts (including the Notes) for the purposes of reducing or deferring the liabilities of a UK building society under resolution and the power to convert certain liabilities (including the Notes) from one form to another.

There is also the power to convert a building society into a company in connection with a bail-in. The exercise of such powers may result in the cancellation of all, or a portion, of the principal amount of, interest on, or any other amounts payable on, the Notes and/or the conversion of all or a portion of the principal amount of, interest on, or any other amounts payable on, the Notes into equity securities or other securities or other obligations of the Issuer or another person, including by means of a variation to the terms of the Notes.

The taking of any such actions could materially adversely affect the rights of Noteholders, the price or value of their investment in the Notes, the liquidity and/or volatility of any market in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes. In such circumstances, Noteholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act. However, such compensation will be limited to the return the Noteholder might otherwise have received on an insolvency of the Issuer (less the value already received through resolution), and there can be no assurance that Noteholders will have such a claim or, if they do, that they would thereby recover compensation promptly or equal to any loss actually incurred.

In addition, if the market perceives or anticipates that any action may be taken under the Banking Act in respect of the Issuer or any of its securities (including any Notes issued under the Programme), this may have a significant adverse effect on the market price of the Notes and/or the liquidity and/or volatility of any market in the Notes, whether or not such powers are ultimately exercised. In such case, investors may experience difficulty in selling their Notes, or may only be able to sell their Notes at a loss.

Contractual arrangements between the Issuer, its group companies and/or the bridge bank or private sector purchaser may be created, modified or cancelled

If the Issuer were made subject to the SRR and a partial transfer of the Issuer's business to another entity were effected, the transfer may directly affect the Issuer and/or its group companies by creating, modifying or cancelling their contractual arrangements with a view to ensuring the provision of such services and facilities as are required to enable the bridge bank or private sector purchaser to operate the transferred business (or any part of it) effectively. For example, the transfer may (among other things) (i) require group companies to support and co-operate with the bridge bank or private sector purchaser; (ii) cancel or modify contracts or arrangements between the Issuer or the transferred business and a group company; or (iii) impose additional obligations on the Issuer under new or existing contracts. As at the date of this Prospectus, the Authorities have not made an instrument or order under the Banking Act in respect of the Issuer and there has been no indication that they will make any such instrument or order. There can be no assurance that the taking of any such actions would not adversely affect the ability of the Issuer to satisfy its obligations under the Trust Deed, the Agency Agreement, the Dealer Agreement and the Notes.

Mandatory write-down and conversion of capital instruments may affect the Subordinated Notes

As noted above, in addition to the stabilisation options which may be used in a resolution of an institution, 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 Issuer, could be core capital deferred shares), any Additional 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) 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.

A partial transfer of the Issuer's business may result in a concentration of risk

If the Issuer were made subject to the SRR and a partial transfer of the Issuer's business to another entity were effected, the quality of the assets and the quantum of the liabilities not transferred and remaining with the Issuer (which may include the Notes) may result in a deterioration in the creditworthiness of the Issuer and, as a result, increase the risk that the Issuer may be unable to meet its obligations in respect of the Notes and/or eventually become subject to administration or insolvency proceedings pursuant to the Banking Act.

In such circumstances, under the terms of which the liabilities under the Notes were not transferred, Noteholders may have a claim for compensation under one of the compensation schemes currently existing under, or contemplated by, the Banking Act (including pursuant to the Banking Act 2009 (Third Party Compensation Arrangements for Partial Property Transfers) Regulations 2009).

However, such compensation will be limited to the return the Noteholder might otherwise have received on an insolvency of the Issuer (less the value already received through resolution), and there can be no assurance that Noteholders will have such a claim or, if they do, that they would thereby recover compensation promptly or equal to any loss actually incurred.

As at the date of this Prospectus, the Authorities have not made an instrument or order under the Banking Act in respect of the Issuer or any of its securities and there has been no indication that they will make any such instrument or order. However, there can be no assurance that this will not change and/or that Noteholders will not be adversely affected by any such order or instrument if made.

Basel III

On 16 December 2010, 13 January 2011, 12 January 2014 and in 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 has been implemented in the EEA through a regulation (the **Capital Requirements Regulation** or **CRR**) and an associated directive (the **Capital Requirements Directive** or the **CRD**, together **CRD IV**) which were adopted by the Council of Ministers on 20 June 2013 and which were published in the Official Journal of the European Union of 27 June 2013. CRR establishes a single set of harmonised prudential rules which apply directly to all credit institutions in the EEA, with CRD containing less prescriptive provisions to be transposed into national law. CRR gives express recognition for Common Equity Tier 1 capital instruments for mutual and co-operative entities and permits the use of a cap or restriction on the maximum level of distributions under those instruments to safeguard the interests of members and reserves. Full implementation began from 1 January 2014, with particular elements being phased in over a period of time, to be fully effective by 2024.

The Issuer's capital is reported as a ratio of risk adjusted assets expressed as a percentage in different measures: Common Equity Tier 1 capital, Tier 1 capital and total capital. If the Issuer fails, or is perceived to be likely to fail, to meet its minimum regulatory requirements, this may result in administrative actions or regulatory sanctions.

In December 2013, the PRA published its policy statement PS7/13 "Strengthening Capital Standards: implementing CRD IV, feedback and final rule" on the UK rules, as applicable to the Issuer, which implement certain permitted national discretions in CRD IV. While 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 from 2014.

In addition to the specified requirements for all relevant entities, the PRA may require a credit institution such as the Issuer to meet additional "Pillar 2" requirements, split between "Pillar 2A" and "Pillar 2B". The PRA's current approach to Pillar 2 is set out in its statement of policy published in December 2017 and updated in April 2018. Since 1 January 2015, the PRA expects firms to meet Pillar 2A with at least 56 per cent. in Common Equity Tier 1 capital, no more than 44 per cent. in Additional Tier 1 capital and at most 25 per cent. in Tier 2 capital. The Issuer meets these requirements. The Pillar 2B requirement (the **PRA buffer**) is an amount of capital that firms should hold, in addition to their total capital requirement, to cover losses that may arise under a severe stress scenario, but avoiding duplication with the CRD IV buffers. Where the PRA assesses a firm's risk management and governance to be significantly weak, it may also set the PRA buffer to cover the risk posed by those weaknesses until they are addressed. Accordingly, there is a risk that the Issuer will be required to hold higher levels of or better quality capital than is currently anticipated or planned for. If and to the extent that the PRA adopts capital or other requirements which exceed existing capital requirements, this may adversely impact the Issuer's competitiveness relative to any banks and financial institutions subject to less stringent requirements.

CRD IV also introduces a new leverage ratio requirement. The leverage ratio is a non-risk based measure that is designed to act as a supplement to risk based capital requirements. The leverage calculation determines a ratio based on the relationship between Tier 1 capital and total consolidated exposure (i.e. total exposure is the sum of on-balance sheet exposures, derivative exposures, securities financing transaction exposures and off-balance sheet items). On 3 August 2016, the EBA recommended the implementation of an EU-wide leverage ratio minimum requirement of 3 per cent. to be implemented as a binding measure in 2018 in accordance with the CRD IV. The PRA has gone beyond this, applying a minimum liquidity ratio of 3.25 per cent.

The Bank of England Act 1998 (Macro-prudential Measures) (No 2) Order 2015 also grants the FPC powers of direction over a supplementary leverage ratio buffer and a countercyclical leverage ratio buffer which the PRA may apply to firms. Presently, the Issuer is not in scope of such requirements.]

In the event that the Issuer does fall within the scope of such requirements at any time in the future, should the Issuer fail, or be perceived likely to fail, to meet leverage expectations, this may result in administrative actions or regulatory sanctions. Notwithstanding that the Issuer is currently not within scope of the requirements, over the Issuer's business planning horizon, the Issuer expects to remain above minimum regulatory leverage ratio requirements.

To support the effectiveness of bail-in and other resolution tools, the BRRD requires that all institutions must meet an individual minimum requirement for eligible liabilities (known as **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".

In November 2016, the Bank of England published a Statement of Policy entitled "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (**MREL**) – Responses to Consultation and Statement of Policy". The paper (which was updated in June 2018) sets out the Bank of England's policy for exercising its power to direct institutions to maintain a minimum requirement for MREL under section 3A(4) of the Banking Act. Although the provisions of the BRRD transposed into UK law relating to MREL took effect from 1 January 2016, the Bank of England has confirmed that it intends to make use of the transition period allowed by the BRRD and the EBA regulatory technical standards on the criteria for determining MREL and proposes in most cases that an institution's MREL requirement will be set equal to the applicable minimum capital requirement until 1 January 2020. The Bank of England has stated that, by the end of 2020, it intends to conduct a review of its general approach to the calibration of MREL and the final transition date. This review will have regard to intervening changes in the UK regulatory framework and likely changes to the capital framework arising from the work of the Basel Committee. Given the Issuer's current resolution strategy, the recapitalisation component of its MREL requirement has been set at zero. This results in an external MREL requirement at a level equal to its existing capital requirements excluding buffers. The Issuer remains cognisant of the potential for MREL requirements over and above its existing capital requirements due to the potential for balance sheet growth and changing portfolio dynamics. The proposals could, in time, increase the Issuer's costs and may affect the Issuer's plans to grow its balance sheet. Should MREL requirements exceed current regulatory capital requirements, the Issuer's financial plans will be adjusted accordingly. Consequently, there is potential for the effects of these proposals to have an adverse impact on the results of operations, financial condition and prospects of the Issuer if MREL requirements increase in the future.

On 23 November 2016, the European Commission published, among other proposals, proposals to amend the BRRD (the **BRRD II Proposal**), including provisions related to MREL, and proposals to amend the CRR and the CRD (the **CRD V Proposal**). The majority of these proposals are still subject to the EU legislative process and national implementation, although the texts have been agreed at the level of the EU political institutions. The full effect of the BRRD II Proposal or the CRD V Proposal on the Issuer or the Bonds is uncertain and may materially affect the position in relation to MREL set out above.

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

From time to time, the International Accounting Standards Board (the **IASB**) and/or the EU 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 Issuer's financial statements. These changes can be difficult to predict and could materially impact how the Issuer records and reports its financial condition and results of operations. In some cases, the Issuer could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements. For example, IFRS 9: "Financial Instruments" is the new standard to replace IAS 39: "Financial Instruments: Recognition and Measurement". IFRS 9 changes the classification and

measurement of some financial assets, the recognition and the financial impact of impairment and hedge accounting. The Issuer has implemented IFRS 9 for the financial year starting on 1 January 2018. The impact to the Issuer from transition to IFRS 9 is disclosed in the audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2018. The IASB may make other changes to financial accounting and reporting standards that govern the preparation of the Issuer's financial statements, which the Issuer may adopt prior to the date on which such changes become mandatory if determined to be appropriate by the Issuer, or which the Issuer may be required to adopt any such change in the Issuer's accounting policies.

Financial Services Compensation Scheme (FSCS)

The FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or likely to be unable, to pay claims against them. Claims on the FSCS are funded by levies on UK deposit-taking institutions. An institution's FSCS levy is linked to its share of the UK deposit market. The FSCS levy may have a material impact on the corporate profits of the Issuer. As a result of various claims under the FSCS, the Issuer, in common with all regulated UK deposit takers, has recently been subject to significantly increased FSCS levies. As at 31 December 2018 the Issuer has paid £21.9 million in levies in relation to the FSCS. As at 31 December 2018, a provision of £0.1 million was held in respect of levies to FSCS.

There can also be no assurance that there will be no actions taken under the Banking Act 2009 that may lead to future claims against the FSCS, and concomitant increased FSCS levies payable by the Issuer (and other regulated UK deposit takers). Any such increases in the Issuer'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 compensations schemes, including increasing the scope and level of protection and moving to pre-funding of compensation schemes.

In April 2014, the EU directive on deposit guarantee schemes (**DGSD**) was adopted and EU Member States had until 3 July 2015 to implement it into national law, which the UK has done. The revised DGSD requires EU Member States to ensure that by 3 July 2024 the available financial means of the deposit guarantee schemes reach a minimum target level of 0.8 per cent. of the covered deposits of credit institutions and national schemes are to be funded through regular contributions before the event (*ex-ante*) to the deposit guarantee schemes. It is possible, as a result of these rules, that future FSCS levies on the Issuer may differ from those at present, and such reforms could result in the Issuer incurring additional costs and liabilities, which may adversely affect its business, financial conditions and/or results of operations. From 30 January 2017, the deposit compensation limit increased from £75,000 to £85,000.

Building Societies (Financial Assistance) Order 2010

On 7 April 2010, the UK Building Societies (Financial Assistance) Order 2010 (the **Financial Assistance Order**) came into force in respect of certain powers under the Banking Act for the purpose of modifying the application of the Act in specified circumstances to facilitate the provision of relevant financial assistance (including the giving of guarantees or indemnities or any other kind of financial assistance (actual or contingent)) to a building society by certain qualifying institutions. Qualifying institutions for this purpose include HM Treasury, the Bank of England, another central bank of a member state of the EEA, the European Central Bank, or any person acting for or on behalf of any such institution or providing financial assistance to a building society on the basis of financial assistance from such an institution. Most significantly, the Financial Assistance Order would permit the Bank of England to provide such assistance without it counting for the purpose of calculating the 50 per cent. limit on a building society's non-member funding and also modifies the application of the purpose test and the lending limit. As at the date of this Prospectus, the Issuer had not received any such financial assistance.

