

Prospectus dated 26 April 2023



## 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”.**

This Prospectus has been approved as a base prospectus by the Financial Conduct Authority (the **FCA**), as competent authority under Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018, as amended (the **EUWA**) (the **UK Prospectus Regulation**). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer or of the quality of the Notes that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes.

Application has been made to the FCA in its capacity as competent authority for Senior Preferred Notes, Senior Non-Preferred Notes and Subordinated Notes issued under the Programme during the period of 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 main market of the London Stock Exchange (the **main market**).

References in this Prospectus to Notes being **listed** (and all related references) shall, unless the context otherwise requires, mean that such Notes have been admitted to trading on the main market and have been admitted to the Official List. The main market is a UK regulated market for the purposes of Regulation (EU) 600/2014 on markets in financial instruments as it forms part of domestic law by virtue of the EUWA (**UK MiFIR**).

**This Prospectus (as supplemented as at the relevant time, if applicable) is valid for 12 months from its date in relation to Notes which are to be admitted to trading on a UK regulated market. The obligation to supplement this Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Prospectus is no longer valid.**

Notice of the aggregate nominal amount of, interest (if any) payable in respect of, the issue price of, the issue date and maturity date of, and certain other information which is applicable to, each Tranche of Notes (as defined herein) will be set forth in a final terms document (the **Final Terms**) applicable to such Tranche which, with respect to Notes to be listed on the London Stock Exchange, will be delivered to the FCA and the London Stock Exchange prior to the date of issue of

such Tranche. 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 Senior Preferred Notes, the Deposit Notes and any Coupons relating thereto will constitute “ordinary non-preferential debts” for the purposes of the Insolvency Act 1986 (as amended, including by The Banks and Building Societies (Priorities on Insolvency) Order 2018 (the **Order**), the **Insolvency Act**) and any other 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 debts” for the purposes of the Ranking Legislation. The Subordinated Notes and any Coupons relating thereto will constitute “tertiary non-preferential debts” for the purposes of the Ranking Legislation.

The Programme has been rated ‘Baa2’ (senior unsecured), ‘Baa3’ (subordinated) and ‘P-2’ (short term) by Moody’s Investors Service Limited (**Moody’s**) and ‘BBB+’ (long-term senior unsecured) and ‘F2’ (short-term senior unsecured) by Fitch Ratings Ltd (**Fitch**). Each of Moody’s and Fitch is established in the United Kingdom (the **UK**) and is registered under the Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the EUWA (the **UK CRA Regulation**). Accordingly, each of Moody’s and Fitch is included in the list of credit rating agencies published by the FCA on its website (at <https://www.fca.org.uk/firms/credit-rating-agencies>) in accordance with the UK CRA Regulation. The Issuer understands that ratings issued by Moody’s and Fitch are generally endorsed by Moody’s Deutschland GmbH and Fitch Ratings Ireland Limited, respectively, each of which is established in the European Union, registered under Regulation (EC) No. 1060/2009 (the **CRA Regulation**) and 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.

Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the rating assigned to the Programme by the relevant rating agency. 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. 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.

The Notes have not been and will not be registered under the United States (**U.S.**) Securities Act of 1933, as amended (the **Securities Act**) or any U.S. State securities laws and may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons (as defined in Regulation S under the Securities Act), unless an exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction.

Amounts payable on Floating Rate Notes may be calculated by reference to EURIBOR or SONIA, if so specified in the relevant Final Terms. The relevant Final Terms will indicate whether or not any benchmark applicable to the relevant Notes is provided by an administrator included in the register of administrators and benchmarks established and maintained by the FCA under Article 36 of Regulation (EU) No 2016/1011 as it forms part of domestic law by virtue of the EUWA (the **UK Benchmarks Regulation**). Transitional provisions in the UK Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the relevant Final Terms. The registration status of any administrator under the UK Benchmarks Regulation is a matter of public record and the Issuer does not intend to update any Final Terms to reflect any subsequent change in the registration status of the administrator.

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

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*Arranger*

**HSBC**

*Dealers*

**Barclays**

**BNP PARIBAS**

**HSBC**

**Lloyds Bank Corporate Markets**

**NatWest Markets**

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## IMPORTANT INFORMATION

This Prospectus comprises a base prospectus for the purposes of Article 8 of the UK Prospectus Regulation. When used in this Prospectus, **UK Prospectus Regulation** means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

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, the information contained in this Prospectus is in accordance with the facts and this Prospectus makes no omission likely to affect its import.

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

**Other than in relation to the documents which are deemed to be incorporated by reference (see "*Documents Incorporated by Reference*"), the information on the websites to which this Prospectus refers does not form part of this Prospectus and has not been scrutinised or approved by the FCA.**

This Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area (each, a **Relevant Member State**) will be made pursuant to an exemption under Regulation (EU) 2017/1129, as amended (the **Prospectus Regulation**) 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 the applicable 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 the Prospectus Regulation or supplement a prospectus pursuant to the Prospectus Regulation, in each case, in relation to such offer.

Each Series (as defined in "*Overview of the Programme*") of Notes in bearer form (**Bearer Notes**) 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**, and temporary Global Notes and permanent Global Notes each being a **Global Note**). Notes in registered form (**Registered Notes**) 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 (a **Global Certificate**) is intended to be held under the new safekeeping structure (**NSS**), the relevant 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 (the **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 (as defined herein) 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 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 (as defined in Regulation S under the Securities Act). 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.

None of the Dealers, the Arranger or the Trustee has separately verified the information contained in this Prospectus. None of the Dealers, the Arranger or the Trustee makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Issuer, the Group, the Programme or 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 – PROHIBITION OF SALES TO 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 (the **EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of the Markets in Financial Instruments Directive (Directive 2014/65/EU) (as amended, **MiFID II**); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the **Insurance Distribution 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 **EU 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 EU PRIIPs Regulation.

**IMPORTANT – PROHIBITION OF SALES TO UK RETAIL INVESTORS** – If the Final Terms in respect of any Notes includes a legend entitled “*Prohibition of Sales to UK 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 UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000, as amended (the **FSMA**) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

**MiFID II product governance / target market** – The Final Terms in respect of any Notes may 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.

**UK MiFIR product governance / target market** – The Final Terms in respect of any Notes will include a legend entitled “*UK MiFIR 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 distributor should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the 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 UK MiFIR 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 UK MiFIR Product Governance Rules.

This Prospectus has been prepared on the basis that Notes will be issued with a minimum denomination not less than €100,000 (or equivalent in another currency).

## **IMPORTANT INFORMATION RELATING TO THE USE OF THIS PROSPECTUS AND OFFERS OF NOTES GENERALLY**

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Arranger and the Dealers do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arranger or any of the Dealers which is intended to permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the EEA, Italy, the UK and Japan — see “*Subscription and Sale*” below.

If a jurisdiction requires that the offering of Notes be made by a licensed broker or dealer and any Dealer or any affiliate of any Dealer is a licensed broker or dealer in that jurisdiction and so agrees, the offering shall be deemed to be made by such Dealer or such affiliate on behalf of the Issuer in such jurisdiction.

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 may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the 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;
- (ii) has 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;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor’s currency;
- (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices, financial markets and the recovery and resolution regime applicable to the Issuer under the Banking Act 2009, as amended (the **Banking Act**);
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and
- (vi) understands the accounting, legal, regulatory and tax implications of a purchase, holding and disposal of an interest in any Notes.

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.

## PRESENTATION OF INFORMATION AND INTERPRETATION

Capitalised terms which are used but not defined in any particular section of this Prospectus will, where the context admits, have the meaning attributed to them in the Conditions or any other section of this Prospectus.

In this Prospectus, references to:

- (i) the **Group** are to the Issuer and its consolidated subsidiaries, taken as a whole; and
- (ii) the **Conditions** are (unless the context otherwise requires) to the terms and conditions of the Notes set out in "*Terms and Conditions of the Notes*", and references to a particularly numbered **Condition** should be read accordingly.

In addition, in this Prospectus, all references to:

- **U.S. dollars, U.S.\$** and **\$** refer to United States dollars;
- **Sterling, pounds** and **£** refer to pounds sterling;
- **yen** are to the currency of Japan;
- **Australian dollars** are to the currency of Australia;
- **New Zealand dollars** are to the currency of New Zealand;
- **euro** and **€** refer 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 EU, as amended; and
- the **Building Societies Act** or 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 regulation made thereunder or any other statutory modification or re-enactment.

References to a billion are to a thousand million.

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

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

### **FORWARD-LOOKING STATEMENTS**

Some statements in this Prospectus may be deemed to be forward looking statements. Forward looking statements include statements concerning the Issuer's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward looking statements. When used in this Prospectus, words such as "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward looking statements. Forward looking statements are based on the current view of the Issuer's management with respect to future events and financial performance. Although the Issuer believes that the expectations, estimates and projections reflected in its forward looking statements are reasonable as at the date of this Prospectus, the Issuer's actual results of operations may vary materially from those expected, estimated or predicted.

Any forward looking statements contained in this Prospectus speak only as at the date of this Prospectus. Without prejudice to any requirements under applicable laws and regulations, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward looking statements contained in it to reflect any change in expectations or any change in events, conditions or circumstances on which any such forward looking statement is based.

### **STABILISATION**

**In connection with the issue of any Tranche of Notes, one or more relevant Dealers acting as the Stabilisation Manager(s) (or persons 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 of the Series (as defined below) of which such Tranche forms part 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 terms of the offer of the relevant Tranche of Notes 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 of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.**



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## OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and 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. The Issuer, any relevant Dealer and the Trustee may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of listed Notes only, if appropriate, a supplement to this Prospectus or a new Prospectus will be published.

This overview constitutes a general description of the Programme for the purposes of Article 25(1) of Delegated Regulation (EU) No. 2019/980 as it forms part of domestic law by virtue of the EUWA (the **UK Delegated Regulation**).

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

<b>Issuer</b>	Principality Building Society
<b>Legal Identifier Number (LEI)</b>	2138003CSNVJEPFZ3U52
<b>Risk Factors</b>	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.
<b>Description</b>	Euro Medium Term Note Programme
<b>Size</b>	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.
<b>Arranger</b>	HSBC Bank plc
<b>Dealers</b>	Barclays Bank PLC BNP Paribas HSBC Bank plc Lloyds Bank Corporate Markets plc NatWest Markets Plc
	The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the Programme. References in this Prospectus to <b>Permanent Dealers</b> 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.

**Trustee**

HSBC Corporate Trustee Company (UK) Limited

**Issuing and Paying Agent and Registrar**

HSBC Bank plc

**Paying and Transfer Agent**

Banque Internationale à Luxembourg

**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 only (**Bearer Series**); or
- (iii) in registered form only (**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:

- (i) in the case of Senior Non-Preferred Notes, the minimum maturity will be one year;

- (ii) in the case of Subordinated Notes, the minimum maturity will be five years;
- (iii) in the case of Deposit Notes, the maximum maturity will be five years; and
- (iv) notwithstanding (i), (ii) and (iii) 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) 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**

Resettable Notes will be issued on the basis that 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 on one or more occasions with respect to a specified time period by reference to the Reset Reference Rate.

### **Fixed Rate Notes**

In the case of Notes which bear a fixed rate of interest, 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 at a rate determined by reference to EURIBOR or SONIA (as may be specified in the applicable Final Terms), as adjusted for any applicable margin.

The margin (if any) 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.

<b>Zero Coupon Notes</b>	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.
<b>Interest Periods and Interest Rates</b>	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.
<b>Benchmark Discontinuation</b>	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 the application of an adjustment spread (which may be positive, negative or zero, or a formula or methodology for calculating a spread)). See Condition 5(n).
<b>Redemption</b>	The Final Terms issued in respect of each Tranche of Notes will specify the basis for calculating the redemption amounts payable with respect to such Notes.
<b>Optional Redemption</b>	The Final Terms issued in respect of each Tranche 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. See also “ <i>Early Redemption</i> ” below.
<b>Status of the Senior Preferred Notes and Deposit Notes</b>	<p>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 Ranking Legislation and Condition 4) will constitute ordinary non-preferential debts for the purposes of the Ranking Legislation. The Senior Preferred Notes and the Deposit Notes will rank <i>pari passu</i> without any preference among themselves.</p> <p>The Issuer and, by virtue of its holding of any Senior Preferred Note or Deposit Note or any Coupon relating thereto (or any beneficial interest therein), each holder of a Senior Preferred Note or Deposit Note or a Coupon relating thereto (or any beneficial interest therein) acknowledge and agree that (subject to the Ranking Legislation and to the provisions of Condition 4) the Senior Preferred Notes and the Deposit Notes and such Coupons rank <i>pari passu</i> with</p>

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).

See Condition 3(a) for further information.

**Status of the Senior Non-Preferred Notes**

The Senior Non-Preferred Notes may only be issued on terms such that they (A) have an original contractual maturity of at least one year and (B) are not derivatives and contain no embedded derivatives for the purposes of Section 387A(3)(b)(ii) of the Insolvency Act 1986, as amended (and the relevant section of any other Ranking Legislation).

The Senior Non-Preferred Notes will be direct, unconditional and unsecured obligations of the Issuer and, subject to the Ranking Legislation, will constitute secondary non-preferential debts for the purposes of the Ranking Legislation. Subject to the Ranking Legislation, the Senior Non-Preferred Notes will 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 Coupon relating thereto (or any beneficial interest therein), each holder of a Senior Non-Preferred Note or a Coupon relating thereto (or any beneficial interest therein) acknowledge and agree that, subject to the Ranking Legislation, the claims of the Trustee and the Noteholders against the Issuer in respect of, or arising under, the Senior Non-Preferred Notes and such Coupons (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, rank as specified in Condition 3(b).

**Status of the Subordinated Notes**

The Subordinated Notes will be direct, unconditional and unsecured obligations of the Issuer and, subject to the Ranking Legislation, will constitute tertiary non-preferential debts for the purposes of the Ranking Legislation. Subject to the Ranking Legislation, the Subordinated Notes will 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 Coupon relating thereto (or any beneficial interest therein), each holder of a Subordinated Note or a Coupon relating thereto (or any beneficial interest therein) acknowledge and agree that, subject to the Ranking

Legislation, in the event of the winding-up or dissolution of the Issuer, the claims of the Trustee and the Noteholders and Couponholders against the Issuer in respect of, or arising under, the Subordinated Notes and such Coupons (including, without limitation, any damages awarded for breach of the Issuer's obligations) will be subordinated in the manner provided in the Ranking Legislation and the Trust Deed and as specified in Condition 3(c).