The Group is exposed to risk in relation to data protection

The Group holds, controls and processes a significant volume of personal data and could be adversely affected if any of this data were to be lost, compromised or not handled in accordance with the relevant data protection legislation. This could give rise to legal or regulatory penalties as well as commercial costs. Although the Group has robust data protection policies and procedures in place, any loss or compromise of personal data or other breach of data protection legislation could have a material adverse effect on the Group's business, results of operations and financial performance.

The European General Data Protection Regulation (the **GDPR**), came into force on 25 May 2018, imposing new obligations on data controllers and data processors and new rights for data subjects which the Group needs to comply with. The GDPR also introduces significantly increased financial penalties that can be imposed on the Group as the result of any non-compliance with the GDPR. For more information see the risk factor above entitled "*The FCA, PRA, and other bodies such as the Financial Ombudsman Service (the FOS), could impose further regulations or obligations in relation to current and past dealing with retail customers. As a result, the Issuer may incur costs in complying with these regulations or obligations relating to its business, including potential compensation and costs*".

Principal Risks

The principal risks to which the Issuer is exposed include conduct risk, credit risk, liquidity and funding risk, operational risk, interest rate risk, business risk, solvency risk and legal and regulatory risk. As a mutual, the Issuer maintains a relatively low risk appetite, as evidenced by its capital ratios as well as a suite of liquidity measures with appropriate limits, triggers and early warning indicators in place and reviewed and monitored on a regular basis. Failure to control these risks could result in material adverse effects on the Issuer's financial performance and reputation.

The Issuer's risk management structure is the overall responsibility of the Board of Directors of the Issuer (the **Board**). The Board delegates prescribed responsibilities through a formalised risk governance framework provided by a structure consisting of a Board Risk Committee and subsidiary risk management committees. Each committee includes appropriate representation drawn from the non-executive team, executive team, divisional management and risk specialists. Within this structure, the Issuer actively manages the principal risks described above that arise from its activities. The Issuer's embedded culture and risk management philosophy reflects a strong awareness of the current and emerging risks which could affect delivery of the Issuer's strategy.

The Issuer operates a 'three lines of defence' model ensuring clear independence of responsibilities for risk control, oversight and governance. In addition, there is a formal structure for managing risks across the Issuer which is documented in detailed risk management policies. These policies, and associated limits, are owned and reviewed at least annually by functional risk committees which report to the Board Risk Committee and the Board.

The UK and European regulatory authorities require all banks and building societies to formulate recovery plans to minimise the risk of failure. The Issuer's recovery plan outlines the steps the Issuer can take to prevent failure, whilst a resolution plan provides the data required by the Bank of England to establish an orderly resolution of the Issuer's affairs, in the event that recovery cannot be achieved. The process of preparation for such extreme events enables the Board to plan actions it would take to recover from adverse conditions which could otherwise lead to failure. The recovery plan represents a 'menu of options' for the Issuer to deal with firm-specific or market-wide stresses and which can be incorporated into a credible and executable plan.

A number of principal risks have the potential to affect more than one specific risk category and could have a significant impact on the business model if these were to crystallise concurrently. In particular,

increased regulatory demands could significantly change capital or liquidity requirements which could, in extreme circumstances, threaten the viability of the Issuer's business model.

Conduct Risk

Conduct risk is the risk of the Group treating its customers unfairly and delivering inappropriate outcomes. The sustainability of the Group's business model and achievement of its longer-term strategy are dependent upon the consistent and fair treatment of customers. The increasing regulatory scrutiny of the measures adopted by firms in relation to business conduct has been mirrored by the Issuer's approach towards the governance of conduct risk.

Credit Risk

Credit risk is the potential risk of financial loss arising from the failure of a customer or counterparty to settle their financial and contractual obligations as they fall due. The Issuer's retail credit exposures are managed in accordance with the Board approved lending policy which is based upon a comprehensive analysis of both the creditworthiness of the borrower and the proposed security. Following the completion of a loan, the performance of all mortgages is monitored closely and all necessary action taken to manage the collection and recovery process. Wholesale counterparty exposures are also managed through the setting of limits to individual counterparties, countries, terms of exposure and type of financial instrument. Day-to-day management of credit risk is undertaken by specialist teams using credit risk management techniques adopted as part of the Issuer's overall approach to measure, mitigate and manage credit risk in a manner consistent with the risk appetite approved by the Board Risk Committee and the Board. In addition, regular stress testing is undertaken which seeks to establish the extent to which losses may emerge under a range of different macroeconomic and specific stress scenarios and to ensure that the Issuer continues to remain within its retail credit risk appetite.

Commercial risk appetite is regularly reviewed in the light of changing economic and market conditions and is also subject to annual review. The Issuer remains cautious with regard to commercial lending which is undertaken on a prudent basis and where management has maintained a strategy geared towards reducing larger, single counterparty loans.

Treasury credit risk arises from the investments held by Group Treasury in order to meet liquidity requirements and for general business purposes. Treasury is responsible for managing this aspect of credit risk within operational limits as set out in the Issuer's Treasury Policy Statement.

Liquidity and Funding Risk

Liquidity risk is the risk that the Issuer is unable to meet its current and future financial obligations as they fall due. The financial obligations include members' deposits, both on demand and those with contractual maturity dates, as well as repayments of other borrowings and loan capital. The Issuer's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Issuer and to be in a position to meet its financial obligations as they fall due. This is achieved through maintaining a prudent level of liquid assets, through wholesale funding facilities and through careful management of the growth of the business. The Issuer is at risk if it does not comply with the above principles. In addition, in the event of a sudden loss of confidence in the Issuer's liquidity position causing a rapid withdrawal of investors' deposits, the Issuer's ability to continue to pursue its business objectives could be placed at risk.

The Issuer holds buffer eligible liquidity over and above the requirements laid down by the PRA and these are under continuous review through methods which include a number of robust stress testing scenarios carried out monthly. A full report of the results is submitted to the Issuer's Finance Committee where any remedial action is sanctioned.

The Issuer is subject to a periodic Supervisory Liquidity Review and Evaluation Process by the PRA and any recommendations resulting from this are implemented accordingly. Funding risk is the inability to access funding markets or to do so only at excessive cost. To ensure risk is minimalised the Issuer's Treasury function manages on a day to day basis the Issuer's portfolio of liquid assets and wholesale funding facilities. The Finance Committee exercises control over the Issuer's liquidity through the operation of strict liquidity policies and close monitoring, receiving weekly reports on current and projected liquidity positions.

As at 31 December 2018, LCR, a measure of the Issuer's ability to withstand short-term liquidity stress, was 155.8 per cent. (2017: 203.0 per cent.).

Operational Risk

The Issuer's business is dependent on the ability to process a large number of transactions efficiently and accurately. Operational risk is the potential risk of financial loss or impairment to reputation arising from inadequate or failed internal processes or systems, human error or external events. To minimise operational risk, the Issuer maintains a system of control commensurate with the characteristics of the business and the markets in which it operates, reflecting best practice principles and regulatory considerations. The Issuer has implemented risk controls and loss mitigation actions and devoted substantial resources to developing efficient procedures and staff training. However, it is not possible to implement procedures which are fully effective in controlling or mitigating all operational risk. Other operational risk mitigants include insurance and business continuity arrangements. Notwithstanding the foregoing, this risk factor should not be taken as implying that the Issuer will be unable to comply with its obligations either as a company with securities admitted to the Official List or as a supervised firm regulated by the FCA and PRA.

Interest Rate Risk

Interest rate risk is the risk of a reduction in earnings from changes in interest rates. The Issuer offers numerous mortgage and savings products with varying interest rate features and maturities that create potential interest rate exposures. The Issuer manages this exposure on a continuous basis, with limits set by the Board, using a combination of on and off balance sheet instruments. The Issuer's policy is to hedge exchange rate exposure to ensure there is no significant exposure to foreign exchange fluctuations or changes in foreign currency interest rates.

The Issuer is exposed to interest rate risk, principally arising from the provision of fixed rate lending and savings products. The various interest rate features and maturity profiles for these products, and the use of wholesale funds to support their delivery, create interest rate risk exposures due to the imperfect matching of interest rates between different financial instruments and the timing differences on re-pricing of assets and liabilities. Another form of interest rate risk arises from the imperfect correlation between repricing of interest rates on different assets and liabilities, generally referred to as "basis risk". This may arise from the Issuer's administered rate liabilities, the pricing of which is influenced by competition for retail funds and which are used to fund mortgages and other assets priced relative to the Bank of England base rate, or LIBOR, albeit for short durations. The Treasury function employs the use of financial instruments to manage balance sheet mismatches and ensure adherence to Board approved limits that ensure the impact of a change in general interest rates has limited and controlled effects on both the net interest income generated and the present value of its statement of financial position. Regular stress testing and scenario analysis is undertaken to ensure full understanding of the Issuer's current interest rate exposure.

The performance of financial markets may cause changes in the value of the Issuer's financial securities held for investment purposes. The Issuer has implemented risk management methods to mitigate and control these and other market risks to which the Issuer is exposed and exposures are constantly measured and monitored. However, it is difficult to predict with accuracy changes in

economic or market conditions and to anticipate the effects that such changes could have on the Issuer's financial performance and business operations.

Currency risk is not considered to be material for the Issuer as almost all transactions are conducted in sterling.

Business Risk

Business risk is the risk arising from changes to the business model and also the risk of the business model or strategy proving inappropriate due to macroeconomic, geopolitical, regulatory or other factors. The Issuer considers strategic risk, the risk to delivering the Issuer's Corporate Plan (which sets out the Issuer's strategic and business objects over a five year period), to be the principal business risk. The updated five year financial plan was signed off by the Board in October 2018 and covers the period from 2019 to 2023. As part of the process of compiling the plan, detailed funding and lending plans from the business were used, with the Issuer's second line function reviewing and challenging both the assumptions and outputs. This plan includes detailed profit and loss and balance sheet assumptions which form the basis of the Internal Liquidity Adequacy Assessment Process (ILAAP) document and the Issuer's Internal Capital Adequacy Assessment Process (ICAAP) document, which subject the plan to liquidity and capital stresses, respectively. In addition, a risk to reputation is inherent in all risk categories where actions and incidents can affect the extent to which people trust, and wish to do business with the Issuer.

The management of strategic risk is intrinsically linked to the corporate planning and stress testing processes and is further supported by the regular provision of consolidated business performance and risk reporting data to the Board and senior risk committees. The Issuer will continue to carefully manage its reputational risk and invest significant resources in enhancing the robustness of its systems and controls, governance, product assessment and ongoing monitoring.

Cyber Crime

A growing potential risk to the business is cybercrime which includes attempts by computer hackers to gain access to the Issuer's network potentially leading to business disruption, the manipulation of data, systems failures and the stealing of personal customer information. Such attacks are by their nature technologically sophisticated and may be difficult or impossible to detect and defend against.

The ever-increasing sophistication of cyber-crime activity raises the likelihood and severity of money laundering and cyber-attacks against the Issuer. While the Issuer continues to focus its efforts on investing in appropriate technology and processes in line with industry best practice, security controls (including sophisticated anti-fraud controls) need to continually evolve and improve to keep pace with developments in criminal activity in order to prevent, detect and respond to any threats or attacks.

The Issuer also depends on third parties whose computer systems may be subject to cybercrime attacks.

If prevention measures are inadequate or circumvented this could cause the Issuer to fail to perform its obligations.

In the event that the Issuer was subject to a cyber-attack, such attack could adversely affect the reputation of the Issuer and its business and financial results.

The Issuer recognises that the cyber threat remains a key industry concern and will continue to adopt adequate controls in line with industry best practice.

Innovation and Business Resilience Development Risk

The pace of technological development continues to create significant opportunities and risks for the financial services sector. The Issuer is implementing new technology to ensure it can continue to deliver a service that members and customers expect and value. In line with the wider financial services market, certain key areas pose risk to achieving its goals.

There are new entrants to the market and an increase in demand for innovative offerings, in particular digital products and services. These changes may pose a challenge to the Issuer's core markets and product pricing.

The second Payment Services Directive (**PSD2**) was transposed into UK law in January 2018 and is bringing new payment service providers into the scope of regulation. This is opening up access to payment accounts through authorised third parties which require enhanced security measures. The Issuer does not offer payment accounts within the scope of PSD2. However it will need to respond to changes in customer behaviour in the future.

The scale and pace of change may outstrip the Issuer's capacity to achieve its transformation programme. This could create delivery challenges and impact distribution strategy and its operating environment.

The Board continues to monitor the potential impact on the Issuer's business model and invest in its digital channels and payment technologies. The Issuer recruits and deploys experienced change management and IT resource to ensure these risks are managed and mitigated.

Solvency

Capital is held to protect depositors and investors, by ensuring that there will be sufficient assets to repay liabilities even in the event of unexpected losses. When assessing the adequacy of available capital, the Issuer's Board considers the material inherent risks to which the Issuer is exposed and also the need for capital to be available to support the growth of the business.

In 2013 the Issuer obtained permission to use the Internal Ratings Based (IRB) approach for calculating credit risk capital requirements which has been applied to the first charge Retail and Commercial Lending portfolios, but excluding loans to Registered Social Landlords. This approach allows the Issuer to calculate capital requirements using internally developed models that reflect the credit quality of the Issuer's mortgage book. This permission reflects the Issuer's detailed understanding of its customer base and credit risk profile. For other exposures and risk areas the Issuer follows the standardised approach which uses capital risk weighting percentages set by the PRA.

The Issuer has strong capital ratios with a CET1 ratio of 27.1 per cent. and a leverage ratio of 5.6 per cent. as at 31 December 2018. The Issuer prepares an annual ICAAP which is subject to a periodic Supervisory Review and Evaluation Process by the PRA and any recommendations resulting from this are implemented accordingly.

Legal and Regulatory

There is a legal and regulatory risk that the Issuer does not deliver and maintain legislative and regulatory compliance in all material aspects. Non compliance could result in legal and regulatory action. The Issuer's business model and strong 'member focus' is designed to avoid this.

Payment Protection Insurance

In August 2010 Financial Services Authority (the **FSA**) published a Policy Statement (PS10/12) on “The Assessment and Redress of Payment Protection Insurance Complaints”. The Statement applies to all types of Payment Protection Insurance (**PPI**) policies.

On 20 April 2011, the High Court ruled in favour of the FSA in concluding that banks and building societies which had sold PPI would be required to review all past PPI sales including sales to customers who had not made complaints. The BBA chose not to appeal this ruling.

In November 2014, the UK Supreme Court ruled in *Plevin v. Paragon Personal Finance Ltd* [2014] UKSC 61 (**Plevin**) that a failure to disclose to a client a large commission payment on a single premium PPI policy made the relationship between a lender and the borrower unfair under section 140A of the Consumer Credit Act 1974. As a result, the FCA announced on 27 May 2015 that it was considering whether additional rules or guidance on PPI complaints are required subsequent to the Plevin decision. On 2 October 2015, the FCA announced that it was proposing to consult, by the end of 2015, on the introduction of a deadline by which consumers would need to make their PPI complaints or else lose their rights to have them assessed by the Financial Ombudsman Service (the **FOS**). In November 2015, the FCA published its Consultation Paper CP 15/39 entitled "Rules and guidance on payment protection insurance complaints". On 2 August 2016, the FCA published feedback to CP 15/39, together with a further consultation paper, Consultation Paper CP 16/20, on changes to the proposed rules and guidance concerning the handling of PPI complaints in light of Plevin. The results of the consultation and the final rules and guidance, Policy Statement PS 17/3, were published on 3 March 2017 and may result in an increase in the volume of 'Plevin-based' unfair relationship claims brought against the lenders who failed to disclose significant PPI commissions when entering into credit agreements. A key aspect of the FCA's final rules is a PPI complaints deadline falling two years from 29 August 2017 when the rules came into force – hence PPI consumers have until 29 August 2019 to complain to the firm or to the FOS.

Provisions have been made in respect of claims in relation to previous sales of PPI which, in the Group's case, relate to secured lending PPI products.

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

Risks related to the structure of a particular Issue of Notes

Notes issued under the Programme may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer 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 Regulatory Event (in the case of Subordinated Notes) or a Loss Absorption Disqualification Event (in the case of certain Senior Non-Preferred Notes) (and in either case, subject to the satisfaction of the relevant pre-conditions set out in the Terms and Conditions of the Notes, including Regulatory Approval (as defined in the Terms and Conditions of the 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 Issuer 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 the BRRD II Proposal, 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, Senior Preferred Notes and Deposit Notes all share the 'senior' designation under the Programme, the Senior Non-Preferred Notes rank junior to the Senior Preferred Notes and the Deposit Notes (which, in turn, rank junior to those of the Issuer's obligations which are by law given priority over its Senior Preferred Notes and Deposit 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 or the Deposit 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, the Deposit 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 Banks and Building Societies (Priorities on Insolvency) Order 2018 (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 Additional 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 and Deposit Notes suffer lower (or no) losses (although there can be no assurance that investors in Senior Preferred Notes and Deposit 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 and the Deposit Notes. Accordingly, holders of Senior Non-Preferred Notes may bear significantly more risk than holders of Senior Preferred Notes and Deposit 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, Deposit 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 Terms and 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(c)), 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.

If the Notes include a feature to convert the interest basis from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned

Fixed/Floating Rate Notes are Notes which bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Such a feature to convert the interest basis, and any conversion of the interest basis, may affect the secondary market and the

market value of such Notes as the change of interest basis may result in a lower interest return for Noteholders. Where the Notes convert from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. Where the Notes convert from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on those Notes and could affect the market value of an investment in the relevant Notes.

Redemption for regulatory reasons

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

Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates

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"

Interest rates and indices which are deemed to be "benchmarks", (including LIBOR, EURIBOR and SONIA) are the subject of recent national and international regulatory guidance and proposals for reform. 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, 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".

Regulation (EU) 2016/1011 (the **Benchmarks Regulation**) was published in the Official Journal of the EU on 29 June 2016 and mostly applies, subject to certain transitional provisions, from 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. Among other things, it requires (i) 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.

Specifically, the sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark

reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, and in a subsequent speech by its Chief Executive on 12 July 2018, the FCA confirmed that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the **FCA Announcements**). The FCA Announcements indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

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 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). On 13 September 2018, the working group on euro risk-free rates recommended Euro Short-term Rate (**ESTER**) as the new risk free rate. ESTER is expected to be published by the ECB by October 2019. In addition, on 21 January 2019, the euro risk free-rate working group published a set of guiding principles for fallback provisions in new euro denominated cash products (including bonds). The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro area financial system.

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.

The issues discussed above 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 in the event that a Benchmark Event occurs, including if an Original Reference Rate and/or any page on which an Original Reference Rate may be published, becomes unavailable, or if the Issuer, the Calculation Agent, any Paying Agent or any other party responsible for the calculation of the Rate of Interest (as specified in the applicable Final Terms) are no longer permitted lawfully to calculate interest on any Notes by reference to such an Original Reference Rate under the Benchmarks Regulation or otherwise. Such fallback arrangements include the possibility that the Rate of Interest could be set by reference to a Successor Rate or an Alternative Rate (both as defined in the Terms and Conditions), with or without the application of an adjustment spread and may include amendments to the Terms and Conditions of the Notes to ensure the proper operation of the successor or replacement benchmark, all as determined by the Issuer (acting in good faith and in consultation with an Independent Adviser). An adjustment spread, if applied could be positive or negative and would be applied with a view to reducing or eliminating, to the fullest extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of an Original Reference Rate. However, it may not be possible to determine or apply an

adjustment spread and even if an adjustment is applied, such adjustment spread may not be effective to reduce or eliminate economic prejudice to investors. 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 a Successor Rate or Alternative Rate (including with the application of an adjustment spread) will still result in any Notes linked to or referencing an 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.

If, following the occurrence of a Benchmark Event, no Successor Rate or Alternative Rate is determined, the ultimate fallback for the purposes of calculation of the Rate 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 previous reset Rate of Interest for a preceding Reset Period, or for the First Reset Rate of Interest, the application of the Initial Rate of Interest applicable to such Notes on the Interest Commencement Date. Due to the uncertainty concerning the availability of Successor Rates and Alternative Rates, the involvement of an Independent Adviser, the potential for further regulatory developments and the fact that the provisions of Condition 5(n) *Benchmark Discontinuation* will not be applied if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the relevant Series of Notes as regulatory capital or eligible liabilities, where applicable, there is a risk that the relevant fallback provisions may not operate as intended at the relevant time.

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.

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 Reset Reference 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). 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.

The Issuer's obligations under Subordinated Notes are subordinated

The Issuer's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority to the Senior Claims (as defined in the Terms and Conditions of the Notes) but without preference among themselves. Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is an enhanced risk that an investor in Subordinated Notes will lose all or some of his investment should the Issuer become insolvent.

Subordinated Notes may be subject to loss absorption on any application of the general bail-in tool or at the point of non-viability of the Issuer.

The BRRD contemplates that Subordinated Notes may be subject to loss absorption at the point an institution is "non-viable", in addition to the application of the general bail-in tool. See "*Risks relating to the Banking Act 2009 and the BRRD*".

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 which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Noteholders and without regards to the individual interests of particular Noteholders.

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 and without regard to the interests of particular Noteholders, agree to:

- (a) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes; or

- (b) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such; or
- (c) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 12 of the Conditions of the Notes.

The value of the Notes could be adversely affected by a change in English law or administrative practice

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 after the date the issue of the relevant Notes and any such change could materially adversely impact the value of any notes affected by it.

Investors who purchase Notes in denominations that are not an integral multiple of the Specified Denomination may be unable to sell their Notes and may be adversely affected if definitive Notes are subsequently required to be issued

In relation to any issue of Notes which have a denomination consisting of a minimum Specified Denomination plus one or more higher integral multiple of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a Noteholder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may 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 at or in excess of the minimum denomination such that it holds an amount equal to one or more Specified Denominations.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified denomination may be illiquid and difficult to trade.

Risks related to the market generally

Set out below is a description of the material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid and may be sensitive to changes in financial markets. 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 should the Issuer be in financial distress, which may result in any sale of the Notes having to be at a substantial discount to their principal amount or 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.

In addition, Noteholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date of this Prospectus), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Notes. Such lack of liquidity may result in investors suffering losses on the Notes in secondary resales even if there is no decline in the performance of the assets of the Issuer. The Issuer cannot predict which of those circumstances will change and whether, if and when they do change, there will be a more liquid market for the Notes and instruments similar to the Notes at that time.

If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes

The Issuer 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 (**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 or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal at all.

The value of Fixed Rate Notes may be adversely affected by movements in market interest rates

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate, this will adversely affect the value of the Fixed Rate Notes.

Legal investment considerations may restrict certain investments

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

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus and have been filed with the Financial Conduct Authority shall be incorporated in, and form part of, this Prospectus:

- (a) the audited consolidated annual financial statements of the Issuer for the financial years ended 31 December 2017 and 31 December 2018, respectively (together in each case with the audit report thereon and the section relating to the board of directors);
- (b) the sections headed “*Terms and Conditions of the Notes*” at pages 20 to 48 of the Prospectus dated 7 April 2006, at pages 21 to 50 of the Prospectus dated 18 May 2007, at pages 21 to 52 of the Prospectus dated 11 June 2008, at pages 26 to 56 of the Prospectus dated 14 July 2010, at pages 28 to 58 of the Prospectus dated 28 April 2011, at pages 36 to 73 of the Prospectus dated 23 December 2014, at pages 37 to 74 of the Prospectus dated 2 March 2016, at pages 39 to 76 of the Prospectus dated 12 May 2017 and at pages 40 to 78 of the Prospectus dated 4 May 2018, in each case in respect of the Principality £1,000,000,000 Euro Medium Term Note Programme, which have been previously published or are published simultaneously with this Prospectus and which have been approved by the Financial Conduct Authority or filed with it.

Following the publication of this Prospectus a supplement may be prepared by the Issuer and approved by the FCA in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be (i) 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) obtained from the registered office of the Issuer or from www.principality.co.uk.

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

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Prospectus.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to amendment and as supplemented or varied 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. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so, amended, supplemented or varied (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 2 March 2016 (as amended 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 amended and restated Agency Agreement dated 23 December 2014 (as amended or supplemented from time to time, the **Agency Agreement**) 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 at the specified offices of the Paying Agents and the Transfer Agents.

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 applicable 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 will be issued in the Specified Denomination(s) specified in the applicable Final Terms. Registered Notes will be issued in multiples of the Specified Denomination specified in the applicable Final Terms.

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 may be a Fixed Rate Note, a Resettable Note, a Floating Rate Note, a Zero Coupon Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms. This Note is a Deposit Note or a Senior Preferred Note

or 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 ordered by a court of competent jurisdiction or as required by 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 in these Conditions or the applicable Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 Exchanges of Exchangeable Bearer Notes and Exchangeable Registered 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 reasonably 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.

(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

(a) Status of Senior Preferred Notes and Deposit Notes

The Senior Preferred Notes and the Deposit Notes (being those Notes that specify their status as Senior Preferred or Deposit) and the Coupons relating to them constitute direct, unconditional and (subject to Condition 4) unsecured obligations of the Issuer and (subject to Condition 4) constitute ordinary non-preferential debt for the purposes of the Ranking Legislation. The Senior Preferred Notes and the Deposit Notes and the Coupons relating to them rank and will rank *pari passu* and without any preference among themselves. The Issuer and, by virtue of its holding of any Senior Preferred Note or Deposit Note or any beneficial interest therein, each holder of a Senior Preferred Note or a Deposit Note and each holder of a Coupon relating to a Senior Preferred Note or a Deposit Note acknowledge and agree that (subject to the provisions of Condition 4) the Senior Preferred Notes, the Deposit Notes and any such Coupons rank *pari passu* with all other outstanding unsecured and unsubordinated deposits with, and loans to, the Issuer, present and 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 the Deposit Notes and (ii) such deposits or loans to the Issuer 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 the Deposit 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, the Deposit 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 in the manner provided in the Trust Deed 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 Setoff" is expressly specified to be "Not Applicable" in the applicable Final Terms.

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 setoff, 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 and the Supervisory Authority" elsewhere in this Prospectus.

(c) **Status of Subordinated Notes**

- (i) The Subordinated Notes (being those Notes that specify their status as Subordinated) and the Coupons relating to them constitute direct, unsecured and subordinated 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 Preferred Notes and the Senior Non-Preferred Notes and any Coupons relating thereto. The Subordinated Notes and the Coupons relating to them rank and will 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 in the manner provided in the Trust Deed 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 and the Supervisory Authority” elsewhere in this Prospectus.

(d) **Definitions**

For the purpose of these Conditions:

Act means the Building Societies Act 1986 (as amended) (including, where applicable, any statutory modification thereof or re-enactment thereof or any statutory instrument, order or regulations made thereunder or under any such statutory modification or re-enactment);

Additional Tier 1 Capital, CET1 Capital and Tier 2 Capital have the meanings given to them (or any successor terms) in the Capital Adequacy Regulations (as defined in Condition 6(l)).