**No set-off in respect of Senior Non-Preferred Notes or Subordinated Notes**

Subject to applicable law, no holder of a Senior Non-Preferred Note, a Subordinated Note or a Coupon relating thereto (or, in each case, any beneficial interest therein) will be entitled to exercise or claim or plead any right of set-off, netting, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with such Senior Non-Preferred Note, Subordinated Note or Coupon.

**Negative Pledge**

Applicable to Senior Preferred Notes and Deposit Notes only. See Condition 4.

**Cross Default**

Applicable to Senior Preferred Notes and Deposit Notes only. See Condition 10(a)(iii).

**Rating**

Tranches of Notes 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 at the option of the Issuer 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 only).

Notes may also be redeemed at the option of the Issuer following the occurrence of a Tax Event (as defined in Condition 6(c)).

The relevant Final Terms will specify the basis for calculating any redemption amounts payable. See Condition 6 for further information.

**Pre-conditions to Redemption, Purchase, Substitution or Variation**

The early redemption or purchase of Subordinated Notes will be subject to the Issuer having obtained any necessary Regulatory Approval therefor and to compliance with the Regulatory Preconditions, each as defined in Condition 6(l).



The early redemption, purchase, substitution or variation of Senior Non-Preferred Notes will be subject to additional requirements as described in Condition 6(j).

**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 certain exceptions set out in Condition 8:

- (i) in the case of all Senior Preferred Notes and Deposit Notes, in respect of payments of interest or principal; or
- (ii) in the case of all Subordinated Notes and Senior Non-Preferred Notes, 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 Condition 8.

For the avoidance of doubt, in the case of all Subordinated Notes and all Senior Non-Preferred Notes, 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 construed in accordance with, English law.

**Listing**

The Notes may be admitted to the Official List and admitted to trading on the main 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.

**Recognition of UK Bail-in Power**

Notwithstanding, and to the exclusion of, any other term of any Series of Notes or any other agreements, arrangements or understandings between the Issuer and any Noteholder or Couponholder (or the Trustee on behalf of any Noteholder or Couponholder), by its acquisition of

any Note or Coupon (or any interest therein), each Noteholder and each Couponholder will acknowledge and accept that the amounts due arising under the Notes and the Coupons may be subject to the exercise of the UK Bail-in Power, and will acknowledge, accept, consent to, and agree to be bound by the effect of the exercise of the UK Bail-in Power by the Resolution Authority, all in accordance with, and as more fully described in, Condition 19.

### **Selling Restrictions**

There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area, Italy, the 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*”.

### **United States Selling Restrictions**

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

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 applicable Final Terms states that such 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 such 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.

### **MiFID/UK MiFIR Product Governance**

The Final Terms in respect of any Notes may include a legend entitled “*MiFID II product governance*” and will include a legend entitled “*UK MiFIR product governance*” which will, in each case, outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any distributor of Notes should take into consideration any such target market assessment; however, a distributor subject to MiFID II or the UK MiFIR Product Governance Rules is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or

refining the relevant target market assessment) and determining appropriate distribution channels.

**Prohibition of Sales to EEA and UK retail investors:**

If the Final Terms in respect of any Notes includes a legend entitled "*Prohibition of Sales to EEA Retail Investors*" and/or a legend entitled "*Prohibition of Sales to UK 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 EEA or in the UK, respectively. No key information document required by the EU PRIIPs Regulation or the UK PRIIPs Regulation for offering or selling any Notes or otherwise making them available to retail investors in the EEA or the UK, respectively, will be prepared for any such Notes and therefore offering or selling any such Notes or otherwise making them available to any retail investor in the EEA or, as the case may be, the UK may be unlawful under the EU PRIIPs Regulation and/or the UK PRIIPs Regulation, as applicable.

## RISK FACTORS

*This section describes the principal risk factors associated with an investment in the Notes.*

*Any investment in the Notes issued under the Programme will involve risks including those described in this section. All principal or material risks in relation to the Issuer and any investment in the Notes are included in this section. The risks and uncertainties described below are not the only risks and uncertainties that the Issuer may face. Additional risks and uncertainties that the Issuer is unaware of, or that it currently deems to be immaterial, may also become important risk factors that affect them. Prospective investors should carefully consider the following discussion of the risk factors and the other information in this Prospectus before deciding whether an investment in the Notes is suitable for them.*

*In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.*

### **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. 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.

The results of the Issuer and the Group are influenced by general economic and other business conditions, including the prevailing interest rate environment. Domestic and international conditions are subject to fluctuations which can adversely affect the Issuer's operating performance, financial conditions and/or prospects, through a wide range of potential channels, including but not limited to; changes in unemployment levels, rates of inflation, level of interest rates, consumer confidence, the state of the UK housing market, counterparty risk and the availability and cost of credit in wholesale and retail markets.

The increasing interest rate environment and significant market turbulence in the UK may adversely affect the Issuer's business and financial performance. Increases in the base rate may increase the Issuer's cost of funding, and may also result in other market participants offering more competitive product pricing, which could result in increased customer attrition. Furthermore, increased or persistent inflation in the UK or globally, both of itself and together with increases in the cost of borrowing, may put increasing pressure on household budgets, which could result in an increase in the Issuer's customers defaulting on their mortgages. These pressures may be exacerbated by continued increases in energy prices and/or the persistence of high energy prices.

The UK has a large current account deficit which has to be funded by attracting capital inflows, leaving the UK vulnerable to shifts in sentiment. Investors may continue to attach risk premia to UK assets as a result of recent events and ongoing uncertainty. 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.

There is also an increased risk that the UK sovereign may be downgraded by rating agencies, which could increase funding costs for lenders. If market interest rates remain elevated, it is likely to adversely impact economic activity. As well as restraining demand, higher interest rates could damage the supply

side of the economy. If demand and supply sides of the economy both deteriorate, inflation may not decline very much or very quickly, which may also mean that interest rates stay higher for longer.

Further, the UK's withdrawal from the European Union (the **EU**) on 31 January 2020 (otherwise referred to as **Brexit**) added an element of uncertainty to the economic outlook, as has the conflict in Ukraine, rising inflation, the global stresses on the UK economy, including particular those caused by a pandemic such as the coronavirus (**Covid-19**) and the potential for another Scottish independence referendum, each of which bears on heightened economic uncertainty in the UK and across global supply chains and markets more generally. Factors relating to general economic conditions such as consumer spending, business investment, government spending, the volatility and strength of both debt and equity markets, rising inflation, interest rates and energy prices and pressures on the cost of living, all have the potential to adversely affect the profitability of the Group. The exact impact of these market risks faced by the Group is uncertain and difficult to predict and respond to, particularly in view of: difficulties in predicting the rate at which any economic deterioration may occur, and over what duration; and the fact that many of the related risks to the business are totally, or partly, outside the control of the Group.

The exact nature of the risks that the Issuer faces and the manner and the extent to which they will ultimately impact the Issuer is difficult to predict and to guard against in the light of (i) the interrelated nature of the risks involved, (ii) the difficulties in predicting whether recoveries will be sustained and at what rate, and (iii) the fact that the risks are totally or partially outside the control of the Issuer.

### ***Political uncertainty***

On 31 January 2020, the UK ceased to be a member of the EU and the European Economic Area (the **EEA**). On 24 December 2020, an agreement in principle was reached in relation to the Trade and Cooperation Agreement, to govern the future relations between the EU and UK following the end of the transition period. The Trade and Cooperation Agreement does not, however, create a detailed framework to govern the cross-border provision of regulated financial services from the UK into the EU and from the EU into the UK.

The Trade and Cooperation Agreement is accompanied by the non-binding Joint Declaration committing the UK and the EU to cooperation in matters of financial regulation such as requirements for reporting under MiFID II, certain Market Abuse Regulations, requirements and the UK binding technical standards on strong customer authentication among others. The Joint Declaration was facilitated by a memorandum of understanding, agreed on 26 March 2021, establishing the framework for this cooperation.

Following the end of the transition period, the EUWA provided that certain existing EU legislation which had direct effect in the UK was retained in UK law as well as existing UK laws which implemented EU obligations. The EUWA and secondary legislation made under powers provided in the EUWA ensure that there is a functioning statute book in the UK. While the UK introduced a temporary permission regime to allow EEA firms to continue to do business in the UK for a limited period of time, the majority of EEA states have not introduced similar transitional regimes. The Trade and Cooperation Agreement contains a general undertaking to ensure the implementation and application of internationally agreed standards in the financial services sector for regulation and supervision, leaving the decisions of "equivalence" and "adequacy" to be determined by each side unilaterally in due course. However, it is only part of the overall package of agreements reached. Other supplementing agreements included a series of joint declarations on a range of important issues where further cooperation is foreseen, including financial services. The declarations state that the EU and the UK will discuss how to move forward with equivalence determinations in relation to financial services. It should be noted that even if equivalence arrangements for certain sectors of the financial services industry are agreed, market access is unlikely to be as comprehensive as the market access that the UK enjoyed through its EU

membership. Prospective investors should note that the regulatory treatment of the Notes may be affected.

The Government has also conferred on the UK financial regulators (that is, the FCA, the Bank of England and the Prudential Regulation Authority (the **PRA**)) responsibility for amending and maintaining certain EU-binding technical standards which were retained in UK law at the end of the transition period. These technical standards specify detailed requirements for the purposes of various EU regulations and directives. In addition, the FCA and the PRA have amended their rules and regulations to ensure that these are consistent with the changes that the Government made to retained EU law and so that it still works effectively following the end of the transition period.

Under the terms of the EUWA, EU legislation that was adopted but did not apply prior to the end of the transition period (such as provisions being phased in under the EU Banking Reform Package, as defined below) and legislative proposals that were in negotiation but not adopted before the end of the transition period are out of scope of the EUWA. This means these legislative measures that were not a requirement at the end of the transition period do not and will not apply in the UK unless these are separately implemented by the Government or regulators.

Furthermore, on 9 December 2022, the Chancellor of the Exchequer announced the Government's Financial Services Package to reform regulations in the UK financial services sectors (the **Edinburgh Reforms**). As a part of the Edinburgh Reforms, HM Treasury also released a Policy Statement titled '*Building a smarter financial services framework for the UK*' (the **December 2022 Policy Statement**). The December 2022 Policy Statement sets out the government's implementation plan to deliver a comprehensive FSMA model of regulation through the powers established in the Financial Services and Markets Bill (the **FSM Bill**). Amongst other thing, the FSM Bill proposes to repeal retained EU law, enabling the government to replace it with legislation designed specifically for UK markets. The December 2022 Policy Statement identifies the core priorities by splitting retained EU law into 'tranches'. The first tranche covers *inter alia* reviews of reforms the wholesale markets, solvency requirements and listing rules. Consequent changes to retained EU law in these areas can be expected by the end of 2023.

As at the date of this Prospectus, it is impossible to predict the effect that any of the recent or proposed changes will have on the Issuer's operations, business and prospects or how any such proposals will be implemented. It is possible that the divergence between EU and UK financial regulations may widen over time. 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.

In addition, other geopolitical factors may have a material adverse effect on the UK economy. In particular, recent instability in the Ukraine region has resulted in considerable geopolitical uncertainty. This instability and uncertainty, as well as financial sanctions being imposed on Russia by (amongst others) the US, the EU and the UK, has (amongst other things) caused increased volatility in financial markets. The conflict has also added to upwards pressure on prevailing energy prices, which in turn has been a material factor in driving high inflation, which is resulting in significant pressure on the cost of living in the UK and elsewhere, and could result in the Issuer's members and customers experiencing increased difficulty in meeting their obligations to the Issuer. The effects of the events in the Ukraine, and any further escalation of hostilities, or similar events, on the UK economy and, accordingly, the Issuer's business is extremely difficult to predict. While the Issuer does not have any material direct exposure to Russia or Ukraine, there can be no assurance that such events or other geopolitical factors will not, directly or indirectly, have a material adverse effect on the Issuer's business, financial condition and results of operations.

No assurance can be given that the Issuer's operating results, financial condition and prospects would not be adversely impacted as a result of any of the foregoing matters, nor 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 and / or the liquidity of the Notes in the secondary market.

### ***Wholesale funding markets risk***

As at 31 December 2022, 92.3 per cent. of the Issuer's loans and advances were funded by customer deposits and 7.7 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. 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 UK vote to withdraw from the EU and as a result of Covid-19. 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.

Various governments and central banks, including the UK Government and the Bank of England, have provided significant support to UK financial institutions through a range of measures, including through the Indexed Long Term Repo Facility (**ILTR**), the Funding for Lending Scheme (**FLS**) and the Term Funding Scheme (**TFS**) and in response to Covid-19, the Term Funding Scheme with additional incentives for SMEs (**TFSME**). The availability of funding through central bank schemes has supported a benign funding environment for UK banks and building societies in terms of both the cost and availability of funding. The FLS, the TFS and the TFSME are no longer available for any further funding, with the drawdown period for TFSME having closed on 31 October 2021.

The Issuer has continued to manage its funding requirements successfully through a combination of retail, wholesale and long-term capital market issuances. To diversify the risk of market concentration, these options have been supplemented by the Issuer's participation in central bank support facilities, in particular the 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 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 (as revised) 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. While the Issuer seeks to maintain access to wholesale markets via a number of routes in order to mitigate against a deterioration in market conditions, there can be no assurance that the wholesale funding markets will not deteriorate in the future, nor that such deterioration will not adversely impact the Issuer's access to the wholesale markets, or increase the Issuer's cost of funding.

### ***UK residential housing market risks may adversely impact the Issuer's business***

One of the Issuer's primary activities is mortgage lending in the UK, 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.

The UK residential mortgage market performance is closely correlated to the UK economic cycle. As well as fluctuations at a national level, the UK residential mortgage market is subject to significant regional variations. The Issuer's retail mortgage lending is only secured against properties in England and Wales. The Issuer's natural concentration in the UK market, whilst currently well diversified, could therefore be exacerbated by over-exposure to one geographical location, or reliance on particular product types within its portfolio.

A downturn in the UK economy or period of 'stagflation', either regionally or nationally, would reduce demand for housing or consequently reduce house price growth and sales, which could result in lower levels of lending, the Issuer's core activity. A fall in property prices resulting from a deterioration of the economy and increased unemployment could lead to increased numbers of borrowers defaulting on their mortgage loans and result in losses being incurred by the Issuer where the net recovery proceeds are insufficient to redeem the outstanding loans.