Deferred Shares means deferred shares within the meaning of the Act;

Excluded Dissolution means each of (i) a winding up or dissolution of the Issuer for the purpose of a reconstruction or amalgamation, the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) or the substitution in place of the Issuer or a Successor in Business (as defined in the Trust Deed) affected in accordance with the provisions of Condition 12 and Clause 6 of 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 (other than subordinated deposits) with or loans to the Issuer and all claims to interest thereon (including claims by persons who become holders of deposits pursuant to Section 100 of the Act if the Issuer transfers its business to a successor pursuant to Section 97 of the Act), (ii) all claims in respect of Senior Preferred Notes and (iii) (but only in respect of a winding up while the Issuer remains a building society) all claims of members holding shares in the Issuer as regards the principal of their 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.

So long as any of the Senior Preferred Notes or, as the case may be, Deposit Notes or Coupons remains outstanding (as defined in the Trust Deed) the Issuer shall not, and shall ensure that none of its Subsidiaries shall create or have outstanding any mortgage, charge, pledge, lien (other than a lien arising by operation of law) or other form of security interest upon the whole or any part of its undertaking, assets or revenues, present or future (including any uncalled capital), to secure any Relevant Debt, or any guarantee of or indemnity in respect of any Relevant Debt without at the same time or prior thereto securing the Senior Preferred Notes or, as the case may be, Deposit Notes and Coupons equally and rateably therewith to the satisfaction of the Trustee or providing such other security, guarantee, indemnity or other arrangements for the Senior Preferred Notes or, as the case may be, Deposit 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, as the case may be, the Deposit Notes or which shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the holders of the Senior Preferred Notes, or, as the case may be, the Deposit Notes.

For the purposes of this Condition, **Relevant Debt** means any present or future 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, 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.

5 Interest and Other Calculations

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount from (and including) 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 in the applicable Final Terms, 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 specified as Specified Interest Payment Dates in the applicable Final Terms or, if no Specified Interest Payment Date(s) is/are so specified, Interest Payment Date shall mean each date which falls the number of months or other period specified in the applicable Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) **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, 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.

(iii) 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 in the applicable Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the applicable Final Terms.

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

Where ISDA Determination is specified in the applicable Final Terms 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 in the applicable Final Terms) 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 in the applicable Final Terms;
- (y) the Designated Maturity is a period specified in the applicable Final Terms; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the applicable Final Terms.

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.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

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

(x) where Screen Rate Determination is specified in the applicable Final Terms 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 in the applicable Final Terms as being SONIA, the Rate of Interest for each Interest Accrual Period shall, subject as provided below, be either:

- (I) the offered quotation; or
- (II) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear 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 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, subparagraph (x)(I) above applies and no such offered quotation appears on the Relevant Screen Page or if subparagraph (x)(II) 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 Calculation Agent 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 the Calculation Agent determines that fewer than two Reference Banks are providing 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 (and at the request of) 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 in the applicable Final Terms 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 in the applicable Final Terms as being SONIA, the Rate of Interest for each Interest Accrual Period will, subject to Condition 5(n) and as provided below, be Compounded Daily SONIA plus or minus (as indicated in the applicable Final Terms) 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: where:

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

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

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

i is a series of whole numbers from one to **d_o**, 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 in the applicable Final Terms (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 in the applicable Final Terms 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 in the applicable Final Terms, 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) **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 (as defined in Condition 6(b)(i)).

(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 (both before and after judgment) at the Rate of Interest (or, in the case of Resettable 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 and Redemption Amounts and Rounding**

(i) If any Margin is specified in the applicable Final Terms (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(c) 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 in the applicable Final Terms, 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**

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 Resettable Notes, the Initial Rate of Interest, the First Reset Rate of Interest or any Subsequent Reset Rate of Interest), the Calculation Amount specified in the applicable Final Terms, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount 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. 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 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) **Relevant Screen Page 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) **Linear Interpolation**

Where Linear Interpolation is specified as applicable in respect of an Interest Accrual Period in the applicable Final Terms, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period, provided however that if there is no rate available for a period of time next is shorter or, as the case may be, next is longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

Designated Maturity means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(j) **Determination and Publication of Rates of Interest and Interest Amounts**

As soon as practicable on each Interest Determination Date (and, in the case of Resettable 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, it shall determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period or Reset Period, 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 Period or Reset Period and the relevant Interest Payment Date or Resettable Note Interest Period Date 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 the official list (the **Official List**) of the Financial Conduct Authority in its capacity as competent authority (the **FCA**) under the Financial Services and Markets Act 2000 (the **FSMA**) or on any stock exchange or other relevant authority and the rules of the FCA or such stock exchange or other relevant authority, as the case may be, so require, the FCA or 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 or Interest Period Date is subject to adjustment pursuant to Condition 5(c)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the prior consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest 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 unless the Trustee otherwise requires. 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) **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, which in the case of Australian dollars will be Sydney, or, in the case of New Zealand dollars will be Auckland; 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 Business Centres (as specified in the applicable Final Terms) a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres; and/or
- (iv) if TARGET System is specified as a Business Centre in the applicable Final Terms, a TARGET Business Day.

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 an Interest Accrual Period, the **Calculation Period**):

- (i) if “Actual/Actual” or “Actual/Actual – ISDA” is specified in the applicable Final Terms, 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 in the applicable Final Terms, the actual number of days in the Calculation Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, 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 in the applicable Final Terms, the actual number of days in the Calculation Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

Day Count Fraction =

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 in the applicable Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

Day Count Fraction =

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 in the applicable Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

Day Count Fraction =

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; and

- (viii) if “Actual/Actual – ICMA” is specified in the applicable Final Terms:
 - (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 Period means the period from and including a Determination Date in any year to but excluding the next Determination Date;

Determination Date means the date specified as such in the applicable Final Terms or, if none is so specified, the Interest Payment Date;

Eurozone means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended;

First Margin means the margin specified as such in the applicable Final Terms;

First Resettable Note Reset Date means the date specified as such in the applicable Final Terms;

First Reset Period means the period 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 in the applicable Final Terms, the Maturity Date;

First Reset Rate of Interest means, subject to Condition 5(h) (*Relevant Screen Page Fallback Provision for Resettable Notes*) above, the rate of interest being determined by the Calculation Agent on the relevant Reset Determination Date as the sum, converted from a basis equivalent to the Fixed Leg Swap Duration specified in the relevant Final Terms or the

Reference Bond Yield, as the case may be, to a basis equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (such calculation to be made by the Issuer in conjunction with a leading financial institution selected by it (which may be the Calculation Agent)), of (a) the relevant Reset Reference Rate plus (b) the First Margin;

Fixed Leg Swap Duration means the period or periods specified as such in the applicable Final Terms;

Initial Rate of Interest means the initial rate of interest per annum specified as such in the applicable Final Terms;

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 in the applicable Final Terms, shall mean the Fixed Coupon Amount or Broken Amount specified in the applicable Final Terms 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 in the applicable Final Terms;

Interest Determination Date means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the applicable Final Terms 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 in the applicable Final Terms;

ISDA Definitions means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the issue date of the first Tranche (as defined in the Trust Deed) of the Series of those Notes, unless otherwise specified in the applicable Final Terms;

Issue Date means the date of issue of the first Tranche of the Notes;

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 Fixed Leg Swap Duration specified in the applicable Final Terms (calculated on the basis of the Day Count Fraction as specified in the applicable Final Terms 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 in the applicable Final Terms) (calculated on the basis of the Day Count Fraction specified in the applicable Final Terms 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 the period specified in the applicable Final Terms;

Mid-Swap Rate means, in relation to a Reset Determination Date and subject to Condition 5(h) (*Relevant Screen Page Fallback Provision for Resettable Notes*) above, either:

- (i) if Single Mid-Swap Rate is specified in the applicable Final Terms, 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 in the applicable Final Terms, 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 in the applicable Final Terms;

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;

Reference Bond means for any Reset Period a government security or securities issued by the state responsible for issuing the Specified Currency (which, if the Specified Currency is euro, shall be Germany) selected by the Issuer on the advice of an investment bank of international repute as having an actual or interpolated maturity comparable with the relevant Reset Period that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the same currency as the Notes and of a comparable maturity to the relevant Reset Period;

Reference Bond Price means, with respect to any Reset Determination Date, (A) the arithmetic average of the Reference Government Bond Dealer Quotations for such Reset Determination Date, after excluding the highest and lowest such Reference Government Bond Dealer Quotations, or (B) if the Calculation Agent obtains fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations;

Reference Bond Reset Rate Time means the time specified in the applicable Final Terms;

Reference Government Bond Dealer means each of five banks (selected by the Issuer on the advice of an investment bank of international repute), or their affiliates, which are (A) primary government securities dealers, and their respective successors, or (B) market makers in pricing corporate bond issues;

Reference Government Bond Dealer Quotations means, with respect to each Reference Government Bond Dealer and the relevant Reset Determination Date, the arithmetic average, as determined by the Calculation Agent, of the bid and offered prices for the relevant Reference Bond (expressed in each case as a percentage of its nominal amount) at or around the Reference Bond Reset Rate Time on the relevant Reset Determination Date quoted in writing to the Calculation Agent by such Reference Government Bond Dealer;

Reference Rate means the rate specified in the applicable Final Terms;

Relevant Screen Page means such page, section, caption, column or other part of a particular information service as may be specified in the applicable Final Terms for the purpose of providing a Reference Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Reference Rate;

Reset Determination Date means, unless otherwise specified in the applicable Final Terms, 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 Subsequent 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;

Reset Reference Rate means either (i) if Mid-Swaps is specified in the applicable Final Terms the Mid-Swap Rate, or (ii) if Reference Bond is specified in the applicable Final Terms, the yield to maturity or interpolated yield to maturity (on the relevant day count basis) of the relevant Reference Bond (the **Reference Bond Yield**), assuming a price for such Reference Bond (expressed as a percentage of its nominal amount) equal to the relevant Reference Bond Price;

Resettable Note Interest Payment Date means each date specified as such in the applicable Final Terms;

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 in the applicable Final Terms;

Second Resettable Note Reset Date means the date specified as such in the applicable Final Terms;

Specified Currency means the currency specified as such in the applicable Final Terms or, if none is specified, the currency in which the Notes are denominated;

Subsequent Margin means the margin(s) specified as such in the applicable Final Terms;

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 in the applicable Final Terms;

Subsequent Reset Rate of Interest means, in respect of any Subsequent Reset Period and subject to Condition 5(h) (*Relevant Screen Page Fallback Provision for Resettable Notes*) above, the rate of interest being determined by the Calculation Agent on the relevant Reset Determination Date as the sum, converted from a basis equivalent to the Fixed Leg Swap Duration specified in the relevant Final Terms or the Reference Bond Yield, as the case may be, to a basis equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (such calculation to be made by the Issuer in conjunction with a leading financial institution selected by it (which may be the Calculation Agent)), of (a) the relevant Reset Reference Rate plus (b) the applicable Subsequent Margin;

Subsidiary means a subsidiary within the meaning of Section 1159 of the Companies Act 2006 and **Subsidiaries** shall be construed accordingly; and

TARGET System means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET 2) System which was launched on 19 November 2007 or any successor thereto.

(l) **Calculation Agent and Reference Banks**

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the applicable Final Terms and for so long as any Note is outstanding. 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 the 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, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval in writing of the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options 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.

(m) **Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions

of this Condition 5 shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Calculation Agent, the other Paying Agents, the Trustee and all Noteholders and Coupon holders and (in the absence as aforesaid) no liability to the Issuer, the Trustee, the Noteholders or the Couponholders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(n) **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(n)(ii)) and, in either case, an Adjustment Spread if any (in accordance with Condition 5(n)(iii)) and any Benchmark Amendments (in accordance with Condition 5(n)(iv)).

An Independent Adviser appointed pursuant to this Condition 5(n) 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(n).

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 Condition 5(n)(ii) 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(n) 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(n).

(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(n)(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(n)); 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(n)(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(n)).

(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(n) 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(n)(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(n)(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.

The Trustee shall have no responsibility for the consequences of any such Benchmark Amendments for any Noteholder or any other party.

In connection with any such variation in accordance with this Condition 5(n)(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(n), 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(n) 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(n); 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(n)(i), (ii), (iii) and (iv), the Original Reference Rate and the fallback provisions provided for in Condition 5(c)(iii)(B), Condition 5(c)(iii)(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(n):

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(n)(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(n)(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(n)(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):

- (A) 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
- (B) 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.

6 Redemption, Purchase and Options

(a) Final Redemption

Unless previously redeemed, purchased and cancelled as provided below each Note will be redeemed on the Maturity Date specified in the applicable Final Terms at its Final Redemption Amount (which, unless otherwise provided in the applicable Final Terms, is its nominal amount).

(b) Early Redemption Amounts

(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 (calculated as provided below) of such Note.
- (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 specified in the applicable Final Terms, 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 (B) above, except that such subparagraph 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 0.

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 in the applicable Final Terms.

(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 in the applicable Final Terms.