Conversely, an increasing interest rate environment may adversely affect the Issuer's business and financial performance. Increases in the base rate may increase the Issuer's cost of funding, and may also result in other market participants offering more competitive product pricing, which could result in increased customer attrition. Furthermore, increased or persistent inflation in the UK or globally, both of itself and together with increases in the cost of borrowing, may put increasing pressure on household



budgets, which could result in an increase in the Issuer's customers defaulting on their mortgages. These pressures may be exacerbated by continued increases in energy prices and/or the persistence of high energy prices.

There can be no assurance that the housing market will not deteriorate (whether as a result of the Covid-19 pandemic or for any other reason) and the UK's economic environment may affect the rate at which the new mortgage loans are originated and may also affect the level of attrition of the Issuer's existing borrowers. The Group has exposure to the buy-to-let market. Whilst this market has performed strongly in recent years, there can be no guarantee that this will continue.

There have been various tax-related changes to UK legislation in recent years which may affect the ability of borrowers to repay their buy-to-let loans due to the increased tax costs associated with buy-to-let mortgages and there may be further changes in the future which further impact borrowers' ability to meet their obligations under such loans. For example, with effect from 6 April 2020, there is no longer a deduction available for finance costs against rental income for individual landlords and instead all rental income is only eligible for a tax credit at the basic rate of income tax (20 per cent.) which may result in higher taxes for the individual landlords depending on their personal circumstances.

Further, a higher rate of stamp duty land tax (**SDLT**) and Welsh land transactions tax (**WLTT**) applies to the purchase of additional residential properties (such as buy-to-let properties) in England and Northern Ireland and Wales, respectively. The current additional rates are as follows: (i) in England and Northern Ireland the higher rate is 3 per cent. above the current SDLT rates; (ii) in Wales the higher rate is 4 per cent. above the current WLTT rates.

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

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

Any or all of these pressures on the UK residential housing market and private residential rental market could have a material adverse effect on the Issuer's business and its profitability and results of operations.

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

The UK financial services market for products such as savings and regulated investments (where the Issuer acts as distributor for third parties) is competitive. Historically, increased competition has resulted in downward pressure on the industry's spread between deposit and loan rates.

Further increased demand for retail funding from financial institutions and other existing and new market participants (including alternative finance, challenger or fintech competitors) could have an adverse effect on the Issuer's sales opportunities, and therefore on the Issuer's financial position.

***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 profitability, financial strength and its ability to pay 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.

If the Issuer's or the UK's credit rating were to decline, in the short term the Issuer may have to increase its level of retail funding, which may come at a significantly higher cost to the Issuer. An increased cost of funding could adversely affect the Issuer's profitability and financial condition and could have a material adverse effect on the market value of the Notes.

***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 clears all relevant derivative contracts as required by Regulation (EU) 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories dated 4 July 2012 (including, without limitation, any associated regulatory technical standards and advice, guidance or recommendations from relevant supervisory regulators), as amended or supplemented from time to time (**EU EMIR**) and EU EMIR as it forms part of domestic law by virtue of the EUWA (including, without limitation, any associated regulatory technical standards and advice, guidance or recommendations from relevant supervisory regulators), as amended or supplemented from time to time (**UK EMIR**). This means that the Issuer's exposure is with a centralised clearing body, LCH Ltd. There is 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.

***Systemic risk could adversely affect the Issuer's business***

Concerns about, or a default by, one institution could lead to liquidity problems or losses or defaults by other institutions because the commercial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships between institutions. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Issuer interacts on a daily basis and therefore could adversely affect the Issuer and its ability to meet its obligations, including those under the Notes.

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

The Issuer is regulated by the PRA and the FCA. The regulatory regime requires the Issuer to be compliant across many aspects of activity, including (but not limited to) the training, authorisation and supervision of personnel, systems, processes and documentation. If the Issuer fails to be compliant with any relevant regulations, there is a risk of an adverse impact on its business due to sanctions, fines or other action imposed by the regulatory authorities.

This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking, personal finance and real estate sectors. 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.

For example, on 27 July 2022, the FCA confirmed its plans to bring in a new consumer duty (the **Consumer Duty**) which will set higher and clearer standards of consumer protection across financial services and require firms to put their customers' needs first. The Consumer Duty is constituted of four high-level outcomes:

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

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

The Consumer Duty also includes requirements for firms to end unfair charges and fees, make it as easy to switch or cancel products as it was to take them out in the first place, provide helpful and accessible customer support, act quickly to respond to customer queries, provide timely, clear and easily understandable information to customers regarding products and services, provide products and services that are appropriate for their customers, and focus on the real and diverse needs of their customers, including those in vulnerable circumstances, at every stage and in each interaction. Firms will also need to monitor, evidence and report against many of the requirements. There may be added costs associated with making necessary changes in order to ensure that the Issuer is compliant with these new rules. If the Issuer fails to comply with these new rules, there is a risk of an adverse impact on the Issuer's business due to penalties imposed by the FCA, costs and payments associated with any investigations and/or required remediation and potential reputational damage. Future changes in regulation, fiscal or other policies are unpredictable and beyond the Issuer's control and could materially adversely affect the Issuer's business or operations.

The imposition of sanctions, fines or other action on the Issuer or the incurrence of costs by the Issuer may affect the Issuer's ability to meet its obligations to Noteholders in respect of the Notes.

In addition, following a consultation on the optimal structure for UK financial services post-Brexit, the FSM Bill was introduced to Parliament on 20 July 2022 and aims to implement the outcomes of the government's future regulatory framework review and to make changes to update the UK regulatory regime. The FSM Bill intends to move away from the onshored EU legislation towards the historic approach taken under the FSMA, whereby primary responsibility for regulation is delegated to the UK regulatory authorities, subject to the oversight of Parliament. The FSM Bill will establish a framework to revoke EU law relating to financial services, and will enable HM Treasury, the FCA and PRA to replace it with legislation and regulatory rule sets to deliver a comprehensive FSMA model of regulation.

Furthermore, on 1 March 2022, HM Treasury published its response to a consultation on wholesale markets review, which proposed wide-scale changes to the onshored UK MiFID regime. The FSM Bill would implement the results of the wholesale markets review, and provisions in respect of digital settlement assets, direct supervision of critical third-party service providers, changes to the financial promotions regime and insurers in financial difficulties, among other things.

The FCA, and other bodies such as the Financial Ombudsman Service, could also 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.

As at the date of this Prospectus, it is impossible to predict the effect that any of the recent or proposed changes will have on the Issuer's operations, business and prospects or how any such proposals will be implemented, including as a result of any divergence between the UK and EU regulatory regimes.

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.

### ***Risks relating to the Banking Act 2009***

Under the Banking Act, substantial powers are granted to HM Treasury, the 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 in which the Authorities consider that the resolution conditions are satisfied, through a series of 'stabilisation options', including, among other things, to resolve the relevant entity by means of several resolution tools (the **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; and (v) a bail-in tool which permits the Bank of England to (a) convert a building society (such as the Issuer) 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 or any securities issued by it (including Notes issued under the Programme), 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, and/or result in the write-down, write-off or conversion to common equity tier 1 instruments of the Notes. 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 on 1 August 2014. The definition of “banking group company” encompasses 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 “write-down and conversion tool”, enabling the Authorities – independently of, or in conjunction with, the use of resolution powers – 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 write-down and conversion 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. Additionally, in respect of building societies, the resolution authority may write-down or convert instruments issued by the building society itself or a successor entity formed through exercise of Stabilisation Options. Subordinated Notes issued under the Programme may be Tier 2 capital instruments, and any such Subordinated Notes could be subject to the write-down and conversion tool. As used above, **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 Banking Act also provides for the UK 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 Banking Act 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. There can be no assurance that investors in any Notes will benefit from such support even if it were provided.

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 write down and conversion 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 (including that the Notes may be written down (including to nil) and/or converted into common equity tier 1 instruments). 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 Stabilisation Options) action will be taken that will enable the relevant entity to satisfy those conditions, and (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.

The European Banking Authority (the **EBA**) has published translations of its May 2015 guidelines on the circumstances in which a relevant entity shall be deemed by supervisors and resolution authorities as “failing or likely to fail” within the meaning of Directive 2014/59/EU (the **Bank Recovery and Resolution Directive**, or **BRRD**), from which parts of the Banking Act are derived. These have applied since 1 January 2016. While the EBA guidelines are not binding on the Authorities when considering their powers under the Banking Act, the Authorities may continue to have regard to them as part of their deliberations, even after Brexit. The guidelines set out the objective criteria which should apply when supervisors and Authorities make such a determination.

Additionally, HM Treasury has issued a Code of Practice (which was last updated in December 2020) on the special resolution regime, in accordance with sections 5 and 6 of the Banking Act, which supports the legal framework of the SRR, and provides guidance as to how and in what circumstances the Authorities will use the special resolution tools.

Although the Banking Act provides for conditions to the exercise of any resolution powers and the EBA guidelines and the HM Treasury Code of Practice 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.

*Various actions may be taken under the SRR 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):

- (a) transferring the Notes out of the hands of the Noteholders;
- (b) delisting the Notes;
- (c) writing down (which may be to nil) the Notes or converting the Notes into another form or class of securities; and/or
- (d) modifying or disapplying certain terms of the Notes, which could include modifications to (without limitation) the maturity date (which may be to extend the maturity date), the interest provisions (including reducing the amount of interest payable, the manner in which interest is calculated and/or the scheduled interest payment dates, including by suspending payment for a temporary period), and/or the redemption provisions (including the timing of any redemption

options and/or the amount payable upon redemption) and may result in the disapplication of acceleration rights or events of default under the terms of the Notes or the effect thereof.

The relevant Authorities may exercise the bail-in tool under the Banking Act to recapitalise a relevant entity in resolution by allocating losses to (amongst others) its capital providers and unsecured creditors (which would include Noteholders) in a manner that (i) ought to respect the hierarchy of claims in an ordinary insolvency and (ii) is consistent with shareholders and creditors not receiving a less favourable treatment than they would have received in ordinary insolvency proceedings of the relevant entity (known as the “no creditor worse off” safeguard, although this may not apply in relation to an application of the write-down and conversion power in circumstances where a stabilisation power is not also used; holders of debt instruments which are subject to the power may, however, have common equity tier 1 instruments transferred to or issued to them by way of compensation in certain circumstances). Accordingly, the ranking of Notes in insolvency can be expected to have a direct impact on the relative losses imposed on Noteholders in a resolution or upon use of the write-down or conversion powers under the Banking Act, as such resolution and write-down and conversion powers ought to be used in a manner that respects the hierarchy of claims in an ordinary insolvency.

The bail-in tool includes the power to cancel a liability or modify the terms of contracts for the purposes of reducing or deferring the liabilities of the relevant entity under resolution and the power to convert a liability from one form or class 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 (which, in the case of the Issuer, could be core capital deferred shares) 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 and relevant internal liabilities may affect the Notes, including outside formal resolution proceedings*

As noted above, in addition to the Stabilisation Options which may be used in a resolution of an institution, the Banking Act contains a write-down and conversion 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 independently of (or in conjunction with) the exercise of any stabilisation power. This power has also been extended to relevant internal eligible liabilities (i.e. relevant intra-group liabilities between the Issuer and its subsidiaries which reflect a down-streaming of capital or MREL requirements within the group).

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 and relevant internal liabilities are written-down or converted or (iii) extraordinary public financial support is required by the relevant entity other than, where the entity is an institution, for the purposes of remedying a serious disturbance in the UK economy and to preserve financial stability.

Subordinated Notes issued under the Programme may therefore be subject to write-down or conversion into common equity tier 1 instruments on application of such powers (without requiring the consent of the holders thereof) independently of whether the Issuer is in, or subsequently enters into, resolution. This may result in the holders losing some or all of their investment even if the Issuer is not put into resolution. 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. In addition, if any relevant internal liabilities were to be written down, written off or converted to common equity tier 1 instruments, this may affect the Issuer’s ability to meet its obligations with respect to any Notes issued under the Programme.

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/or the Issuer’s ability to meet its obligations under any Notes, and such exercise (or the perception that such exercise may occur) could materially adversely affect the price or value of any Notes, and/or may adversely affect liquidity and/or volatility in any market for any Notes.

*The circumstances under which the relevant Authorities would exercise resolution powers are uncertain, which may affect the value of the Notes*

There is considerable uncertainty regarding the specific factors beyond the goals of addressing banking crises pre-emptively and minimising taxpayers’ exposure to losses (for example, by writing down relevant capital instruments before the injection of public funds into a financial institution) which the relevant Authorities would consider in deciding whether to exercise the Banking Act resolution powers with respect to the relevant financial institution and/or securities, such as the Notes, issued by that institution. While the Banking Act provides some guidance as to how and when the resolution powers may be utilised by the relevant Authorities, it allows for considerable discretion and there is no certainty



as to how the relevant Authorities will exercise any resolution powers with respect to a financial institution and/or securities issued by that institution. As there may be many factors, including factors outside of the Issuer's control or not directly related to it, which could result in such a determination, holders of the Notes may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such resolution powers.

*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 UK authorities have not exercised any of the Stabilisation Options under the Banking Act in respect of the Issuer and there has been no indication that they will do so. However, there can be no assurance that this will not change and/or that Noteholders will not be adversely affected by any such stabilisation option, if exercised.

***Risks relating to the evolving prudential framework***

The Issuer operates under a complex and evolving prudential framework. As further described in "*Principality Building Society – Capital, MREL and liquidity requirements*", the framework involves requirements and supervisory expectations with respect to risk-based capital requirements (capital held against risk-adjusted exposures), leverage requirements (capital held against total exposures), additional MREL requirements (designed to ensure additional loss-absorbing capacity to support the effectiveness of bail-in and other resolution tools available to the UK resolution authorities) and liquidity requirements.

If the Issuer fails, or is perceived to be likely to fail, to meet its minimum regulatory requirements and supervisory expectations, this may result in administrative actions or regulatory sanctions which could affect the financial position and prospects of the Issuer and could result in the Issuer being unable to meet its obligations, including those under the Notes.

In addition to the specified requirements for all relevant entities, the PRA may also require a credit institution (such as the Issuer) to meet additional, institution-specific capital requirements (known as "Pillar 2" requirements). Institutions may also be required to hold additional MREL resources above their capital requirements. Accordingly, there is a risk that the Issuer will be required to hold higher levels of – and/or better quality - capital and other MREL resources than is currently anticipated or planned for. If and to the extent that the PRA adopts capital, MREL or other requirements which exceed existing capital and MREL requirements, this could increase the Issuer's costs, may adversely impact the Issuer's competitiveness relative to any banks and financial institutions subject to less stringent

requirements or may otherwise affect the Issuer's plans to grow its balance sheet, and could affect the Issuer's profitability, results of operations and prospects.