(c) **Redemption for Taxation Reasons**

Subject (in the case of Subordinated Notes only) to Regulatory Approval and compliance with the Regulatory Preconditions (each as defined below) and (in the case of Senior Non-Preferred Notes) to Condition 6(j), and provided that notice is given (within the period specified in the applicable Final Terms) to the Trustee and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if:

(i) as a result of a Tax Law Change:

(A) on the occasion of the next payment due in respect of the Notes, the Issuer will or would be required to pay additional amounts as described under Condition 8 or to account to any taxing authority in the UK for any amount (other than any tax withheld or deducted from interest payable in respect of the Notes) calculated by reference to any amount payable in respect of the Notes; 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,

provided that the consequences of such event cannot be avoided by the Issuer taking reasonable measures available to it (each such event being referred to as a **Tax Event**); and

(ii) in the case of Subordinated Notes only, the Issuer has demonstrated to the satisfaction of the Supervisory Authority that such Tax Event is material and was not reasonably foreseeable as at the Issue Date of such Subordinated Notes,

the Issuer may redeem at any time (if this Note is not a Floating Rate Note) or on the next Interest Payment Date (if this Note is a Floating Rate Note) all (but not some only) of the Notes at their Early Redemption Amount referred to in paragraph (b) above together, if applicable, with interest accrued to (but excluding) the date fixed for redemption. Upon the expiry of such notice the Issuer shall be bound to redeem the Notes accordingly.

Prior to the publication of any notice of early redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Trustee a certificate signed by any two Directors of the Issuer stating that the relevant requirement or circumstance giving rise to the right to redeem is satisfied. The Trustee shall be entitled, without liability to any person, to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the relevant conditions precedent, in which event it shall be conclusive and binding on the Trustee and the Noteholders.

(d) **Redemption at the option of the Issuer (Issuer Call)**

Subject (in the case of Subordinated Notes only) to Regulatory Approval and compliance with the Regulatory Preconditions and (in the case of Senior Non-Preferred Notes) to Condition 6(j), if Issuer Call is specified in the applicable Final Terms, the Issuer may, having given notice (within the period specified in the applicable Final Terms) to the Trustee, the Issuing and Paying Agent and, in accordance with Condition 15, the holders of the Notes (which notice shall be irrevocable), redeem all or some only of the Notes then outstanding on the Optional Redemption Date(s) and at the Optional Redemption Amount(s), as specified in the applicable Final Terms, together, if applicable, with interest accrued to (but excluding) the relevant Optional Redemption Date(s). Upon expiry of such notice the Issuer shall be bound to redeem the Notes accordingly. In the event of a redemption of some only of the Notes, such redemption must be for an amount being the Minimum Redemption Amount or a Maximum Redemption Amount. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will (i) be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and (ii) in the case of Redeemed Notes represented by a Global Note, in accordance with the rules 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), not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this sub-paragraph (d) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 15 at least 10 days prior to the Selection Date.

(e) **Redemption at the Option of Noteholders (other than Noteholders of Subordinated Notes)**

If Put Option is specified in the applicable Final Terms, the Issuer shall, at the option of the holder of any such Note (other than a Subordinated 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 in the applicable Final Terms) 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 or any other Noteholders' option that may be set out in the applicable Final Terms (which must be exercised on an Option Exercise Date) the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured 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) **Regulatory Event Redemption of Subordinated Notes**

Subject to Regulatory Approval and compliance with the Regulatory Preconditions, the Issuer may, in its sole discretion, if a Regulatory Event has occurred and is continuing, having given notice (within the period specified in the applicable Final Terms) to the Trustee, the Issuing and Paying Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Subordinated Notes at their Early Redemption Amount referred to in paragraph (b) above together, if applicable, with interest accrued to (but excluding) the date fixed for redemption.

Prior to the publication of any notice of early redemption pursuant to this Condition 6(f), the Issuer shall deliver to the Trustee a certificate signed by any two Directors of the Issuer confirming that a Regulatory Event has occurred and is continuing. The Trustee shall be entitled, without liability to any person, to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the relevant conditions precedent, in which event it shall be conclusive and binding on the Trustee and the Noteholders. Upon the expiry of such notice the Issuer shall be bound to redeem the Subordinated Notes accordingly.

(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" in the applicable Final Terms.

If a Loss Absorption Disqualification Event has occurred, then the Issuer may, in its sole discretion, subject to compliance with Condition 6(j), 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 in the applicable Final Terms, 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 be entitled, without liability to any person, to accept such certificate without any further enquiry as sufficient evidence of the same and it shall be conclusive and binding on the Trustee and the Noteholders. Upon the expiry of

such notice the Issuer shall be bound to redeem the Senior Non-Preferred Notes accordingly.

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 in the applicable Final Terms, 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 in the applicable Final Terms, 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 (subject to obtaining the Regulatory Approval and compliance with the Regulatory Preconditions in the case of Subordinated Notes and subject to Condition 6(j) in the case of Senior Non-Preferred Notes) may at any

time purchase Notes (provided that all unmatured 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) or redeemed shall forthwith be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured 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 be cancelled forthwith (together with all unmatured 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, Purchase, Substitution or Variation of Senior Non-Preferred Notes**

This Condition 6(j) 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(k) (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 Regulatory Approval 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.

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

This Condition 6(k) applies to each Series of Senior Non-Preferred Notes unless "Senior Non-Preferred Notes: Substitution and Variation" is expressly specified to be "Not Applicable" in the applicable Final Terms.

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(j)), 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(k), 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(j);
- (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(j)(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(k)(i), 6(k)(ii) and 6(k)(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.

(l) **Definitions**

As used in these Conditions:

Capital Adequacy Regulations means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy then applicable to the Issuer (and, for the avoidance of doubt, including as at the Issue Date the rules contained in, or implementing the Capital Requirements Directive and the Capital Requirements Regulation);

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

Capital Requirements Regulation means Regulation 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms dated 26 June 2013, as amended or replaced from time to time;

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;

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;

Regulatory Approval means, at any time, such approval, consent, prior permission or non-objection from, or notification required within prescribed periods to, the Supervisory Authority, or such waiver of the then prevailing Capital Adequacy Regulations from the Supervisory Authority, as is required under the then prevailing Capital Adequacy Regulations at such time;

A **Regulatory Event** is deemed to have occurred if there is a change (which has occurred or which the Supervisory Authority considers to be sufficiently certain) in the regulatory classification of the Notes which becomes effective after the date of issue of the Notes and that results, or would be likely to result, in:

- (i) if "Regulatory Event (Subordinated Notes only): Full Exclusion" is specified in the applicable Final Terms, the entire principal amount of the Subordinated Notes being excluded from the Tier 2 Capital of the Issuer (whether on an individual or consolidated basis); or
- (ii) if "Regulatory Event (Subordinated Notes only): Full or Partial Exclusion" is specified in the applicable Final Terms, the entire principal amount of the Subordinated Notes or any part thereof being excluded from the Tier 2 Capital of the Issuer (whether on an individual or consolidated basis);

Regulatory Preconditions means in relation to any redemption of the Notes pursuant to Conditions 6(c), 6(d) or 6(f) or a purchase of the Notes pursuant to Condition 6(h):

- (i) either: (i) the Issuer having replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or (ii) the Issuer having demonstrated to the satisfaction of the

Supervisory Authority that the own funds of the Issuer would, following such redemption or repurchase, exceed its minimum capital requirements (including any capital buffer requirements) by a margin that the Supervisory Authority considers necessary at such time; and

- (ii) if, at the time of such redemption or purchase, the prevailing Capital Adequacy Regulations permit the redemption or purchase after compliance with an alternative pre-condition to either or both of those set out in paragraph (a) above, or require compliance with an additional pre-condition, the Issuer having complied with such other pre-condition;

Supervisory Authority means the Prudential Regulation Authority (**PRA**) and any successor or replacement thereto or such other authority (whether of the UK, the European Union or elsewhere) having primary responsibility for the prudential oversight and supervision of the Issuer;

Tax Law Change means an introduction or change, or change in official interpretation or application, of any laws, regulations, pronouncements, judicial decisions, standards or guidelines which change becomes effective on or after the date of issue of the first Tranche of the relevant Notes; and

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, 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 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 15th 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 in the principal financial centre of the country of such currency, subject as provided in paragraph (a) above, 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 in the principal financial centre of the country of such currency.

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

Notwithstanding the foregoing, if any Bearer Notes or Exchangeable Registered 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 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) 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. 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 in writing 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 the Conditions so require, (v) Paying Agents having specified offices in at least two major European cities 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 or Exchangeable Registered Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders in accordance with Condition 15.

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

- (i) Unless the Notes provide that the relative Coupons are to become void upon the due date for redemption of those Notes, Bearer Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured 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) If so specified in the applicable Final Terms, upon the due date for redemption of any Bearer Note, unmatured 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 unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured 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 **Financial Centres** in the applicable Final Terms 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 or if TARGET System is specified as a Business Centre in the applicable Final Terms) which is a TARGET Business Day.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed, levied, collected, withheld or assessed by or within the UK or any political sub-division thereof or any authority therein or thereof 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 shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) to, or to a third party on behalf of, a holder who is liable to such Taxes in respect of such Note or Coupon by reason of his having some connection with the UK other than the mere holding of the Note or Coupon; or
- (b) presented for payment by, or by a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption; or
- (c) presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date 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 the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "principal" (unless otherwise provided) shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional 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, and payments of principal on such notes will be made net of such additional amounts.

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, Unrestricted Default Senior Non-Preferred Notes and Deposit Notes

This Condition 10(a) only applies if this Note is (i) a Senior Preferred Note, (ii) a Senior Non-Preferred Note which expressly specifies in the applicable Final Terms "Senior Non-Preferred Notes: Restricted Events of Default" as being "Not Applicable" (an **Unrestricted Default Senior Non-Preferred Note**), or (iii) a Deposit 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 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; or
- (ii) if the Issuer fails to perform or observe any of its other obligations under the Notes, the Trust Deed or the Paying Agency Agreement 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 moneys borrowed or raised of the Issuer or any Material Subsidiary is not made on its due date (or by the expiry of any applicable grace period therefor) or any such indebtedness of the Issuer or any Material 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 payment in

respect of any such indebtedness of any third party by the Issuer or any Material Subsidiary is not honoured when due and called upon (or by the expiry of any applicable grace period therefor) providing that the aggregate amount of such indebtedness (including indebtedness the subject of a guarantee or indemnity as aforesaid) equals or exceeds £10,000,000 (or its equivalent in any other currency or currencies); 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, in the opinion of the Trustee, of the assets of any of them or if an encumbrancer takes possession of the whole or a material part, in the opinion of the Trustee, 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 a material part, in the opinion of the Trustee, 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):
 - (A) the Issuer stops payment to its creditors generally or ceases to carry on the whole or substantially the whole of its business; or
 - (B) 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
 - (C) 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
 - (D) the Issuer ceases to be an authorised person to carry on a deposit-taking business for the purposes of the FSMA or the Issuer's registration as a building society is cancelled or suspended or the Issuer is not or ceases to be a building society for the purposes of the Act; or
 - (E) the Issuer amalgamates with, or transfers the whole or a material part, in the opinion of the Trustee, of its engagements or its business to, another person; or
 - (F) 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:

- (A) a Material Subsidiary stops payment to its creditors generally or ceases to carry on the whole or substantially the whole of its business; or
- (B) 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 subparagraphs (i) and (v)(B) above, the Trustee shall have certified to the Issuer that the Event of Default is materially prejudicial to the interests of the Noteholders.

(b) **Enforcement of Senior Preferred Notes, Unrestricted Default Senior Non-Preferred Notes and Deposit Notes**

At any time after any Senior Preferred Notes, Unrestricted Default Senior Non-Preferred Notes or Deposit Notes, as the case may be, become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed, the Senior Preferred Notes, Unrestricted Default Senior Non-Preferred Notes or Deposit Notes, as the case may be, and Coupons, but it need not take any such proceedings unless (a) 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 Senior Preferred Notes, Unrestricted Default Senior Non-Preferred Notes or Deposit Notes, as the case may be, outstanding, and (b) 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.

(c) **Subordinated Notes, Restricted Default Senior Non-Preferred Notes and Enforcement of Subordinated Notes and Restricted Default Senior Non-Preferred Notes**

This Condition 10(c) 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 in the applicable Final Terms as "Applicable" (a **Restricted Default Senior Non-Preferred Note**), and references in this Condition 10(c) to Notes shall be construed accordingly.

- (i) In the event of default being made for a period of seven days or more in the payment of any principal in respect of the Notes or any of them or for 14 days or more in payment of any interest in respect of 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 the relevant Coupons, at its discretion and without further notice, institute proceedings for the winding up of the Issuer, but may take no further action in respect of such default.

- (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 (other than any obligation for the payment of any principal or interest in respect of the Notes or relevant Coupons) provided that the Issuer shall not by virtue 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 relevant Coupons sooner than the same would otherwise have been payable by it.
- (iii) In the event of the commencement of the winding up of the Issuer or the commencement of the dissolution of the Issuer, except:
 - (A) 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 of the Noteholders; or
 - (B) as a result of an amalgamation pursuant to section 93 of the Act; or
 - (C) 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, and if so requested in writing by the holders of at least 25 per cent. in nominal amount of the Notes then outstanding or so directed by an Extraordinary Resolution of the relevant Noteholders shall (subject to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Notes are due and repayable immediately (and the Notes shall immediately thereby become so due and repayable) at their Early Redemption Amount (as described in Condition 6(b)) 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 25 per cent. 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, in which case the Noteholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise. No Noteholder shall be entitled to institute proceedings for the winding up of the Issuer, or to prove in any winding up of the Issuer, except that if the Trustee, having become bound to proceed against the Issuer as aforesaid, fails so to do, or being able to prove in any winding up of the Issuer fails so to do, then any such holder may on giving an indemnity satisfactory to the Trustee in the name of the Trustee (but not otherwise) himself or herself institute proceedings for the winding up in England of the Issuer and/or prove in any winding up of the Issuer in respect of the Notes held by him or her to the same extent (but not further or otherwise) to which the Trustee would have been entitled so to do. No remedy against the Issuer, other than the institution of proceedings for the winding up of the Issuer or the proving or claiming in any winding up of the Issuer, shall be available to the

Trustee or the Noteholders for the recovery of amounts owing in respect of the Notes or under the Trust Deed.