In addition, the Group adopts a combination of Internal Ratings Based (**IRB**) and standardised risk models for calculating its risk-weighted assets (**RWA**). Changes to how the Issuer applies its IRB model, or which may require the Issuer to calculate its risk-adjusted assets on the basis of standardised or loan-to-value-based standardised risk-weights, could have a material adverse impact on the Issuer's capital ratios, even if the Issuer remains profitable. In particular, RWA output floors are due to be implemented through a transitional period (currently expected to be from 2025 to 2030), and other reforms for the calculation of risk-weights are also due to be implemented. Further, a number of PRA reforms for IRB calibration have also been made effective from 1 January 2022. These include the amendment of all rating systems to align with the PRA's updated definitions of 'default', 'probability of default' and 'loss given default', floors for mortgage exposures and the amendment of the PRA's expectations regarding residential mortgage rating systems. From 1 January 2022, mortgage exposures classified as in default are excluded from the 10 per cent average minimum risk weight expectation.

The introduction of an RWA floor for secured lending combined with IRB calibration changes with the implementation of new secured models will lead to a significant increase in the Issuer's RWA over time. The Issuer currently expects the consequential impact on its reported CET1 ratio ultimately to be a reduction of approximately 40-45 per cent. relative to its reported CET1 ratio of 34 per cent. as at 31 December 2021 (although underlying business growth is expected to be capital accretive). As further discussed in "*Principality Building Society - Finance position and liability management - Capital base*", the implementation of the PRA's reforms for IRB calculation since 1 January 2022 has resulted in the Issuer's CET1 ratio falling to 26.5 per cent. as at 31 December 2022 (with the model redevelopment offsetting the positive impact on the ratio of increases in profits in the year and house price increases).

If the Issuer fails to meet its capital, liquidity and MREL requirements and/or leverage expectations in full, the Issuer may be unable to write new business, may be subject to regulatory sanction or fines and, in a severe scenario, could have its authorisation revoked. Furthermore, changes to the regulatory capital and liquidity requirements, and/or the prudential framework, under which the Issuer operates could hinder growth and/or increase its cost of capital by prescribing more stringent requirements than those with which it currently complies. The Issuer's capital ratios may be adversely affected not only by a reduction in the Issuer's capital (including if the Issuer suffers financial losses) but also by changes in the manner in which the Issuer is required to calculate its capital and/or the risk-weightings applied to its assets (including changes in the IRB models of the Issuer, such as the introduction or amendment of risk-weight floors).

In addition, a failure to adequately manage capital, liquidity and the Issuer's MREL requirements could have a material adverse effect on the Issuer. Whilst the Issuer monitors current and expected future capital, liquidity and MREL requirements, including having regard to both leverage expectations and RWA-based requirements, and seeks to manage and plan the prudential position accordingly and on the basis of current assumptions regarding future capital and liquidity requirements, there can be no assurance that the assumptions will be accurate in all respects or that it will not be required to take additional measures to strengthen its capital or liquidity position.

Effective management of the Issuer's capital and regulatory authorisations is critical to its ability to operate and grow its business and to pursue its strategy. Any change that limits the Issuer's ability to manage its balance sheet and capital resources effectively (including, for example, reductions in profits and retained earnings as a result of credit losses, write-downs or otherwise, increases in risk-weighted assets (which may be pro-cyclical under the current capital framework, resulting in risk-weighting increasing in economic downturns), delays in the disposal of certain assets or the inability to raise capital or funding through wholesale markets as a result of market conditions or otherwise) could have

a material adverse impact on its business, financial condition, results of operations, liquidity and/or prospects.

Furthermore, if the Issuer fails, or is perceived to be likely to fail, to meet its minimum regulatory capital and liquidity requirements, leverage expectations or MREL, including in connection with any stress tests performed by the Bank of England or any other relevant authority, this may result in administrative actions or regulatory sanctions. In addition, any actual or perceived weakness relative to the Issuer's competitors could result in a loss of confidence, which could result in high levels of withdrawals from its deposit base, upon which it relies for lending and which could have a material adverse effect on the Issuer's business, financial position and results of operations.

Such events could have a material adverse impact on the Issuer's business, financial condition and results of operations, and could materially adversely impact its ability to meet its obligations (including those under the Notes).

***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**), the EU and/or the UK change the international financial reporting standards issued by the IASB as applicable in the UK (**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 financial statements for a prior period.

For example, IFRS 9: "Financial Instruments" is the standard which replaced 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 since the financial year starting on 1 January 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 or accounting standards could materially affect its reported financial condition and results of operations.

***The Issuer's accounting policies and methods are critical to how it reports its financial condition and results of operations. They require the Issuer to make estimates about matters that are uncertain***

Accounting policies and methods are fundamental to how the Issuer records and reports its financial condition and results of operations. The Issuer must exercise judgement in selecting and applying many of these accounting policies and methods so that they comply with IFRS.

The Issuer has identified certain accounting policies in the notes to its audited consolidated financial statements for the year ended 31 December 2022 incorporated by reference in this Prospectus in respect of which significant judgement is required in determining appropriate assumptions and estimates when valuing assets, liabilities, commitments and contingencies. A variety of factors could affect the ultimate value that is obtained either when earning income, recognising an expense, recovering an asset or reducing a liability. The Issuer has established detailed policies and control procedures that are intended to ensure that these judgements (and the associated assumptions and estimates) are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding the Issuer's judgements and the estimates pertaining to these

matters, the Issuer cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future and any such changes or restatements could be material in nature.

### ***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.

It is possible that future FSCS levies on the Issuer may differ from those incurred previously, and reforms to the FSCS rules, such as increasing the scope and level of protection or moving to pre-funding of compensation schemes, could result in the Issuer incurring additional costs and liabilities, which may adversely affect its business, financial condition and/or results of operations.

### ***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 which could adversely affect the Issuer's ability to make payments on the Notes.

Regulation (EU) 2016/679 as it forms part of domestic law by virtue of the EUWA (the "UK GDPR") imposes obligations on data controllers and data processors and new rights for data subjects which the Group needs to comply with. The UK GDPR also introduces significantly increased financial penalties that can be imposed on the Group as the result of any non-compliance with the UK GDPR.

There is a risk that the measures introduced by the UK GDPR may not have been implemented correctly or that individuals within the Issuer will not be fully compliant with such measures. 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.

### ***There can be no assurance that the Issuer's risk governance framework will prevent principal risks from materialising***

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 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.

The prevailing level of interest rates and the provision or withdrawal of other accommodative monetary and fiscal policies, which are impacted by factors outside of the Issuer's control, including the fiscal and monetary policies of governments and central banks, as well as UK and international political and economic conditions, affect the Issuer's results of operations, financial condition and return on capital. The Bank of England has started to tighten monetary policy in response to high inflation and a buoyant labour market.

The relatively long period of stimulus measures in the UK and elsewhere has increased uncertainty over the impact of its reduction, which could lead to generally weaker than expected growth, or even contracting gross domestic product, reduced business confidence, higher levels of unemployment or under-employment, adverse changes to levels of inflation, potentially higher interest rates and falling property prices in the markets in which the Issuer operates, and consequently to an increase in delinquency rates and default rates among the Issuer's customers. Moreover, higher prevailing interest rates would affect the Issuer's cost of funding with depositors and creditors, which could adversely affect the Issuer's profitability, to the extent the Issuer's margins decline.

#### *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 and Enterprise Risk 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 be able 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 2022, LCR, a measure of the Issuer's ability to withstand short-term liquidity stress, was 246 per cent. (31 December 2021: 294 per cent.).

#### *Operational Risk*

Failure by the Issuer to control its operational risks may result in material adverse effects to its business, financial condition and/or reputation. Operational risk and losses can result from financial (including cyber) crime, weaknesses or failures in the design or use of a model, errors by employees, failure to

document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, IT systems failures, pandemics, natural disasters, the failure of external systems (for example, those of the Issuer's suppliers or counterparties) or the failure of third party suppliers which the Issuer is reliant upon. Failure to manage these risks effectively could adversely impact the Issuer's business and financial profile and its ability to make payments on the Notes.

Operational resilience has been a key focus area for the PRA, the Bank of England and the FCA in recent years. On 29 March 2021, the PRA published its Policy Statement PS 6/21: "*Operational resilience: Impact tolerances for important business services*". The Policy Statement sets out the PRA's policy interventions on operational resilience, effective from 31 March 2022. The regulators expect firms to identify their important business services that, if disrupted, could cause harm to consumers or market integrity, threaten the viability of firms or cause instability in the financial system. Impact tolerances should be set for each important business service and firms should take actions to be able to remain within their impact tolerances through a range of severe but plausible disruption scenarios. Firms are expected to identify and document the people, processes, technology, facilities and information that support their important business services. The policy requires boards and senior management to approve the important business services identified for the firms and the impact tolerances set. Boards are expected to ensure they have the appropriate management information, adequate knowledge, skills and experience to provide constructive challenge to senior management and informed decisions that have consequences for operational resilience.

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

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

A failure to comply with these new operational resilience rules may expose the Issuer to administrative sanctions and regulatory fines.

### *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 repricing 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, LIBOR or SONIA 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.

If the Issuer fails to manage and control its interest rate risk, the Issuer could become unable to meet its obligations, including those under the Notes.

#### ***Risks relating to the Issuer's defined benefit pension scheme***

The Issuer operates a defined benefit pension scheme, which is closed to new entrants and further accrual. Due to lower than expected asset returns and higher than expected interest rates, the scheme has a deficit of £0.9 million as at 31 December 2022. Whilst the Issuer continues to work closely with the trustees of the scheme to ensure the investment plan for the scheme assets is effective in both generating returns and mitigating risks, and thereby seeking to ensure that the pension risk to the Issuer is appropriately managed, the deficit could increase and may need to be funded directly by the Issuer. This could adversely impact the Issuer's profitability and its ability to satisfy its obligations under the Notes.

#### ***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.

While the Issuer recognises that the cyber threat remains a key industry concern and will endeavour to continue to adopt adequate controls in line with industry best practice, if prevention measures are inadequate or circumvented this could cause the Issuer to fail to perform its obligations under the Notes and the Noteholders could therefore be adversely affected. In the event that the Issuer was subject to



a cyber-attack, such attack could also adversely affect the reputation of the Issuer and its business and financial results.

### ***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 scale and pace of change may outstrip the Issuer's capacity to achieve its strategic ambition. 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.

### ***Legal and Regulatory risk***

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, which may include fines, censure and penalties. Any such action would have a material adverse effect on the Issuer's financial condition, results of operations or profitability, and could also adversely impact its reputation. While the Issuer's business model and strong 'member focus' is designed to avoid these risks arising, there can be no assurance that inadvertent non-compliances may occur, or that the Issuer will not become subject to legal or regulatory action.

### ***Reputational risk***

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

Failure to address, or appearing to fail to address, various issues that could give rise to reputational risk could cause harm to the Issuer and the Issuer's business prospects. Reputational issues include, but are not limited to: appropriately addressing potential conflicts of interest; cyber security, legal and regulatory requirements; ethical issues; climate change and other sustainability or environmental, social and governance (**ESG**) matters; adequacy of anti-money laundering processes; privacy issues; customer service issues; recordkeeping; sales and trading practices; proper identification of the legal, reputational, credit, liquidity and market risks inherent in products offered; and general company performance. A failure to address these issues appropriately could make customers, depositors and investors unwilling to do business with the Issuer, which could adversely affect the Issuer's business, financial condition and results of operations and could damage its relationships with its regulators and affect the Issuer's ability to make payments on the Notes. There can be no assurance that the Issuer will be successful in avoiding damage to its business and financial condition if events occur or circumstances arise which adversely affect its reputation.

### ***Climate Change***

The physical and transition risks of climate change are becoming ever more apparent and have the potential to pose a significant threat to the Issuer without a coordinated and timely response.

Climate change, and businesses' response to the emerging threats, are under increasing scrutiny by governments, regulators and the public alike. These include physical risks resulting from changing climate and weather patterns and extreme weather-related events, as well as transition risks resulting from the process of adjustment towards a lower carbon economy. Governments and regulators may introduce increasingly stringent rules and policies designed to achieve targeted outcomes, which could increase compliance costs for the Issuer, drive asset impairments and result in regulatory fines or other action if the Issuer is unable to implement adequate reforms sufficiently quickly. How the Issuer assesses and responds to these developments and challenges could increase its costs of business, and a failure to identify and adapt its business to meet new rules or evolving expectations, or any perception that it is under-performing relative to its peers, could result in reputational damage and/or the risk of legal claims and may have an adverse impact on the Issuer's financial performance and business operations.

## **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:

***If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return***

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect, or is perceived to be able to 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) or a Tax Event (in the case of any Notes) (subject, where applicable, to the satisfaction of the certain pre-conditions set out in the Terms and Conditions of the Notes, including Regulatory Approval if then required), all as further described in the Terms and Conditions of the Notes.

It may be commercially rational for the Issuer 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.

In addition, the circumstances in which a Tax Event, Regulatory Event or Loss Absorption Disqualification Event may occur may be difficult to predict, and are based on factors outside the Issuer's control. Any changes in applicable law or regulation, or the official interpretation thereof, could result in any such event occurring. The occurrence of any such event, or any perception, expectation or anticipation in the markets that such an event may occur (whether or not such event does, in fact, occur), may have a significant adverse impact on the market price of any Notes and/or result in increased volatility in such market price.

### ***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).

The Loss Absorption Compliant Notes are required to have terms such that they rank as part of the class of secondary non-preferential debts; this is the case whether or not the Senior Non-Preferred Notes had become a part of the class of ordinary non-preferential debts as a result of the relevant Loss Absorption Disqualification Event. Whilst Loss Absorption Compliant Notes are, subject to such ranking requirement, otherwise required to have terms which are 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.

### ***Ranking of Notes issued under the Programme in accordance with the Insolvency Act***

The Banks and Building Societies (Priorities on Insolvency) Order 2018 (the **Order**) came into effect on 19 December 2018. Under the Insolvency Act (as amended by 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) are no longer treated as a single *pari passu* class, and instead are split into three distinct tiers:

- (1) 'ordinary non-preferential debts' (which would include Senior Preferred Notes issued under the Programme);
- (2) 'secondary non-preferential debts' (which would include Senior Non-Preferred Notes issued under the Programme); and
- (3) 'tertiary non-preferential debts' (which would include Subordinated Notes issued under the Programme as well as other own funds instruments and subordinated liabilities which could rank in priority to, *pari passu* with or junior to the Subordinated Notes).