(d) **Definitions for Condition 10**

For the purposes of this Condition 10:

- (i) a **Material Subsidiary** shall mean any Subsidiary of the Issuer whose total assets (attributable to the Issuer) are equal to 10 per cent. or more of the consolidated total assets (attributable to the Issuer) of the Issuer and its Subsidiaries, all as more particularly defined in the Trust Deed. In the absence of manifest error, the Trustee shall be entitled to rely upon a report or certificate of two directors of the Issuer that in their opinion a Subsidiary is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary; and
- (ii) a **Permitted Transfer** shall mean:
 - (A) an amalgamation of the Issuer and one or more other building societies under section 93 of the Act; or
 - (B) 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, in both cases under section 94 of the Act; or
 - (C) a transfer by the Issuer of its business to a company under sections 97 to 102D of the Act; or
 - (D) 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 institution authorised under the FSMA or to a body which is regulated on a similar basis to an institution authorised under the FSMA; or
 - (E) 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.

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 Regulatory Approval 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 two 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 two 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 is specified in the applicable Final Terms, 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, (vii) to take any steps that may only be taken following approval by an Extraordinary Resolution to which the quorum provisions described below will apply, or (viii) 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 two 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. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

(b) **Modification of the Trust Deed**

The Trustee may agree, without the consent of the Noteholders or Coupon holders, 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(n) 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(j) without the consent of the Noteholders or Couponholders.

(c) **Entitlement of the Trustee**

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) 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

- (a) 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, the successor (the **Substituted Obligor**) 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, subject to such amendments of the Trust Deed and such other conditions as the Trustee may require, provided that in the case of Subordinated Notes and Senior Non-Preferred Notes in the case of a proposed transfer in accordance with section 97 and other such applicable provisions:
- (i) either (1) the Issuer satisfies the Trustee that the successor will be or (as the case may be) remain an authorised institution under the FSMA (or any statutory modification or re-enactment thereof) or (2) such transfer is approved by an Extraordinary Resolution of the Noteholders;
 - (ii) 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 of the FSMA;
 - (iii) 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;
 - (iv) 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 Capital Adequacy Regulations 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; and
 - (v) any two directors of the Substituted Obligor shall have certified to the Trustee that it will be solvent immediately after such substitution.
- (b) Without prejudice to paragraph (a) 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 to do so 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 or a Subsidiary of the Issuer or a subsidiary of a Successor in Business, 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 section 97 or other applicable provisions of the Act, in place of the Issuer as principal debtor under the Trust Deed, the Notes and Coupons, subject to such amendments of the Trust Deed and such other Conditions as the Trustee may require, provided that in the case of a substitution of a company which is a Subsidiary of the Issuer or a subsidiary of a Successor in Business, 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, 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 or Subsidiary of the Issuer or subsidiary, as the case may be, and any such guarantee shall be subordinated on a basis considered by the Trustee to be equivalent to that in respect of the Issuer's obligations in respect of the Notes and Coupons.
- (c) Any substitution referred to in paragraphs (a) and (b) above shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders by the Issuer as soon as practicable thereafter in accordance with Condition 15.

13 Replacement of Notes, Certificates, Coupons and Talons

If a Note, Certificate Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, 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 the date from which interest starts to accrue) 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 London (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 Europe. 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. The Trustee may rely without liability to Noteholders or Couponholders on any certificate or report prepared by the Auditors (as defined in the Trust Deed) whether or not addressed to the Trustee pursuant to these Conditions and/or the Trust Deed whether or not the Auditors' liability in respect thereof is limited by a monetary cap or otherwise and shall be obliged to do so where the certificate or report is delivered pursuant to the obligation of the Issuer to procure such delivery under these Conditions; any such certificate shall be conclusive and binding on the Issuer, the Trustee, the Noteholders and the Couponholders. The Trustee will have no recourse to the Auditors in respect of such certificates or reports unless the Auditors have agreed to address such certificates or reports to the Trustee

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 the Contracts (Rights of Third Parties) Act 1999 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, the Global Notes or the 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. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear and Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg, as indicated in the Final Terms.

Where the Global Notes or the Global Certificates issued in respect of any Tranche are in NGN form or issued under the NSS structure, the Common Safekeeper will be notified whether or not such Global Notes or Global Certificates are intended to be held in a manner which would allow Eurosystem eligibility.

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

If the Global Notes are CGNs upon the initial deposit of a Global Note with a common depository for Euroclear and Clearstream, Luxembourg (the **Common Depository**) or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depository, 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 a 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.

Notes that are initially deposited with the Common Depository may also (if indicated in the relevant Final Terms) be credited to the accounts of subscribers with 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 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 clearing system (as the case may be) for his 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 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, which is 40 days after a Temporary Global Note is issued:

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

(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(a), in part for Definitive Notes or, in the case of paragraph 1(d) below, Registered Notes:

- (i) 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; and
- (ii) otherwise if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (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 no successor clearing system is available.

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.

The following legend will appear on all Bearer Notes (other than Temporary Global Notes), and interest coupons relating to such Notes and all Exchangeable Registered Notes where TEFRA D is specified in the applicable Final Terms:

“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.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes or interest coupons.

(c) Permanent Global Certificates

If the relevant Final Terms state that the Notes are to be represented by a permanent Global Certificate on issue, 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 Notes represented by the Global Certificate are 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 does in fact do so; or
- (ii) 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) 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 Note

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 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.

(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 a 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 have 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 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 TEFRA D 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. If the Global Note is in NGN form 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 payments 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 a 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 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) (*Non-Business Days*).

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 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

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, 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 account holders 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 a NGN or where the 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 a 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 any Global Certificate is registered in the name of any 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.

USE OF PROCEEDS

The net proceeds of the issue of any Notes will be used by the Issuer for the general purposes of its business.

CERTAIN PROVISIONS OF THE BUILDING SOCIETIES ACT 1986 AND THE SUPERVISORY AUTHORITY

In this section, **Supervisory Authority** means the Prudential Regulation Authority (in respect of PRA-authorized persons) or the Financial Conduct Authority (in respect of persons who are not PRA-authorized) 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 members' resolution passed by the shareholding members of each amalgamating society and a borrowing members' resolution (as defined in Schedule 2 of the Act) of the borrowing members of each amalgamating society and confirmation by the Supervisory Authority. 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 approval by a shareholding members' resolution passed by the shareholding members of the transferor society and the transferee society, and by a borrowing members' resolution of the borrowing members of the transferor society and the transferee society. Additional requirements may apply for approvals of a partial transfer of engagements. However, the resolutions of the transferee society are not required if the Supervisory Authority consents to the transfer proceeding by a resolution of its board of directors only. The 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.

Conversion

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 that society wholly or partly for the purpose of assuming and conducting that society's business in its place or is an existing company which is to assume and conduct that society's business in its place. The transfer must be approved by a requisite shareholders' resolution, in accordance with Schedule 2, paragraph 30(2)-(5) of the Act, passed by shareholding members and by a borrowing members' resolution 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.

Section 100 of the Act deals with rights of investing members on a conversion. Where, in connection with any transfer, rights are to be conferred on members of the relevant society to acquire shares in the successor, the right is restricted to investing members of that society who have held their shares throughout the period of two years expiring on a qualifying day specified by the society in the transfer agreement and to holders on the qualifying day of deferred shares of the society of a class described in the transfer agreement. Also, all qualifying investing members' shares are converted into deposits

with the successor. On any such transfer, investing members of that society who were members on the qualifying day but not entitled to vote on the transfer resolution will receive a cash bonus equal to their notional share of the reserves of that society (unless the Supervisory Authority directs otherwise in the case of a transfer to an existing company). If the transfer is to an existing company, any distribution of funds (apart from the statutory cash bonus referred to above) may only be made to certain investing members of the society who have held their shares for at least two years expiring on a qualifying day specified by the society in the transfer agreement and to holders on the qualifying day of deferred shares of the society of a class described in the transfer agreement.

Mutual Society Transfers

The Act (as modified by the Mutual Societies (Transfers) Order 2009) permits a building society to transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the 2007 Act). The successor subsidiary must be duly authorised to carry on its deposit-taking business by the Supervisory Authority or an equivalent EEA regulatory authority. The terms of the transfer to the relevant subsidiary must include provision for making membership of the holding mutual (or membership of the parent undertaking of such holding mutual) available to every qualifying member of the building society and to every person who, after the transfer, becomes a customer of the company, and the membership of the holding mutual (or such parent undertaking) must be on terms no less favourable than those enjoyed by existing members of the holding mutual (or such parent undertaking as the case may be).

A transfer of business to a subsidiary of another mutual society requires the approval of a shareholding members' resolution and a borrowing members' resolution.

Directed Transfers

The Act confers power on the Supervisory Authority, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, to direct a building society to transfer all of its engagements to one or more other building societies or to transfer its business to an existing company. The Financial Services Act 2012 also amended the Act to extend this power of direction to a transfer of a building society's business to an existing or specially formed company that is a subsidiary of another mutual society (as defined in section 3 of the 2007 Act). Where any such direction is made, the Supervisory Authority may also, if it considers it expedient to do so in order to protect the investments of shareholders or depositors, direct that such transfer may proceed on the basis of a resolution of the board of directors of the building society, without the need for member approval.

The relevant 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.

PRINCIPALITY BUILDING SOCIETY

Introduction

Principality Building Society (the **Issuer**, **Principality** or the **Society**) is the sixth largest building society, ranked by total assets, in the UK with total assets as at 31 December 2018 of £9,687.4 million (2017: £9,262.6 million) and a network of 53 branches and 17 agency offices.

The Society

Principality was incorporated in England and Wales for an unlimited duration under the Building Societies Act 1874 as the Principality Benefit Building Society on 11 March 1876 and adopted its present name in 1913. It operates under the Building Societies Act 1986 (as amended) (the **Act**) and the Rules and Memorandum of the Society. The Society has permission under Part IV of FSMA to carry out all regulated activity as prescribed under the Act and is registered (registered number 155998) as an authorised building society with the Prudential Regulation Authority, and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

As a mutual organisation, both retail investors and borrowers have membership rights which include rights to vote at general meetings as prescribed by the Act and the Society's Rules and Memorandum. Members are eligible to vote as an investor or borrower or both, but are only entitled to one vote except where there are separate shareholding members' and borrowing members' resolutions.

The Society is the parent of the Group (defined below); with its registered office and customer support centre located at Principality Buildings, Queen Street, Cardiff CF10 1UA, and its telephone number is 0330 333 4000.

Subsidiaries

Details of the Society's investments in subsidiaries (together with the Society, the Group) can be found at Note 20 to the audited consolidated financial statements of the Issuer for the year ended 31 December 2018.

There is one trading subsidiary of the Issuer accounting for additional revenue obtained:

- (i) Nemo Personal Finance Limited, a specialist provider of secured residential mortgage loans (see further below).

Board of Directors

The affairs of the Society are conducted and managed by a Board of Directors (the **Board**) who are elected by Principality members and serve in accordance with the Rules and Memorandum. The Board is responsible to the membership for the proper conduct of affairs of the Society.

The Directors of the Society as at the date of this prospectus are set out below:

Lawrence Philip Adams MA, Chairman

Stephen James Hughes ACMA, Chief Executive Officer

Robert Michael Jones BA (Hons), MBA, ACIB, Chief Risk Officer

Julie Ann Haines MSC, BA (Hons), Chief Customer Officer

Tom Denman BSc (Econ) (Hons), ACA, Chief Financial Officer

Nigel Charles Annett CBE, MSC, MA (Hons), DSC Econ, Non-Executive Director

Derek Anthony Howell BSc (Hons), FCA, Non-Executive Director

Sally Jones-Evans FCIB, MBA, Non-Executive Director

David James Rigney ACMA, MBA, MA, Non-Executive Director

Claire Hafner MA, ACA, Non-Executive Director

A list of each director's principal outside directorships as at 31 December 2018 can be found on pages 36 to 40 of the Society's 2018 Annual Report and Accounts. These outside directorships cover all of the significant principal activities performed by the directors outside of the Principality.

There are no conflicts of interest between any duties of each of the directors under "*Board of Directors*" above to the Society and other duties or private interests of those persons.

The business address of each of the directors is c/o Eversheds Sutherland LLP, Reference RP, 1 Callaghan Square, Cardiff CF10 5BT.

Business general

As prescribed by the Act, the Society's core business is the making of mortgage advances to members secured on residential property, and is funded out of shares and deposits subscribed by members and supplemented by funds raised in the wholesale and debt capital markets.

The Society's core purpose is built on helping people to prosper in their own home. The Society's strategy is to continue to grow the prime residential mortgage book by utilising its strong broker network connections to gain a broad geographical distribution throughout the United Kingdom. Additionally, the Society's strategy is to increase commercial lending which is secured against residential property. Nemo Personal Finance Limited is now closed to new business.

This growth in funding will leverage the Society's strong branch and agency network in Wales and extend its strong franchise into the whole of the United Kingdom by offering a range of savings products online.

Mortgage lending activities

At 31 December 2018, the Society's total loans and advances to customers amounted to £8,262.5 million (2017: £7,552.3 million), substantially all of which were fully secured on residential property.

All underwriting decisions are made centrally in accordance with the Board approved lending policy statement drawn up in compliance with FCA regulations. Within agreed policy parameters (including credit scoring), care, prudence and control are exercised by experienced underwriting staff to ensure that the quality of lending is maintained.

Of the Society's mortgage loan portfolio at 31 December 2018, 81.0 per cent. was at fixed interest rates, 12.0 per cent. at discounted administered variable rates, 6.75 per cent. at the Society's standard variable rate and the balance of 0.3 per cent. linked to the Bank of England base rate.

Excess of loss insurance cover was arranged for new residential first charge mortgages which completed prior to 1 May 2010. The scope of cover relates to primary owner occupier residential

mortgage advances to individuals with loan to value (LTV) ratios of more than 75 per cent. The cover provides for the Society to bear the first part of any losses (this amount is directly related to the volume of new lending business) with the insurance policy then providing cover against further losses incurred during a specific period. In the minority of cases, where the LTV ratio exceeds 90 per cent. (primarily for first time buyers), the Society recouped the cost of the excess of loss insurance through an additional fee charged to the borrower.

At 31 December 2018, the Society had 16 properties in possession (2017: 14) and arrears of greater than three months represented 0.49 per cent. (2017: 0.53 per cent.) of all mortgage balances. At 31 December 2018, the Society held loan loss provisions after write offs of £9.2 million (2017: £5.6 million), which represented 0.1 per cent. (2017: 0.1 per cent.) of balances.

Mortgage lending activities – Nemo

Nemo Personal Finance Limited is a personal secured lending business operating in the broker and retail markets. This business started trading in February 2005 and has a loan book of £236.2 million (2017: £311.8 million) as at 31 December 2018. It is expected that profits generated will be utilised to increase capital and support the Society's strategic growth plans.

Nemo Personal Finance Limited provided personal loans secured by a second charge over the equity value in a residential property or residential properties owned by the borrower. Excess of loss insurance was not carried in respect of these products. Whilst there is an increased degree of risk with this type of financing, such increased risk is, the Society believes, properly reflected in the higher pricing which Nemo Personal Finance Limited was able to demand for this product in the market place.

The secured loans market continues to develop and expand away from its traditional base. As a result of these developments, the Board decided as of February 2016 to cease new lending at Nemo Personal Finance Limited and focus the Group's investment on the Society's core business.

At 31 December 2018, there were 181 properties (2017: 253 properties) greater than six months in arrears and therefore considered 'non-performing', with balances of £5.5 million (2017: £8.1 million). At 31 December 2018, loan loss provisions after write offs of £8.9m (2017: £9.8 million) were held which represented 3.8 per cent. (2017: 3.1 per cent.) of balances.

Mortgage lending activities – Commercial

The commercial lending book stood at £776.1 million (2017: £782.0 million) as at 31 December 2018. When housing associations and residential investment business is excluded, the portfolio stands at £329.2 million (2017: £336.0 million).

The loan book at 31 December 2018 was split across balances as follows:

	%
Commercial investment	35.7
Residential investment	38.8
Housing Association	18.8
Development Funding	6.7
Total	100.0

As at 31 December 2018 there were two commercial mortgage customers (2017: none) three months or more in arrears. As at 31 December 2018, the aggregate balance for arrears of more than one month was £0.6 million (2017: nil). At 31 December 2018, impairment provisions held against

commercial lending activities amounted to £12.4 million (2017: £15.0 million) which represented 1.6 per cent. (2017: 1.9 per cent.) of balances.

Finance position and liability management

Capital base

In addition to general reserves of £550.1 million (2017: £519.3 million) at 31 December 2018, the Society issued Permanent Interest Bearing Shares in May 2004 amounting to £60 million and Subordinated Debt in June 2006 amounting to £92.3m. The Society's subordinated debt was paid in full on 8 July 2016. The Permanent Interest Bearing Shares are currently being grandfathered out of capital availability over the next 7 years due to transitional arrangements under Basel III.

As at 31 December 2018, the Group's solvency ratio was 29.54 per cent. (2017: 29.21 per cent.) and common equity tier 1 ratio was 27.06 per cent. (2017: 26.14 per cent.). This means the Group is generating sufficient capital through its financial performance to facilitate the increase in lending to households and businesses. At 31 December 2018, the Group's leverage ratio was 5.60 per cent. (2017: 5.63 per cent.). The leverage ratio is calculated using quarter end values without taking account of Basel III transitional provisions for capital.

Retail funding

Savings from the retail sector amounted to £6,989.8 million (2017: £6,563.8 million) as at 31 December 2018 and are the primary source of funding for the Society. Retail savings balances represent 82.2 per cent. (2017: 83.5 per cent.) of all mortgage lending. Principality offers a range of investment products through e-savings, postal accounts and its branch and agency network.

Other borrowing

Wholesale funding is sourced from short-term money markets together with longer term notes issued under a Euro Medium Term Note (EMTN) Programme and Residential Mortgage Backed Securities (RMBS) Programmes. The utilisation of wholesale funding furthers the Group's strategic objective of maintaining a diverse and balanced funding base. In 2018 – 2019, the Issuer made use of measures made available by the Bank of England to financial institutions. These included £200 million raised under the ILTR scheme and £175 million under the TFS scheme.

The following table sets out the level of wholesale funding as at 31 December 2018 for the Society:

	Percentage of funds	
	£m	%
Amounts owed to credit institutions	867.1	43.0
Amounts owed to other customers	141.4	7.0
Certificates of deposit	-	-
Unsecured debt	297.6	14.7
RMBS Notes	713.2	35.3
Total	2,019.3	100.0

Liquidity

The Group holds liquid assets to ensure it has sufficient access to funds to meet its financial obligations in both normal and stressed scenarios. The Group continues to maintain a robust liquidity position, with liquid assets at year end of 12.4 per cent. (2017: 15.4 per cent.) as a proportion of shares, deposits and loans (SDL). Of the total liquid assets, none (2017: 1.2 per cent.) are rated less than A under Fitch credit ratings.

The Group's Liquidity Coverage Ratio (LCR), a measure of the Group's ability to withstand a short-term liquidity stress, was 155.8 per cent. at the year-end (2017: 203.0 per cent.), well above the regulatory requirement. The Net Stable funding Ratio (NSFR) is a longer-term stable funding metric, which measures the sustainability of the Group's long-term funding. Based on current interpretations of the regulatory guidance, the Group's NSFR is in excess of 100 per cent..

The Group's liquid assets are set out in the table below:

	2018	2017
	£m	£m
Cash and balances with the Bank of England	931.8	1,026.3
Securities issued by the UK Government and Multilateral Development Banks	-	85.9
Total Buffer Eligible Assets	931.8	1,112.2
Loans and advances to credit institutions and other debt securities	180.7	207.8
Total	1,112.5	1,320.0

Other Financial Information

The financial measures presented by the Issuer in this section are not defined in accordance with IFRS accounting standards. However, the Issuer believes that these measures provide useful supplementary information to both investors and the Issuer's management, as they facilitate the evaluation of the Issuer's performance. It is to be noted that, since not all companies calculate financial measurements in the same manner, these are not always comparable to measurements used by other companies (even if similarly labelled). Accordingly, these financial measures should not be seen as a substitute for measures defined according to IFRS. The list below presents alternative performance measures, along with their reconciliation to the extent that such information is not defined according to IFRS and not included in the Issuer's financial statements incorporated by reference into this Prospectus.

Financial measure	2018 %	2017 %	2016 %	Definition	Rationale for inclusion
Net Interest Margin	1.26	1.44	1.57	This ratio calculates the net interest income as a percentage of mean total assets.	Measure of the interest margin being a key indicator of margin performance.
Liquidity Ratio	12.4	15.4	14.6	This ratio represents liquidity (comprising cash in hand, balances with the Bank of England, debt securities (including Government investment securities (gilts)), loans to credit institutions and other liquid assets) expressed as a percentage of Share and Deposit Liabilities (SDLs).	Measure of readily available liquidity.
Profit After Tax as a percentage of mean assets	0.35	0.50	0.49	This ratio represents the net amount earned after all taxation related expenses have been deducted as a percentage of	Measure of the net amount earned after taxation.

				mean total assets.	
Management Expense Ratio	0.86	1.02	1.04	This ratio represents management expenses as a percentage of mean total assets.	Measure of the efficiency of the business.

Net Interest Margin is derived as follows:

	2018 £m	2017 £m	2016 £m
Total Interest Receivable	226.0	214.2	229.1
Total Interest Payable	(106.4)	(88.3)	(104.2)
Net Interest Receivable as a percentage of mean assets	119.6	125.9	124.9
Assets b/f	9,262.6	8,281.2	7,584.4
Assets c/f	9,687.4	9,262.6	8,281.2
Mean assets	9,475.0	8,771.9	7,932.8
Net interest margin	1.26%	1.44%	1.57%

Liquidity Ratio is derived as follows:

	2018 £m	2017 £m	2016 £m
Cash in Hand and Balances with the Bank of England	931.8	1,026.3	585.7
Loans and Advances to Credit Institutions	147.8	168.8	141.5
Debt Securities	32.9	124.9	389.6
Total Liquid Assets	1,112.5	1,320.0	1,116.8
<i>As a percentage of SDLs:</i>			
Shares	6,989.8	6,563.8	6,165.2
Amounts Owed to Credit Institutions	867.1	573.5	611.2
Other Deposits	141.4	216.7	226.5
Debt Securities in Issue	1,010.9	1,245.7	631.1
Total SDLs	9,009.2	8,599.7	7,634.0
Liquidity ratio	12.4%	15.4%	14.6%

Profit After Tax as a percentage of mean assets is derived as follows:

	2018 £m	2017 £m	2016 £m
Profit after Tax	32.9	43.5	39.1
Mean assets	9,475.0	8,771.9	7,932.8
Return on Assets	0.35%	0.50%	0.49%

Management Expense Ratio is derived as follows:

	2018 £m	2017 £m	2016 £m
Management expenses	81.5	89.6	82.1
Mean assets	9,475.0	8,771.9	7,932.8
Management expense ratio	0.86%	1.02%	1.04%

TAXATION

UK TAXATION

The comments below are of a general nature based on the Issuer's understanding of current UK law and published HM Revenue & Customs (**HMRC**) practice relating only to the UK withholding tax issues which arise on payments of interest (as that term is understood for UK tax purposes) in respect of the Notes. They relate only to the position of persons who are the absolute beneficial owners of their Notes and Coupons. They are not exhaustive and they do not address any other UK taxation implications of acquiring, holding or disposing of Notes and Coupons. Noteholders 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 deduction for or on account of taxation under the laws of the UK. The UK tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Any Noteholders or prospective Noteholders who are in doubt as to their own tax position are strongly advised to consult their professional advisers.

Withholding Tax

Payments of interest by the Issuer on the Notes may be made without withholding or deduction for or on account of UK income tax, provided that the Notes carry a right to interest and the Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 Income Tax Act 2007 (the **Income Tax Act**). The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (with the meaning of and in accordance with provisions of Part 6 of the Financial Services and Markets Act 2000) and are admitted to trading on the London Stock Exchange. Provided, therefore, that Notes carry a right to interest and are and remain so listed on a "recognised stock exchange", interest on the Notes will be payable without withholding or deduction for or on account of UK income tax.

In the case of Deposit Notes, interest may be paid without withholding or deduction on account of UK income tax if such Notes constitute "qualifying certificates of deposit" or "qualifying uncertificated eligible debt security units" within the meaning of sections 985 and 986 of the Income Tax Act respectively.

Deposit Notes will be "qualifying certificates of deposit" within the meaning of section 985 of the Income Tax Act provided they relate to a deposit of money, they are and continue to be in bearer form and they satisfy the following conditions:

- (a) they recognise an obligation to pay the holder a stated principal amount;
- (b) the amount payable by the Issuer thereunder, exclusive of interest, is not less than £50,000 (or for a deposit denominated in foreign currency, not less than the equivalent of £50,000 at the time when the deposit was made); and
- (c) the obligation of the Issuer to pay that amount arises after a period of not more than five years beginning with the date on which the deposit was made.

Deposit Notes will be "qualifying uncertificated eligible debt security units" if:

- (A) they are "uncertificated" eligible debt security units (within the meaning of regulation 3(1) of the Uncertificated Securities Regulations 2001); and

- (B) the issue of the units corresponds to the issue of a certificate of deposit in bearer form satisfying the conditions in (a) to (c) above.

In other cases, if the Notes are capable of being listed on a "recognised stock exchange" at the time the interest on the Notes becomes payable, an amount must generally be withheld from such payments on account of UK income tax at the basic rate (currently 20 per cent.), subject to the availability of any other exemptions or reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

If Notes are issued at a discount to their principal amount, any payments made in respect of the accrued discount will not generally be subject to UK withholding tax as long as they do not constitute payments in respect of interest. Where Notes are to be, or may fall to be, redeemed at a premium, then any such element of premium may constitute a payment of interest. Payments of interest may be subject to UK withholding tax in the circumstances and subject to the exceptions outlined in this UK Taxation section.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a **foreign financial institution** (as defined by FATCA) may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Notes (as described under "*Terms and Conditions of the Notes—Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in 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. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to 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.