The Insolvency Act (as amended by 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.

#### ***Senior Preferred Notes and Deposit Notes rank behind liabilities which are preferred by law***

A substantial portion of claims against the Issuer in the event of its winding-up or dissolution will rank ahead of claims in respect of the Senior Preferred Notes and Deposit Notes. Holders of Senior Preferred Notes, Deposit Notes and other unsubordinated creditors of the Issuer will, in an insolvency of the Issuer, rank junior to member share accounts, which are given preferential status under law.

The English insolvency regime applicable to the Issuer at the date of this Prospectus provides for:

- (i) a first-ranking preference to those deposits and share accounts (or a relevant part thereof) of natural persons and micro, small and medium enterprises, which are actually protected by the Financial Services Compensation Scheme (i.e. are eligible for protection and do not exceed the FSCS coverage limit, presently £85,000); and
- (ii) 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 coverage limit of the FSCS or (b) were made through a branch of an (otherwise eligible) credit institution outside the EEA. 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 unsecured creditors in the event of an insolvency.

In a winding-up or dissolution of the Issuer, a substantial portion of the claims against it would be claims of its retail members, whose claims will rank ahead of claims in respect of the Senior Preferred Notes and Deposit Notes (which in turn will rank ahead of claims in respect of Senior Non-Preferred Notes and Subordinated Notes).

#### *Relative ranking of Notes issued under the Programme*

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. The Subordinated Notes rank junior to the Senior Non-Preferred Notes, and the Issuer may also issue other subordinated securities in the future which rank junior to the Senior Non-Preferred Notes and in priority to the Subordinated Notes.

Accordingly, on a winding-up or dissolution of the Issuer, claims in respect of Senior Preferred Notes and Deposit Notes issued under the Programme will rank ahead of claims in respect of Senior Non-Preferred Notes (as noted above, notwithstanding that Senior Preferred Notes and Senior Non-Preferred Notes both share the 'senior' designation under the Programme, investors should note that the latter ranks behind the former), which in turn will rank ahead of claims in respect of Subordinated Notes.

Therefore, in a winding-up or dissolution of the Issuer, the assets of the Issuer available for distribution would be expected to be distributed:

1. firstly, in satisfaction of all claims which are preferred by law to claims in respect of Senior Preferred Notes and Deposit Notes;
2. secondly, only if and to the extent any assets remain after the distributions above, in satisfaction of all claims in respect of Senior Preferred Notes, Deposit Notes and any other ordinary non-preferential debts (as that term is defined in Section 387A of the Insolvency Act) on a *pro rata* basis;
3. thirdly, only if and to the extent any assets remain after the distributions above, in satisfaction of all claims in respect of Senior Non-Preferred Notes and any other secondary non-preferential debts (as that term is defined in Section 387A of the Insolvency Act) on a *pro rata* basis; and
4. fourthly, only if and to the extent any assets remain after the distributions above (and, if applicable, after distributions in respect of subordinated liabilities of the Society which rank ahead of Subordinated Notes, if any), in satisfaction of all claims in respect of Subordinated Notes and

any other tertiary non-preferential debts (as that term is defined in Section 387A of the Insolvency Act) which rank *pari passu* with Subordinated Notes, on a *pro rata* basis.

Accordingly, the Issuer may not have enough assets remaining after paying higher-priority creditors to pay amounts due under the relevant Notes, and in such circumstances Noteholders could lose some or all of their investment in the Notes. As such, prospective investors in Notes issued under the Programme should note that, in the event of the Issuer's insolvency, winding-up or dissolution, 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. Further, investors in the Subordinated Notes and Senior Non-Preferred Notes will not be entitled to exercise any rights of set-off, netting, compensation or retention against the Issuer in respect of such Notes.

#### *Relevance of ranking to recovery and resolution under the Banking Act*

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 upon use of the write-down and conversion powers under the Banking Act, as such resolution and write-down and conversion powers ought to be used in a manner that respects the hierarchy of claims in an ordinary insolvency (as further described above under "*Risks relating to the Banking Act 2009*").

In addition, the Senior Non-Preferred Notes and Subordinated Notes are intended to contribute towards the Issuer's MREL, meaning that they are specifically intended to be available to resolution authorities for write-down, write-off or conversion to equity under the Banking Act in order to absorb losses and recapitalise the Issuer if it is failing, and before more senior-ranking creditors suffer losses. Accordingly, investors in Senior Non-Preferred Notes and Subordinated 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 or total losses). The market value of the Subordinated Notes and 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 Deposit Notes. Accordingly, holders of Senior Non-Preferred Notes bear greater risk than holders of Senior Preferred Notes (notwithstanding that both share the 'senior' designation under the Programme) and Deposit Notes, and holders of Subordinated Notes bear greater risk than holders of Senior Non-Preferred Notes.

Therefore, in the event of an insolvency, winding-up, dissolution or resolution of the Issuer, there is a real risk that investors in Senior Preferred Notes, Deposit Notes, Senior Non-Preferred Notes and/or Subordinated Notes would lose some or the entire amount of their investment. Furthermore, the market price of Senior Preferred Notes, Deposit Notes, Senior Non-Preferred Notes and Subordinated 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, dissolution or resolution of the Issuer.

#### ***The Subordinated Notes and Senior Non-Preferred Notes 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 Senior Non-Preferred Notes are (i) default being made for a period of seven days or more in the payment of any principal in respect of such Notes or any of them or for 14 days or more in payment of any interest in respect of such Notes or any of them when the same has otherwise become due and payable and (ii) the commencement of the winding-up or dissolution of the Issuer, all as more particularly described in Condition 10(c).

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 the Senior Non-Preferred Notes (including any damages awarded for breach by the Issuer of any obligations in respect thereof) will be the institution of proceedings for the winding-up of the Issuer and claiming in such winding-up (such claims ranking as provided above under “*Ranking of Notes issued under the Programme in accordance with the Insolvency Act*”). Otherwise, the Trustee and the Noteholders may not take any further or other action to enforce, prove or claim for 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 (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) (and the claims in respect thereof will rank as provided above under “*Ranking of Notes issued under the Programme in accordance with the Insolvency Act*”).

***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 Subordinated Notes and Senior Non-Preferred Notes applies only to payments of interest due and payable under such Notes and not to payments of principal (which term, for these purposes, includes any premium, Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount, Loss Absorption Disqualification Event Redemption Price and any other amount (other than interest) payable in respect of such Notes).

As such, the Issuer would not be required to pay any additional amounts under the terms of any Subordinated Notes or 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 Subordinated Notes or 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.

***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 EURIBOR and SONIA) are the subject of on-going reform. These reforms may cause such benchmarks to perform differently than in the past, to be replaced or reconfigured 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 such a benchmark.

Regulation (EU) 2016/1011 (the **EU Benchmarks Regulation**) applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. In particular, the Benchmarks Regulation, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised

entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The UK Benchmarks Regulation among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by UK supervised entities (such as the Issuer) of benchmarks of administrators that are not authorised by the FCA or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed).

The EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, 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 EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable. 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 relevant 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.

Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to, referencing, or otherwise dependent (in whole or in part) upon, a benchmark.

The Terms and Conditions of Notes provide for certain fallback arrangements in the event that a Benchmark Event (as defined in the Terms and Conditions) occurs in respect of an Original Reference Rate or other relevant reference rate (which could include, without limitation, a mid-swap rate) and/or any page on which such benchmark may be published (or any other successor service) becomes unavailable. 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 the application of an Adjustment Spread (which could be positive, negative or zero, or a formula or methodology for calculating a spread), and may include amendments to the Terms and Conditions of the Notes to ensure the proper operation of the new benchmark, all as determined by the Issuer (acting in good faith and in consultation with an Independent Adviser) and as more fully described at Condition 5(n). However, the Issuer will not be required to implement a Successor Rate or Alternative Rate or any Adjustment Spread or make any amendments to the Terms and Conditions of any Notes if and to the extent that, in its determination, the same could reasonably be expected to impact adversely the treatment of the Notes under the prudential or loss-absorption regulations in certain respects, and in such case the Issuer may, subject to certain conditions, be able to apply the provisions of Condition 5(n) on an adjusted basis to avoid that outcome, all as more fully described under Condition 5(n). It is possible that the adoption of a Successor Rate or Alternative Rate, including any Adjustment Spread, may 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. There is also a risk that the relevant fallback provisions may not operate as expected or intended at the relevant time.

*Floating Rate Notes issued under the Programme could effectively become Fixed Rate Notes*

In certain circumstances, the ultimate fallback for the purposes of calculation of the Rate of Interest for a particular Interest Accrual Period may result in the Rate of Interest for the last preceding Interest Accrual 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 or a rate based on the Mid-Swap Fallback Rate.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the EU Benchmarks Regulation and/or the UK Benchmarks Regulation reforms and the possible application of the benchmark replacement provisions of the Notes in making any investment decision with respect to any Notes referencing a benchmark.

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

Where the applicable Final Terms for a Series of Floating Rate Notes identifies that the Rate of Interest for such Notes will be determined by reference to SONIA, the Rate of Interest will be determined on the basis of the relevant reference rate (as further described in the Terms and Conditions of the Notes). SONIA based on 'overnight rates'. Overnight rates differ from interbank offered rates, such as LIBOR, in a number of material respects, including (without limitation) that such rates are backwards-looking, risk-free overnight rates, whereas LIBOR is expressed on the basis of a forward-looking term and includes a risk-element based on inter-bank lending. As such, investors should be aware that overnight rates may behave materially differently as interest reference rates for Notes issued under the Programme compared to interbank offered rates. The use of overnight rates as reference rates for Eurobonds is subject to continued change and development, both in terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of bonds referencing such overnight rates.

Investors in any Notes referencing an overnight rate should be aware that the market continues to develop in relation to such rate in the capital markets. In particular, market participants and relevant working groups have explored compounded and weighted average rates and observation methodologies for such rates (including so-called 'shift', 'lag', and 'lock-out' methodologies) and forward-looking 'term' reference rates derived from these overnight rates have also been, or are being, developed, as well as determining such rates by reference to a specified index. The adoption of overnight rates may also see component inputs into swap rates or other composite rates transferring from LIBOR or another reference rate to an overnight rate.

The market or a significant part thereof may adopt overnight rates that differ significantly from that set out in the Terms and Conditions of the Notes. Investors should carefully consider how any mismatch between the adoption of SONIA as a reference rate across other markets, such as the derivatives and loan 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 overnight rates.

The Rate of Interest on Notes which reference overnight rates is only capable of being determined shortly prior to the relevant Interest Payment Date. It may be difficult for investors in Notes which reference overnight rates to reliably estimate the amount of interest which will be payable on such Notes. 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, if Floating Rate Notes referencing SONIA become due and payable under Condition 10, the final Rate of Interest payable shall be determined on the date the Notes became due and payable and shall not be reset thereafter. Investors should consider these matters when making their investment decision with respect to any such Floating Rate Notes.

Further, if specific overnight rates, or such overnight rate as calculated in accordance with the provisions of this Programme, do not prove to be widely used in securities such as the Notes, the trading price of such Notes linked to such overnight rate may be lower than those of the Notes linked to indices that are more widely used. Investors in such Notes may not be able to sell such Notes at all or may not be able



to sell such Notes at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk.

In addition, the manner of adoption or application of overnight rates in the Eurobond markets may differ materially compared with the application and adoption of the same overnight rates in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of overnight 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 overnight rates.

These same, or similar, risks may be inherent in any Resettable Notes the reference rate for which is or references (or which includes a component part which is or references) a risk-free rate such as SONIA.

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

***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***

The Issuer may issue Notes which bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Notes may be less favourable than the 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. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than the then prevailing rates on its Notes and could affect the market value of an investment in such Notes. Furthermore, if any Notes are issued upon terms providing for automatic conversion of the interest rate on any Notes from a fixed rate to a floating rate or vice versa, this may also affect the secondary market and the market value of the Notes concerned if the rate or basis to which the interest rate is required to switch is lower than the interest rate prevailing up to such time.

***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 (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities. Such volatility could have a material adverse effect on the value of and return on any such Notes.

***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.

### ***Floating Rate Notes***

Investment in Notes which bear interest at a floating rate comprise (i) a Reference Rate and (ii) a Margin to be added or subtracted, as the case may be, from such base rate. Typically, the relevant Margin will

not change throughout the life of the Notes but there will be a periodic adjustment (as specified in the relevant Final Terms) of the Reference Rate (for example, every three months or six months) which itself will change in accordance with general market conditions. Accordingly, the market value of Floating Rate Notes may be volatile if changes, particularly short term changes, to market interest rates evidenced by the relevant Reference Rate can only be reflected in the interest rate of these Notes upon the next periodic adjustment of the relevant Reference Rate. Should the Reference Rate be at any time negative, it could, notwithstanding the existence of the relevant Margin, result in the actual floating rate being lower than the relevant Margin or even equal to zero.

### **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 date(s) 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.

### **Risks related to Notes generally**

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

#### ***The Notes may be subject to the use of the resolution powers under the Banking Act***

Under the Banking Act, substantial powers are granted to HM Treasury, the PRA, the FCA and the Bank of England as part of the special resolution regime, which powers could be used, *inter alia*, to write down (including to nil) the principal amount of the Notes or convert them to other instruments in certain circumstances. See “*Risks relating to the Banking Act 2009*” above for information.

#### ***Noteholders agree to be bound by the exercise of any UK Bail-in Power by the Resolution Authority***

In recognition of the resolution powers granted by law to the Resolution Authority (as defined in the Terms and Conditions of the Notes), by acquiring the Notes of any Series or any Coupon, or any interest therein, each Noteholder and Couponholder (or beneficial owner of any Note or Coupon) will acknowledge and accept that the Amounts Due (as defined in the Terms and Conditions of the Notes) arising under the Notes and Coupons may be subject to the exercise of the UK Bail-in Power (as defined in the Terms and Conditions of the Notes) and will acknowledge, accept, consent and agree to be bound by the effect of the exercise of any UK Bail-in Power by the Resolution Authority, that may result in (i) the reduction of all, or a portion, of the Amounts Due; (ii) the conversion of all, or a portion, of the Amounts Due on the Notes into shares, deferred shares (including core capital deferred shares) or other securities or other obligations of the Issuer or another person (and the issue to or conferral on the Noteholder or Couponholder of such shares, deferred shares or other securities or obligations), including by means of an amendment, modification or variation of the terms of the Notes or Coupons; (iii) the cancellation of the Notes or Coupons; (iv) the amendment or alteration of the maturity of the Notes or amendment of the amount of interest payable on the Notes, or the dates on which interest becomes payable, including by suspending payment for a temporary period. Each Noteholder and Couponholder (or beneficial owner of any Note or Coupon) will further acknowledge, accept, consent and agree to be bound by the variation of the terms of the Notes, Trust Deed and Coupons, if necessary, to give effect to the exercise of the UK Bail-in Power by the Resolution Authority.

Accordingly, the UK Bail-in Power may be exercised in such a manner as to result in Noteholders and the Couponholders losing all or a part of the value of their investment in the Notes and Coupons, having payment on the Notes and Coupons suspended for a period of time or receiving a different security from the Notes or Coupons, which may be worth significantly less than the Notes and Coupons and which may have significantly fewer protections than those typically afforded to debt securities. Moreover, the Resolution Authority may exercise the UK Bail-in Power without providing any advance notice to, or requiring the consent of, the Noteholders or Couponholders. In addition, under the Terms and Conditions of the Notes, the exercise of the UK Bail-in Power by the Resolution Authority with respect to the Notes and the Coupons is not an event of default under the Notes or Coupons or a breach or default under the Notes or the Trust Deed or for any other purpose.

### ***The Notes are not protected liabilities under the Financial Services Compensation Scheme***

The Notes are not protected liabilities under the FSCS, and are obligations solely of the Issuer. Accordingly, if the Issuer is unable to make payment in full of all amounts due under Notes issued under the Programme, Noteholders and Couponholders will not have any recourse to the FSCS, or otherwise have recourse to any governmental agency or any other person, for payment of any amounts which the Issuer is unable to pay.

### ***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 (including at a physical location or by way of conference call or by use of a videoconference platform, or a combination of such methods) of Noteholders to consider and vote upon matters affecting their interests generally, or to pass resolutions in writing or through the use of electronic consents. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting or, as the case may be, who did not sign the written resolution or give electronic consent, and Noteholders who voted in a manner contrary to the majority.

The Trust Deed provides that (i) a resolution in writing signed by or on behalf of the holders of not less than three-fourths in nominal amount of the relevant Notes for the time being outstanding, or (ii) consent given by way of electronic consents through the relevant clearing systems by or on behalf of the holders of not less than three-fourths in nominal amount of the relevant Notes for the time being outstanding, shall in each case also be effective as an Extraordinary Resolution, binding on all Noteholders, whether or not such Noteholders voted in favour of the relevant resolution.

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 (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes, the Coupons or any of the provisions of the Trust Deed which in the opinion of the Trustee is not materially prejudicial to the Noteholders or (ii) any modification of any of the Terms and Conditions of the Notes or any provision of the Notes, the Coupons or the Trust Deed which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 12.

In addition, pursuant to Condition 5(n), certain changes may be made to the interest calculation provisions of the Floating Rate Notes or Resetable Notes in the circumstances and as otherwise set out in such Condition, without the requirement for consent of the Trustee or the Noteholders.

***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 their 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. This risk may be exacerbated if only one or a limited number of investors were to invest in the relevant Series of Notes. 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 may particularly be 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.

If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon a range of influences including (but not limited to) prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although the Issuer has applied to admit the Notes issued from time to time to listing on the Official List

and to admit them to trading on the London Stock Exchange's main market, the Issuer cannot guarantee that the Notes will be accepted for listing or admitted to trading, that any such listing or admission to trading will be maintained throughout the term of the Notes, or that an active trading market will develop. Accordingly, the Issuer cannot guarantee the development or liquidity of any trading market for the Notes.

***Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an investment in those Notes***

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

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 any Notes could adversely affect the value of Notes.

Investors should note that the credit ratings of the Programme may not reflect the potential impact of all risks relating to the value of the Notes.

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

Investors regulated in the UK are subject to similar restrictions under the UK CRA Regulation. As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note this is subject, in each case, to (a) the relevant UK registration, certification or endorsement, as the case may be, not having been withdrawn or suspended, and (b) transitional provisions that apply in certain circumstances. In the case of third country ratings, for a certain limited period of time, transitional relief accommodates continued use for regulatory purposes in the UK, of existing pre-2021 ratings, provided the relevant conditions are satisfied.

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

information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

***If an investor holds Notes which are not denominated in the investor's home currency, they will be exposed to movements in exchange rates adversely affecting the value of their 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 (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate 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.

## 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 year ended 31 December 2022, together with the audit report thereon and the notes thereto, as set out on pages 92 to 171 (inclusive) of the Issuer's Annual Report and Accounts 2022, available at <https://www.principality.co.uk/about-us/your-principality/financial-reports>;
- (b) the audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2021, together with the audit report thereon and the notes thereto, as set out on pages 90 to 175 (inclusive) of the Issuer's Annual Report and Accounts 2021, available at <https://www.principality.co.uk/about-us/your-principality/financial-reports>;
- (c) the section headed "*Board of Directors*" on pages 39 to 43 (inclusive) of the Issuer's Annual Report and Accounts 2022, available as set out at paragraph (a) above; and
- (d) the following previous Terms and Conditions of the Notes prepared by the Issuer in connection with the Programme, as contained in pages 39 to 76 (inclusive) of the Prospectus dated 12 May 2017, available at <https://www.principality.co.uk/about-us/your-principality/treasury-services>.

Following the publication of this Prospectus a supplement may be prepared by the Issuer and approved by the FCA in accordance with Article 23 of the UK Prospectus Regulation. 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.

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.

The Issuer will, in the event of any significant new factor, material mistake or material inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Prospectus or publish a new Prospectus for use in connection with any subsequent issue of Notes.

## TERMS AND CONDITIONS OF THE NOTES

*The following (except for paragraphs in italics, which are for information purposes only and do not form part of the terms and conditions of the Notes) is the text of the terms and conditions that, subject to completion in 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) or Global Certificate representing each Series. The full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms (or such text as may be 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 26 April 2023 (as further amended, restated 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**, and references to a particularly numbered **Condition** shall be construed accordingly) 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 26 April 2023 (as further amended, restated 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 only (**Bearer Series**) or (iii) in registered form only (**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 in the applicable Final Terms) and the Coupons relating to them constitute direct, unconditional and (subject to Condition 4) unsecured obligations of the Issuer and (subject to the Ranking Legislation and Condition 4) constitute ordinary non-preferential debts 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 Coupon relating thereto (or any beneficial interest therein), each holder of a Senior Preferred Note or a Deposit Note or a Coupon relating thereto (or any beneficial interest therein) acknowledge and agree that (subject to the Ranking Legislation and 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).

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

*Senior Non-Preferred Notes may only be issued on terms such that they (A) have an original contractual maturity of at least one year and (B) are not derivatives and contain no embedded derivatives for the purposes of Section 387A(3)(b)(ii) of the Insolvency Act 1986, as amended (and any other applicable provision of any Ranking Legislation).*

##### (i) Status and Ranking

The Senior Non-Preferred Notes (being those Notes that specify their status as Senior Non-Preferred in the applicable Final Terms) and the Coupons relating to them are direct, unconditional and unsecured obligations of the Issuer and, subject to the Ranking Legislation, constitute secondary non-preferential debts 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 Coupon relating thereto (or any beneficial interest therein), each holder of a Senior Non-Preferred Note or a Coupon relating thereto (or any beneficial interest therein) acknowledge and agree that, subject to the Ranking Legislation, 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 (subject as otherwise provided in an Excluded Dissolution), rank:

(A) junior in right of payment to all Senior Claims;

(B) *pari passu* with all other Senior Non-Preferred Claims; and

(C) in priority to all Subordinated Claims.

(ii) *No Set-off*

Subject to applicable law, no holder of Senior Non-Preferred Notes or holder of a Coupon relating to Senior Non-Preferred Notes (or, in each case, any beneficial interest therein) may exercise or claim or plead any right of set-off, netting, 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 holder of any Senior Non-Preferred Note or any Coupon relating thereto (or, in each case, any beneficial interest therein) shall, by virtue of being the holder of any such Senior Non-Preferred Note or Coupon (or beneficial interest, as the case may be), be deemed to have waived all such rights of set-off, netting, 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 holder of a Senior Non-Preferred Note or a Coupon relating thereto (or, in each case, any beneficial interest therein) by the Issuer arising under or in connection with any Senior Non-Preferred Note or any Coupon relating to a Senior Non-Preferred Note is discharged by set-off, netting, 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) *Status and Ranking*

The Subordinated Notes (being those Notes that specify their status as Subordinated in the applicable Final Terms) and the Coupons relating to them constitute direct, unsecured and subordinated obligations of the Issuer and, subject to the Ranking Legislation, constitute tertiary non-preferential debts 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 Coupon relating thereto (or any beneficial interest therein), each holder of a Subordinated Note or a Coupon relating thereto (or any beneficial interest therein) acknowledge and agree that, subject to the Ranking Legislation, in the event of the winding-up or dissolution of the Issuer (subject as otherwise provided in 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 Ranking Legislation and 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.

(ii) *No Set-off*

Subject to applicable law, no holder of Subordinated Notes or holder of a Coupon relating to Subordinated Notes (or, in each case, any beneficial interest therein) may exercise or claim or plead any right of set-off, netting, 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 holder of any Subordinated Note or any Coupon relating thereto (or, in each case, any beneficial interest therein) shall, by virtue of being the holder of any such Subordinated Note or Coupon (or beneficial interest, as the case may be), be deemed to have waived all such rights of set-off, netting, 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 holder of a Subordinated Note or a Coupon relating thereto (or, in each case, any beneficial interest therein) by the Issuer arising under or in connection with any Subordinated Note or any Coupon relating to a Subordinated Note is discharged by set-off, netting, 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) effected 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;

**ordinary non-preferential debts, secondary non-preferential debts and tertiary non-preferential debts** have the respective meanings given thereto in section 387A(3) of the Insolvency Act 1986, as amended (or, as the case may be, in the relevant section of any other Ranking Legislation);

**Ranking Legislation** means the Insolvency Act 1986, as amended (including by the Order) and any other 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 (other than subordinated 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 other ordinary non-preferential debts of the Issuer, and any other obligations of the Issuer which are preferred by law to secondary non-preferential debts and (iii) (but only in respect of a winding-up while the Issuer remains a building society) all claims of members holding shares (other than Deferred Shares) in the Issuer as regards the principal of their shares in the Issuer and any interest due in respect of those shares), 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 secondary non-preferential debts of the Issuer (including, without limitation, Senior Non-Preferred Notes); 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, (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 and (iii) all other claims in respect of tertiary non-preferential debts of the Issuer, 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 Resetable Note Reset Date to (but excluding) the Second Resetable Note Reset Date or, if no such Second Resetable 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 (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). 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 Screen Rate Determination.

(A) **Screen Rate Determination for Floating Rate Notes – Term Rate**

(x) where ‘Screen Rate Determination’ and ‘Term Rate’ are both specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, and save as otherwise provided in the applicable Final Terms, the Rate of Interest for each Interest Accrual Period shall, subject to Condition 5(n) and as provided below, be either:

(I) the offered quotation (if there is only one quotation on the Relevant Screen Page); or

(II) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) 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 11.00 a.m. (Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent plus or minus (as indicated in the applicable Final Terms) the relevant Margin (if any). 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 Issuer shall request, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Issuer (for onward provision to the Calculation Agent) with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate 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 Issuer 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 plus or

minus (as indicated in the applicable Final Terms) the relevant Margin (if any); 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 sum of the relevant Margin (if any) and the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Issuer (for onwards communication to the Calculation Agent) by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is 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 EURIBOR, the Euro-zone inter-bank market, or, if fewer than two of the Reference Banks provide the Issuer 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 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 Issuer (for onwards communication to the Calculation Agent) it is quoting to leading banks in, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market;

*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.

**(B) Screen Rate Determination for Floating Rate Notes – Overnight Rate – SONIA – Non-Index Determination**

- (1) Where (i) 'Screen Rate Determination' and 'Overnight Rate' are specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, (ii) the Reference Rate is specified in the applicable Final Terms as being SONIA and (iii) 'Index Determination' is specified in the applicable Final Terms as being 'Not Applicable', 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 (if any), all as determined by the Calculation Agent.

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

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

where:

- d** is the number of calendar days in:
  - (i) where 'Lag' is specified as the Observation Method in the applicable Final Terms, the relevant Interest Accrual Period; or
  - (ii) where 'Observation Shift' is specified as the Observation Method in the applicable Final Terms, the relevant Observation Period;
- d<sub>o</sub>** is the number of London Banking Days in:
  - (i) where 'Lag' is specified as the Observation Method in the applicable Final Terms, the relevant Interest Accrual Period; or
  - (ii) where 'Observation Shift' is specified as the Observation Method in the applicable Final Terms, the relevant Observation Period;
- i** is a series of whole numbers from one to 'd<sub>o</sub>', each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day in:
  - (i) where 'Lag' is specified as the Observation Method in the applicable Final Terms, the relevant Interest Accrual Period; or
  - (ii) where 'Observation Shift' is specified as the Observation Method in the applicable Final Terms, the relevant Observation Period;

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

**n<sub>i</sub>** 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:

- (i) where 'Lag' is specified as the Observation Method in the applicable Final Terms, the number of London Banking Days specified as the 'Lag Period' in the applicable Final Terms (or if no such number is so specified, five London Banking Days); or
- (ii) where 'Observation Shift' is specified as the Observation Method in the applicable Final Terms, the number of London Banking Days specified as the 'Observation Shift Period' in the applicable Final Terms (or, 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<sub>i</sub>** means the SONIA reference rate for:

- (i) where 'Lag' is specified as the Observation Method in the applicable Final Terms, the London Banking Day falling 'p' London Banking Days prior to the relevant London Banking Day 'i'; or
- (ii) where 'Observation Shift' is specified as the Observation Method in the applicable Final Terms, the relevant London Banking Day 'i'.