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

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

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an amended and restated Dealer Agreement dated 17 April 2019 (as amended 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 applicable 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

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from or not subject to, 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, and Notes in registered form which are exchangeable for 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 and Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is 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 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 the completion of the distribution of such Tranche as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any 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. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

Prohibition of sales to EEA Retail Investors

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 the Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the EEA. For the purposes of this provision the expression **retail investor** means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or
- (b) 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.

UK

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (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 the Issuer was not an authorised person, apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to 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 **FIEA**) and each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, 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 resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

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. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Prospectus.

Neither the Issuer nor any Dealer has made any representation that any 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, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed, and each further Dealer appointed under the Programme will 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 or any other offering material or any Final Terms in all cases at its own expense.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Tranche, subject only to the deletion of non applicable provisions, is set out below:

[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.]¹

[MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer'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. [*Consider any negative target market*]. 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.]²

Final Terms dated []

PRINCIPALITY BUILDING SOCIETY

[Legal Identifier Number (LEI): 2138003CSNVJEPFZ3U52]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the £1,000,000,000 (Excluding Deposit Notes) 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 17 April 2019 [and the supplemental Prospectus dated []] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (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. The Prospectus is available for viewing at Principality Buildings, Queen Street, Cardiff, CF10 1UA and

¹ Legend to be included on front of the Final Terms if the Notes potentially constitute “packaged” products and no key information document will be prepared or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be “Applicable”.

² Legend to be included on front of the Final Terms if following the ICMA 1 “all bonds to all professionals” target market approach.

www.principality.co.uk. The Prospectus has been published on the website of the London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news-home.html.

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) contained in the Trust Deed dated [original date] set forth in the [Prospectus] dated [original date] [and the Supplemental Prospectus dated []]] and incorporated by reference into the Prospectus dated [current date] and which are attached hereto. This document constitutes the Final Terms of the Notes for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated []], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. [The [Prospectuses] [and the supplemental Prospectuses] are available for viewing at [address] during normal business hours, [and] [website] and copies may be obtained from [address].]

1 Issuer: Principality Building Society

Type of Notes

2 Status of the Notes: [Senior Preferred/Senior Non-Preferred/ Subordinated/Deposit]

(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: []

(iii) Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single Series with [] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [] below, which is expected to occur on or about []][Not Applicable]

4 Specified Currency or Currencies: []

5 Aggregate Nominal Amount of Notes admitted to Trading: []

[(i)] Series: []

[(ii)] Tranche: []

- 6 Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from []]
- 7 (i) Specified Denominations: []
- (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]
[[] month
[[] per cent. Resettable Notes]
[SONIA/LIBOR/ EURIBOR] +/- [] per cent. Floating Rate]
[Zero Coupon]
(further particulars specified below)
- 11 Redemption Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [] per cent. of their nominal amount
- 12 Change of Interest Basis: [] [Not Applicable]
- 13 Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]
- 14 [Date [Board] approval for issuance of Notes obtained:] []
- 15 Method of distribution: [Syndicated/Non-Syndicated]
- Provisions Relating to Interest (if any) Payable**
- 16 Fixed Rate Note Provisions [Applicable/Not Applicable]
- (i) Rate(s) of interest: [] per cent. per annum [payable [annually/semi annually/quarterly/monthly/other] in arrear]

	(ii)	Interest Payment Date(s):	[] in each year from and including [] up to and including the Maturity Date
	(iii)	Fixed Coupon Amount[(s)]:	[] per Calculation Amount
	(iv)	Broken Amount:	[[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [] [not applicable]]
	(v)	Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/other]
	(vi)	Determination Dates:	[[] in each year] [Not Applicable]
17		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 up to and including the Maturity Date
	(iii)	First Margin:	[+/-] [] per cent. per annum
	(iv)	Subsequent Margin:	[+/-] [] per cent. per annum
	(v)	Day Count Fraction:	[Actual/Actual (ISDA)][Actual/Actual] 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)	Reset Reference Rate:	[Mid-Swaps/Reference Bond]
	(vii)	First Resettable Note Reset Date:	[]
	(viii)	Second Resettable Note Reset Date:	[]
	(ix)	Subsequent Resettable Note Reset Date[s]:	[]
	(x)	Reset Determination Date[s]:	[]
	(xi)	Relevant Screen Page:	[]
	(xii)	Mid-Swap Rate	[Single Mid-Swap Rate] [Mean Mid-Swap Rate]

- (xiii) Mid-Swap Maturity: []
- (xiv) Reference Bond Reset Rate Time: []
- (xv) Fixed Leg Swap Duration: [Annual][Semi-Annual]
- 18 Floating Rate Note Provisions [Applicable/Not Applicable]
- (i) Interest Period(s): []
- (ii) Specified Interest Payment Dates: [] [subject to adjustment in accordance with the Business Day Convention set out in (iv) below/not subject to adjustment, as the Business Day Convention in (iv) is specified to be Not Applicable]
- (iii) First Interest Payment Date: []
- (iv) Business Day Convention: [Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention][Not Applicable]
- (v) Business Centre(s): []
- (vi) Manner in which the Rate(s) of interest is/are to be determined: [Screen Rate Determination / ISDA Determination]
- (vii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]): [] (the **Calculation Agent**)
- (viii) Screen Rate Determination: []
- Reference Rate: [] month [SONIA/LIBOR/EURIBOR]
 - Interest Determination Date(s): []
 - 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*)
- (ix) ISDA Determination:
- Floating Rate Option: []

	–	Designated Maturity:	[]
	–	Reset Date:	[]
(x)		Linear Interpolation:	[Not Applicable/Applicable – the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
(xi)		Margin(s):	[+/-] [] per cent. per annum
(xii)		Minimum Rate of Interest:	[] per cent. per annum
(xiii)		Maximum Rate of Interest:	[] per cent. per annum
(xiv)		Day Count Fraction:	[Actual/Actual (ISDA)][Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual-ICMA]
19		Zero Coupon Note Provisions	[Applicable/Not Applicable]
		Amortisation Yield:	[] per cent. per annum

Provisions Relating to Redemption

20		Notice periods for Condition 6(c) and 6(f):	Minimum period: [] days Maximum period: [] days
21		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 periods:	Minimum period: [] days Maximum period: [] days

22	Regulatory Event (Subordinated Notes only)	[Full Exclusion / Full or Partial Exclusion / Not Applicable]
23	(i) Senior Non-Preferred Notes: Loss Absorption Disqualification Event Redemption:	[Applicable/Not Applicable]
	(ii) Loss Absorption Disqualification Event:	[Full Exclusion/Full or Partial Exclusion/Not Applicable]
	(iii) Loss Absorption Disqualification Event Redemption Price:	[[●] per cent.]
	(iv) Senior Non-Preferred Notes: Substitution and Variation:	[Applicable/Not Applicable]
24	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) Option Exercise Date(s):	[]
	(iv) Description of any other Noteholders' option:	[]
	(v) Notice period:	[]
25	Final Redemption Amount of each Note	[] per Calculation Amount
26	Early Redemption Amount	
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or an event of default or other early redemption:	[] per Calculation Amount

General Provisions Applicable to the Notes

27	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 depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]]

- | | | |
|----|---|--|
| 28 | New Global Note: | [Yes] [No] |
| 29 | Financial Centre(s) or other special provisions relating to payment dates: | [Not Applicable/ <i>Give details.</i>] |
| 30 | Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): | [Yes. As the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/ No.] |
| 31 | U.S. Selling Restrictions: | [Reg S Compliance Category 2; TEFRA C/TEFRA D/TEFRA not applicable] |
| 32 | Prohibition of Sales to EEA Retail Investors: | [Applicable/Not Applicable] |

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 and listing on the Official List of the FCA with effect from [].]

[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the FCA 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]/[have not been]] rated/[The following ratings reflect the ratings assigned to Notes of this type issued under the Programme generally]:

Fitch: []

Moody's: []

3 [Interests of Natural and Legal Persons Involved in the Issue/Offer]

Save as discussed in ["Subscription and Sale"] and the fees [of [*insert relevant fee disclosure*]] payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with and may perform other services for, the Issuer and its affiliates in the ordinary course of business.

4 YIELD

Indication of yield: []

The yield is calculated at the Issue Date on the basis of the Issue Price [for the period from the Issue Date until the First Resettable Note Reset Date]. It is not an indication of future yield.

5 HISTORIC INTEREST RATES (Floating Rate Notes only)

Details of historic [LIBOR/EURIBOR/SONIA rates can be obtained from [Reuters].]

6 Operational Information

ISIN:	[]
Common Code:	[]
CFI:	[[See/[[include code] ³ , as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available] [[See/[[include code] ³ , as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]
FISN:	[[See/[[include code] ³ , as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s):	[Not Applicable/[]]
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any):	[]
Intended to be held in a manner which would allow Eurosystem eligibility	<p>[Yes. Note that the designation "yes" simply means that 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] 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.]</p> <p>[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]. Note that this does not necessarily mean that the Notes will</p>

³ The actual code should only be included where the issuer is comfortable that it is correct.

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 admission of the Senior Preferred Notes, Senior Non-Preferred Notes and Subordinated Notes issued under the Programme to listing on the Official List and to trading on the Market is expected to take effect on or about 23 April 2019. The listing of each Series of Notes on the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any tranche of Notes intended to be admitted to listing on the Official List and admitted to trading on the Market will be so admitted to listing and trading upon submission to the FCA and the London Stock Exchange of the relevant Final Terms and any other information required by the London Stock Exchange, subject to the issue of the relevant Notes. Prior to official listing and acceptance of the Notes to trading, 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. However, Notes may be issued pursuant to the Programme which will not be admitted to listing, trading and/or quotation by the FCA or the London Stock Exchange or any other listing authority, stock exchange and/or quotation system or which will be listed on such stock exchange as the Issuer and the relevant Dealer(s) may agree.
- (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 and update of the Programme was authorised by resolutions of a duly appointed committee of the Board on 19 November 2004, which was, by resolution of the Board passed on 5 November 2004, duly empowered to deal with matters relating to the Programme. The update of the Programme was authorised by a resolution of the Board on 11 April 2019. The Issuer has authority to issue Notes under the Programme without the approval of the Board of Directors provided such issue of Notes is in accordance with the internal authorisation limits approved by the Board of Directors, at the relevant time.
- (3) There has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2018 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2018, being the date of the latest audited published financial statements of the Issuer.
- (4) Neither the Issuer nor any of its Subsidiaries nor the Group is or has been involved in any governmental, legal or arbitration proceedings during the 12 months preceding the date of this document that may have, or have had in the recent past, a significant effect on the financial position or profitability of the Group or of the Issuer nor is the Issuer aware that any such proceedings are pending or threatened.
- (5) Each permanent and definitive Bearer Note, Coupon and Talon and each Exchangeable Registered Note 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) 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. If the Notes are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms.
- (7) The address of Euroclear is 1 Euroclear Bank SA/NV Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, 42

Avenue JF Kennedy L-1855. Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

- (8) 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.
- (9) For the period of 12 months following the date of this Prospectus, copies of the following documents will, when published, be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Issuer:
- (a) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, and the Talons);
 - (b) the Agency Agreement;
 - (c) the Rules and Memorandum of the Issuer;
 - (d) the published annual report and the audited accounts of the Issuer for the two years ended 31 December 2018 and the audited consolidated annual accounts of the Group for the two years ended 31 December 2018;
 - (e) each Final Terms for Notes that are listed on the Official List and admitted to trading on the Market or any other stock exchange;
 - (f) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectuses;
 - (g) a copy of the subscription agreement for Notes issued on a syndicated basis that are listed on the Official List and admitted to trading on the Market;
 - (h) the Statement of Directors' Responsibilities and the Independent Auditors' Report to the Members of Principality Building Society by Deloitte LLP on the accounts of the Issuer for the year ended 31 December 2018; and
 - (i) 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.

Where the originals of any such documents are in the Welsh language, the English language translations versions will also be made available for inspection.

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>.

- (10) Copies of the latest annual report and consolidated and non-consolidated accounts 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, so long as any of the Notes is outstanding.
- (11) Deloitte LLP has audited and rendered an unqualified audit report on the accounts of the Issuer for the year ended 31 December 2017 and 31 December 2018.

- (12) Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.

Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the securities of the Issuer, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

- (13) The Issuer confirms that all third party information contained in this Base Prospectus has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant third party sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

REGISTERED AND PRINCIPAL OFFICE OF THE ISSUER

Principality Building Society

Principality Buildings
Queen Street
Cardiff CF10 1UA

THE 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

HSBC Bank plc

8 Canada Square
London E14 5HQ

Lloyds Bank Corporate Markets plc

10 Gresham Street
London EC2V 7AE

NatWest Markets Plc

250 Bishopsgate
London EC2M 4AA

TRUSTEE

HSBC Corporate Trustee Company (UK) Limited

8 Canada Square
London E14 5HQ

**ISSUING AND PAYING AGENT, TRANSFER AGENT,
CALCULATION AGENT AND REGISTRAR**

HSBC Bank plc

8 Canada Square
London E14 5HQ

PAYING AND TRANSFER AGENT

Banque Internationale à Luxembourg

69, route d'Esch
L-2953 Luxembourg
Luxembourg

AUDITORS

Deloitte LLP
1 New Street Square
London, EC4A 3HQ

LEGAL ADVISERS

To the Issuer

gunnercooke llp
1 Cornhill
London EC3V 3ND

To the Dealers and the Trustee

Allen & Overy LLP
One Bishops Square
London E1 6AD



Principality

Building Society
Cymdeithas Adeiladu