(2) Subject to Condition 5(n), if, where any Rate of Interest is to be calculated pursuant to Condition 5(c)(iii)(B)(1) above, in respect of any London Banking Day on which an applicable SONIA reference rate is required to be determined, 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, then the SONIA reference rate in respect of such London Banking Day shall be the rate determined by the Calculation Agent as:

- (a) the sum of (i) the Bank of England's Bank Rate (the **Bank Rate**) prevailing at 5.00 p.m. (London time) (or, if earlier, close of business) on such London Banking Day; and (ii) the mean of the spread of the SONIA reference rate to the Bank Rate over the previous five London Banking Days in respect of 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); or

- (b) if the Bank Rate under (a)(i) above is not available at the relevant time, either (A) the SONIA reference rate published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors) for the first preceding London Banking Day in respect of which the SONIA reference rate was published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors) or (B) if this is more recent, the latest rate determined under (a) above,

and in each case, references to “SONIA reference rate” in Condition 5(c)(iii)(B)(1) above shall be construed accordingly.

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.

- (3) If the Rate of Interest cannot be determined in accordance with the foregoing provisions of this Condition 5(c)(iii)(B) by the Calculation Agent, and subject to Condition 5(n), 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 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 scheduled Interest Period),

in each case as determined by the Calculation Agent.

(C) **Screen Rate Determination – Overnight Rate - Compounded Daily SONIA - Index Determination**

- (1) Where (i) 'Screen Rate Determination' and 'Overnight Rate' are specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, (ii) the Reference Rate is specified in the applicable Final Terms as being SONIA and (iii) 'Index Determination' is specified in the applicable Final Terms as being 'Applicable', the Rate of Interest for an Interest Accrual Period will, subject to Condition 5(n) and as provided below, be the Compounded Daily SONIA Rate with respect to such Interest Accrual Period plus or minus (as indicated in the applicable Final Terms) the applicable Margin (if any), all as determined by the Calculation Agent.

**Compounded Daily SONIA Rate** means, with respect to an Interest Accrual Period, the rate of return of a daily compound interest investment (with the daily Sterling overnight reference rate as reference rate for the calculation of interest) (expressed as a percentage and rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) determined by the Calculation Agent by reference to the screen rate or index for compounded daily SONIA rates administered by the administrator of the SONIA reference rate that is published or displayed on the Relevant Screen Page specified in the applicable Final Terms or, if no such page is so specified or if such page is unavailable at the relevant time, as otherwise published or displayed by such administrator or other information service from time to time on the relevant Interest Determination Date (the **SONIA Compounded Index**), and in accordance with the following formula:

$$\left( \frac{\text{SONIA Compounded Index}_{\text{End}}}{\text{SONIA Compounded Index}_{\text{Start}}} - 1 \right) \times \frac{365}{d}$$

where:

**d** is the number of calendar days from (and including) the day in relation to which SONIA Compounded Index<sub>Start</sub> is determined to (but excluding) the day in relation to which SONIA Compounded Index<sub>End</sub> is determined;

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

**Relevant Number** is the number specified as such in the applicable Final Terms (or, if no such number is specified, five);

**SONIA Compounded Index<sub>start</sub>** means, with respect to an Interest Accrual Period, the SONIA Compounded Index determined in relation to the day falling the Relevant Number of London

Banking Days prior to the first day of such Interest Accrual Period; and

**SONIA Compounded Index<sub>End</sub>** means, with respect to an Interest Accrual Period, the SONIA Compounded Index determined in relation to the day falling the Relevant Number of London Banking Days prior to (A) the Interest Payment Date for such Interest Accrual Period, or (B) such other date on which the relevant payment of interest falls due (but which by its definition or the operation of the relevant provisions is excluded from such Interest Accrual Period).

(2) If the relevant SONIA Compounded Index is not published or displayed by the administrator of the SONIA reference rate or other information service by 5.00 p.m. (London time) (or, if later, by the time falling one hour after the customary or scheduled time for publication thereof in accordance with the then-prevailing operational procedures of the administrator of the SONIA reference rate or of such other information service, as the case may be) on the relevant Interest Determination Date, the Compounded Daily SONIA Rate for the applicable Interest Accrual Period for which the SONIA Compounded Index is not available shall be “Compounded Daily SONIA” determined in accordance with Condition 5(c)(iii)(B) above as if ‘Index Determination’ were specified in the applicable Final Terms as being ‘Not Applicable’, and for these purposes: (i) the ‘Observation Method’ shall be deemed to be ‘Observation Shift’ and (ii) the ‘Observation Shift Period’ shall be deemed to be equal to the Relevant Number of London Banking Days, as if those alternative elections had been made in the applicable Final Terms.

(D) **Determination of Rate of Interest following acceleration – Overnight Rates**

Where ‘Screen Rate Determination’ and ‘Overnight Rate’ are specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, 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 Resetable Notes, at the First Reset Rate of Interest or at the relevant Subsequent Reset Rate of Interest as applicable) in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(f) **Margin, Maximum/Minimum Rates of Interest 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 (but without duplication where Condition 5(c) above already provides for the addition or subtraction of such Margin) 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 Resetable Notes, the Initial Rate of Interest, the First Reset Rate of Interest or the relevant Subsequent Reset Rate of Interest, as the case may be), 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 Resetable Note Mid-Swap Rates**

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 (and other than where Condition 5(n) applies), 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 (converted as set out in the definition of such term, where applicable) 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 the relevant 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 by the Calculation Agent as if, and on the assumption that, the relevant Mid-Swap Rate were equal to:

- (i) the Mid-Swap Rate as if determined as at the latest date (the **Latest Publication Date**) on which the relevant swap rate (if "Single Mid-Swap Rate" is specified in the applicable Final Terms) or swap rate quotations (if "Mean Mid-Swap Rate" is specified in the applicable Final Terms) for a swap in the Specified Currency with a term equal to the relevant Reset Period was/were published on the Relevant Screen Page (deeming such latest rate or rates, as applicable, to apply to a swap commencing on the relevant Resettable Note Reset Date, whether or not this is the case); or
- (ii) if this is more recent than the Latest Publication Date, or if for any reason the relevant Reset Reference Rate cannot otherwise be determined in accordance with paragraph (i) above, the Mid-Swap Rate determined as at the last preceding Reset Determination Date (or, for the purpose of determining the First Reset Rate of Interest on the first Reset Determination Date, the Mid-Swap Fallback Rate specified in the applicable Final Terms).

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 Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate, 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 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 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 Rate of Interest (if interest is to be calculated by reference to SONIA), 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, and subject to Condition 5(c)(iii)(D) where applicable, 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 T2 is operating (a **T2 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 T2 is specified as a Business Centre in the applicable Final Terms, a T2 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:

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” 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 D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> 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:

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” 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 D<sub>2</sub> 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:

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

where:

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

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

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

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

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

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30; 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(s) specified as such in the applicable Final Terms or, if none is so specified, the Interest Payment Date(s);

**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 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) 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;

**“Floating Leg Swap Duration”** has the meaning specified 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 (as the context admits) (i) each Interest Period and (ii) any other period (if any) in respect of which interest is to be calculated, being the period from (and including) the first day of such period to (but excluding) the day on which the relevant payment of interest falls due (which, if the Notes become due and payable in accordance with Condition 10, shall be the date on which the Notes become due and payable);

**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 T2 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;

**Issue Date** means (unless otherwise specified or the context otherwise requires) the date of issue of the first Tranche of the Notes of the relevant Series;

**Mid-Market Swap Rate** means (subject to Condition 5(h) and Condition 5(n), if applicable) 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 Floating Leg Swap Duration (as specified in the applicable Final Terms) (calculated on the basis of the Day Count Fraction as specified for such Mid-Swap Floating Leg Benchmark Rate, 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 (subject to Condition 5(n), if applicable) the reference rate specified as such in the applicable Final Terms, or if no such reference rate is so specified:

- (i) if the Specified Currency is euro, the EURIBOR rate for the Floating Leg Swap Duration (calculated on an Actual/360 day count basis);
- (ii) if the Specified Currency is pounds sterling, the overnight SONIA rate compounded for the Floating Leg Swap Duration (calculated on an Actual/365 day count basis);
- (iii) if the Specified Currency is U.S. dollars, the overnight SOFR rate compounded for the Floating Leg Swap Duration (calculated on an Actual/360 day count basis); or



- (iv) if the Specified Currency is a currency other than euro, pounds sterling or U.S. dollars, the reference rate customary for determining the mid-swap floating leg for swaps in the relevant Specified Currency at such time, (calculated on such day count basis as is then customary for floating rate payments in the Specified Currency as determined by the Calculation Agent);

**Mid-Swap Rate** means (subject to Condition 5(h) and Condition 5(n), if applicable), in relation to a Reset Determination Date, 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 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 Yield** means the annual yield to maturity or interpolated yield to maturity (on the relevant day count basis) of the relevant Reference Bond

expressed as a percentage, as determined by the Calculation Agent as follows on the basis of the Reference Government Bond Dealer Quotations provided to the Calculation Agent (upon request by or on behalf of the Issuer) by the Reference Government Bond Dealers at or around the relevant Reference Bond Reset Rate Time on the relevant Reset Determination Date. If four or more Reference Government Bond Dealer Quotations are so provided, the Reset Reference Rate shall be the arithmetic average of such Reference Government Bond Dealer Quotations after excluding the highest (or, in the event of equality, one of the highest) and lowest (or, in the event of equality, one of the lowest) such Reference Government Bond Dealer Quotations. If only two or three Reference Government Bond Dealer Quotations are so provided, the Reset Reference Rate shall be the arithmetic average of all such quotations. If only one Reference Government Bond Dealer Quotation is so provided, the Reset Reference Rate shall be the quotation provided. If no Reference Government Bond Dealer Quotations are so provided, the Reset Reference Rate will be (i) in the case of each Reset Period other than the First Reset Period, the Reset Reference Rate in respect of the immediately preceding Reset Period or (ii) in the case of the First Reset Period, the “Reference Bond Fallback Rate” set out in the applicable Final Terms,

where:

- **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, and unless otherwise specified in the applicable Final Terms, 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 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; and
- **Reference Government Bond Dealer Quotations** means, with respect to each Reference Government Bond Dealer and the relevant Reset Determination Date, the arithmetic mean average, as determined by the Calculation Agent, of the bid and offered yields to maturity or interpolated yields to maturity (on the relevant day count basis) 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 Reference Bond Yield;

**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 (or if there is no such succeeding Resettable Note Reset Date, the Maturity Date), and each successive period from (and including) a Resettable Note Reset Date to (but excluding) the next succeeding Resettable Note Reset Date (or if there is no such succeeding Resettable Note Reset Date, the Maturity 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 (subject to Condition 5(h) and Condition 5(n), if applicable), in respect of any Subsequent Reset Period, 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

**T2** means the Trans-European Automated Real-Time Gross Settlement Express Transfer System (known as T2) or any successor to or replacement for that system.

(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 (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 and/or the Agency Agreement 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 and/or the Agency Agreement 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 and the Agents of a certificate signed by two Directors of the Issuer pursuant to Condition 5(n)(v), the Trustee and the Agents 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 and/or an agreement supplemental to or amending the Agency Agreement), provided that the Trustee and the Agents shall not be obliged so to concur if in the opinion of the Trustee or any of the Agents 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 or the Agents in these Conditions or the Trust Deed or the Agency Agreement (including, for the avoidance of doubt, any supplemental trust deed or supplemental agency agreement) in any way.

The Trustee and the Agents 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 Resettable Note 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, the Adjustment Spread 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, the Adjustment Spread 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)(A), 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, negative or zero), or the formula or methodology for calculating a spread, in either case, which the Independent Adviser determines is to be applied to the Successor Rate or the Alternative Rate (as the case may be), being the spread, formula or methodology which:

- (A) in the case of a Successor Rate, is formally recommended, or formally provided as an option for parties to adopt, in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body;
- (B) in the case of an Alternative Rate (or in the case of a Successor Rate where (A) above does not apply), the Independent Adviser, acting in good faith, determines is in customary market usage (or reflects an industry-accepted rate, formula or methodology) in the international debt capital market for transactions which reference the Original Reference Rate, where such rate has been replaced by the Alternative Rate (or, as the case may be, the Successor Rate); or
- (C) if no such recommendation or option has been made (or made available) under (A) above and if the Independent Adviser determines there is no such spread, formula or methodology in customary market usage or which is industry-accepted under (B) above, the Independent Adviser, acting in good faith and in a commercially reasonable manner, determines to be appropriate having regard to the objective, so far as is reasonably practicable in the circumstances and solely for the purposes of this paragraph (C), of reducing or eliminating any economic prejudice or benefit (as the case may be) to the Noteholders;

**Alternative Rate** means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with this Condition 5(n)(ii) has replaced the Original Reference Rate in customary market usage, or is an industry-accepted rate, in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) for a commensurate interest period and in the same Specified Currency as the Notes.

**Benchmark Amendments** has the meaning given to it in Condition 5(n)(iv).

**Benchmark Event** means, with respect to an Original Reference Rate, any one or more of the following:

- (A) the Original Reference Rate ceasing to exist or to be published or administered on a permanent or indefinite basis;
- (B) the making of a public statement by the administrator of the Original Reference Rate that it has ceased or will cease to publish 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);
- (C) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will be permanently or indefinitely discontinued;
- (D) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate will be prohibited from being used, is no longer (or will no longer be) representative of its underlying market or that its use will be subject to restrictions or adverse consequences, in each case in circumstances where the same shall be applicable to the Notes; or
- (E) it has or will prior to the next Interest Determination Date or Reset Determination Date, as applicable, become unlawful for the Issuer, the Calculation Agent, or any Paying Agent to calculate any payments due to be made to any Noteholder or Couponholder using the Original Reference Rate (including, without limitation, under the Regulation (EU) 2016/1011 as that Regulation applies in the European Union and/or as it applies in the United Kingdom in the form retained as domestic law in the United Kingdom under the European Union (Withdrawal) Act 2018, as amended, if applicable),

provided that in the case of paragraphs (B) to (D) above, the Benchmark Event shall occur on:

- (i) in the case of (B) above, the date of the cessation of the publication of the Original Reference Rate;
- (ii) in the case of (C) above, the discontinuation of the Original Reference Rate; or
- (iii) in the case of (D) above, the date on which the Original Reference Rate is prohibited from use, is deemed no longer to be representative or becomes subject to restrictions or adverse consequences (as applicable),



and not (in any such case) the date of the relevant public statement (unless the date of the relevant public statement coincides with the relevant date in (i), (ii) or (iii) above, as applicable).

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

**Original Reference Rate** means the benchmark or screen rate (as applicable) originally specified for the purpose of determining the relevant Rate of Interest (or any relevant component part(s) thereof) on the Notes (provided that if, following one or more Benchmark Events, such originally specified Reference Rate (or any Successor Rate or Alternative Rate which has replaced it) has been replaced by a (or a further) Successor Rate or Alternative Rate and a Benchmark Event subsequently occurs in respect of such Successor Rate or Alternative Rate, the term "Original Reference Rate" shall be deemed to include any such Successor Rate or Alternative Rate).

**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 or 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 5(d).

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 only) 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 and shall specify the date fixed for redemption), if, 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 United Kingdom (**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,

and 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**),

the Issuer may redeem at any time (if this Note is not a Floating Rate Note) or on any 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 Condition 6(b) above together, if applicable, with any unpaid 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 only) 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 and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s), as specified in the applicable Final Terms, together, if applicable, with any unpaid interest accrued to (but excluding) the relevant Optional Redemption Date. 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 not less than the Minimum Redemption Amount specified in the applicable Final Terms (if any) nor more than the Maximum Redemption Amount specified in the applicable Final Terms (if any).

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 or Global Certificate, 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 or Global Certificate will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this Condition 6(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)**

This Condition 6(e) does not apply to 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, 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 any unpaid 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**

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

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 at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note) all (but not some only) of the Subordinated Notes at their Early Redemption Amount referred to in Condition 6(b) above together, if applicable, with any unpaid 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 Issuing and Paying Agent) and, in accordance with Condition 15, the Noteholders, redeem at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note) all, but not some only, of the Senior Non-Preferred Notes at the Loss Absorption Disqualification Event 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 Issue Date of the latest 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 the latest Tranche 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, or any other Ranking Legislation which relates to the requisite features of secondary non-preferential debts), any relevant Supervisory Authority 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 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 relevant 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, including, in the case of a redemption or purchase and to the extent then so required by the relevant Supervisory Authority or the Loss Absorption Regulations, the Issuer having demonstrated to the satisfaction of the relevant Supervisory Authority that:

- (I) it has (or before or at the same time as the relevant redemption or purchase will have) replaced the Notes with own funds or eligible liabilities instruments of equal or higher quality at terms that are sustainable for the income capacity of the Issuer; or
- (II) the own funds and eligible liabilities of the Issuer would, following such redemption or purchase, exceed its minimum requirements for own funds and eligible liabilities by a margin that the relevant Supervisory Authority considers necessary at such time; or
- (III) the partial or full replacement of the Notes with own funds instruments is necessary to ensure compliance with the own funds requirements laid down in the prevailing Capital Adequacy Regulations for continuing authorisation.

**(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, any requirement contained in the law, regulations, requirements, guidelines and policies then in effect relating to capital adequacy and prudential supervision and applicable to the Issuer, including (without limitation to the generality of the foregoing), those applicable laws, regulations, requirements, guidelines and policies relating to capital adequacy and prudential supervision then in effect of the United Kingdom or the relevant Supervisory Authority;

**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) as part of the class of secondary non-preferential debts under the Ranking Legislation;
- (C) (subject to (B) above) 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 (unless any downgrade is solely attributable to the ranking of the securities under (B) above);

**Rating Agency** means any of S&P Global Ratings UK 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 relevant Supervisory Authority, or such waiver of the then prevailing Capital Adequacy Regulations and/or Loss Absorption Regulations (as applicable) from the relevant Supervisory Authority, as is required under the then prevailing Capital Adequacy Regulations and/or Loss Absorption Regulations (as applicable) 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 Subordinated Notes of the relevant Series which becomes effective after the Issue Date of the latest Tranche of the relevant Series of Subordinated 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) the Issuer having demonstrated to the satisfaction of the Supervisory Authority that either: (a) the Issuer has (or before or at the same time as the relevant redemption or purchase will have) 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 (b) the own funds and eligible liabilities of the Issuer would, following such redemption or repurchase, exceed its minimum requirements (including any buffer requirements) by a margin that the Supervisory Authority considers necessary at such time; and
- (ii) in the case of any redemption or purchase prior to the fifth anniversary of the Issue Date of the latest Tranche of the relevant Series of Notes:
  - (a) in the case of redemption upon a Tax Event, the Issuer having demonstrated to the satisfaction of the relevant Supervisory Authority that the change in tax treatment is material and was not reasonably foreseeable as at the Issue Date of such latest Tranche;
  - (b) in the case of redemption upon the occurrence of a Regulatory Event, the Issuer having demonstrated to the satisfaction of the relevant Supervisory Authority that the relevant change in the regulatory classification of the Notes is sufficiently certain and was not reasonably foreseeable as at the Issue Date of such latest Tranche;
  - (c) in the case of a purchase pursuant to Condition 6(h), the Issuer having demonstrated to the satisfaction of the relevant Supervisory Authority that the Issuer has (or before or at the same time as the relevant purchase will have) replaced the Notes with own funds instruments of equal or higher quality at terms that are sustainable for the income

capacity of the Issuer, and the relevant Supervisory Authority having permitted such action on the basis of the determination that it would be beneficial from a prudential point of view and justified by exceptional circumstances; or

- (d) the Notes being purchased for market-making purposes in accordance with the prevailing Capital Adequacy Regulations,

*provided that* if, at the time of such redemption or purchase, the prevailing Capital Adequacy Regulations permit the redemption or purchase only after compliance with one or more additional or alternative pre-conditions to those set out above, the relevant redemption or purchase shall be conditional upon the Issuer having complied (in addition or in the alternative, as the case may be) with such additional and/or alternative pre-condition(s);

**Supervisory Authority** means, as the context admits, the Prudential Regulation Authority (**PRA**) or the Bank of England, and (in either case) any successor or replacement thereto or such other authority (whether of the UK or elsewhere) having primary responsibility for the prudential oversight and supervision of the Issuer and/or for resolution matters concerning the Issuer and/or its resolution group, as may be relevant in the context; and

**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 Issue Date of the latest Tranche of the relevant Series of Notes.

## 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 T2.

### (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 Condition 7(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 Condition 7(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 (one of which may be London); 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 unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired 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, unexpired 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 unexpired 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 unexpired Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unexpired Coupons, and where any Bearer Note is presented for redemption without any unexpired 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 T2 is specified as a Business Centre in the applicable Final Terms) which is a T2 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:

- (i) in the case of all Senior Preferred Notes and Deposit Notes, in respect of payments of interest (if any) or principal; or
- (ii) in the case of all Subordinated Notes and Senior Non-Preferred Notes, 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, Loss Absorption Disqualification Event Redemption Prices 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, 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 and Deposit Notes

This Condition 10(a) only applies if this Note is a Senior Preferred Note or 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 and Deposit Notes**

At any time after any Senior 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 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 relevant Series of Notes 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 and Senior Non-Preferred Notes**

This Condition 10(c) only applies if this Note is a Subordinated Note or a 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 (save as provided below in this Condition 10(c)) 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 (but, for the avoidance of doubt, this Condition 10(c)(ii) is without prejudice to the rights of the Trustee under Condition 10(c)(i)).
- (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.
- (v) No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails or is unable to do so within a 60 day period and such failure or inability is continuing, in which case the Noteholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise.
- (vi) 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 or is unable so to do, or being able to prove in any winding-up of the Issuer

fails so to do, within a 60 day period and if such failure or inability is continuing, 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.

- (vii) 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 (including by way of physical meeting, via any electronic platform (such as conference call or videoconference) or a combination of any such methods) 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.

The Trust Deed also provides that (i) a resolution in writing signed by or on behalf of the holders of not less than three-fourths in nominal amount of the relevant Notes for the time being outstanding, or (ii) consent given by way of electronic consents through the relevant clearing systems by or on behalf of the holders of not less than three-fourths in nominal amount of the relevant Notes for the time being outstanding, shall in each case also be effective as an Extraordinary Resolution, binding on all Noteholders and Couponholders, whether or not they voted in favour of the relevant resolution.

### (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 or any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political territory or any political sub-division thereof, 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.

(d) **Regulatory compliance**

With respect to any Note which is a Senior Non-Preferred Note or a Subordinated Note, any amendment, modification or substitution of such Notes or the Trust Deed with respect thereto and any substitution of the Issuer of such Notes shall, to the extent required by the relevant Supervisory Authority, be conditional upon the Issuer having obtained such Regulatory Approval therefor as may then be required and otherwise complying with the Capital Adequacy Regulations and/or Loss Absorption Regulations (as applicable) at such time.

## 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.

## **19 Recognition of UK Bail-in Power**

- (i) Notwithstanding, and to the exclusion of, any other term of the Notes or any other agreements, arrangements or understandings between the Issuer and any Noteholder (or the Trustee on behalf of any Noteholder), by its acquisition of any Note (or any beneficial interest in a Note), each Noteholder (or holder of a beneficial interest in any Note) acknowledges and accepts that the Amounts Due arising under the Notes may be subject to the exercise of the UK Bail-in Power by the Resolution Authority, and acknowledges, accepts, consents, and agrees to be bound by:
  - (i) the effect of the exercise of the UK Bail-in Power by the Resolution Authority, that may include and result in any of the following, or some combination thereof:



- (A) the reduction of all, or a portion, of the Amounts Due;
  - (B) the conversion of all, or a portion, of the Amounts Due on the Notes into shares, other securities or other obligations of the Issuer or another person (and the issue to or conferral on the Noteholder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Notes;
  - (C) the cancellation of the Notes; and/or
  - (D) the amendment or alteration of the maturity of the Notes or amendment of the amount of interest payable on the Notes, or the date on which the interest becomes payable, including by suspending payment for a temporary period; and
- (ii) the variation of the terms of the Notes, if necessary, to give effect to the exercise of the UK Bail-in Power by the Resolution Authority.
- (ii) No repayment or payment of Amounts Due on the Notes, will become due and payable or be paid after the exercise of any UK Bail-in Power by the Resolution Authority if and to the extent such amounts have been reduced, converted, cancelled, suspended (for so long as such suspension or moratorium is outstanding), amended or altered as a result of such exercise.
  - (iii) Neither a reduction or cancellation, in part or in full, of the Amounts Due or the conversion thereof into another security or obligation of the Issuer or another person, as a result of the exercise of the UK Bail-in Power by the Resolution Authority with respect to the Issuer, nor the exercise of the UK Bail-in Power by the Resolution Authority with respect to the Notes will be a default or an event of default for any purpose.
  - (iv) Upon the exercise of the UK Bail-in Power by the Resolution Authority with respect to any Notes, the Issuer shall promptly give notice to the Trustee, the Registrar (if applicable) and the Paying Agents and, in accordance with Condition 15, the Noteholders. Any delay or failure by the Issuer in delivering any notice referred to in this Condition shall not affect the validity and enforceability of the UK Bail-in Power or constitute a default under the terms of the Notes or the Trust Deed or for any other purpose.
  - (v) For the purposes of this Condition 19:

**Amounts Due** means the principal amount of, and any accrued but unpaid interest on, the Notes. References to such amounts will include (but will not be limited to) amounts that have become due and payable, but which have not been paid, prior to the exercise of the UK Bail-in Power by the Resolution Authority;

**Resolution Authority** means the Bank of England or any successor or replacement thereto and/or such other authority in the United Kingdom with the ability to exercise the UK Bail-in Power;

**UK Bail-in Power** means any write-down, conversion, transfer, modification, moratorium and/or suspension power (including, without limitation, any write-down or conversion powers which may be exercised by the Resolution Authority independently of resolution proceedings) existing from time to time under any laws, regulations, rules or requirements relating to the resolution of banks, building societies, financial holding companies, mixed financial holding companies, credit institutions and/or investment firms (and/or any group company of any of the foregoing) incorporated in the United Kingdom in effect and applicable in the United Kingdom to the Issuer or other members of its group, including but not limited to any such laws, regulations, rules or requirements that are implemented, adopted or enacted within the

context of a resolution regime in the United Kingdom under the Banking Act 2009 and/or the Loss Absorption Regulations, in each case as amended from time to time; and

references to any **Note** or **Noteholder** shall be deemed to include reference to any “Coupon” or “Couponholder”, respectively, where the context admits.

## 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.

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 or to the order of 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) Global Certificates**

If the relevant Final Terms state that the Notes are to be represented by a 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 or a Global Certificate and such Global Note or Global Certificate 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. Any such notice shall be deemed to have been given on the date on which such notice is first provided to the relevant clearing system(s).



## **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 (which may include the refinancing of other indebtedness from time to time).

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

In this section, **Supervisory Authority** means the Prudential Regulation Authority and any successor organisation responsible for the supervision of building societies or authorised persons under the FSMA in the UK in the areas described below.

### **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 (as defined in Schedule 2 of the Act) passed by the shareholding members of each amalgamating society and a borrowing members' resolution (as defined in Schedule 2 of the Act) passed by the borrowing members of each amalgamating society. Confirmation by the Supervisory Authority is also required. The Act provides that on the date specified by the Supervisory Authority all of the property, rights and liabilities (which would include the Notes) of each of the societies shall by virtue of the Act be transferred to and vested in the successor, whether or not otherwise capable of being transferred or assigned.

### **Transfer of Engagements**

Section 94 of the Act permits a building society to "transfer its engagements to any extent" to another building society which undertakes to fulfil such engagements. A transfer requires a shareholding members' resolution passed by the shareholding members of the transferor society and the transferee society, and a borrowing members' resolution passed by the borrowing members of the transferor society and the transferee society. 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.

### **Transfer of Business to a Commercial Company**

Sections 97 to 102D of the Act permit a building society to transfer the whole of its business to a company which has been specially formed by the society wholly or partly for the purpose of assuming and conducting the society's business in its place or is an existing company which is to assume and conduct the society's business in its place. The transfer must be approved by a requisite shareholding members' resolution (unless the Supervisory Authority directs otherwise in the case of a transfer to an existing company) in accordance with Schedule 2, paragraph 30(2)-(5) of the Act passed by the shareholding members and by a borrowing members' resolution passed by the borrowing members. 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 shareholding members of the society who have held their shares in the society throughout the period of two years expiring on a qualifying day specified in the transfer agreement and to holders on the qualifying day of deferred shares of the society of a class described in the transfer agreement. Also, all qualifying shareholding members' shares are converted into deposits

with the successor. On any such transfer, investing members of the 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 the 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 shareholding members of the society who have held their shares in the society throughout the period of two years expiring on a qualifying day specified in the transfer agreement 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 2022 of £11,257.3 million (2021: £10,907.9 million) and a network of 53 branches and 14 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 House, The Friary, Cardiff CF10 3FA, 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 21 to the audited consolidated financial statements of the Issuer for the year ended 31 December 2022.

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:

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

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

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

Jonathan Baum, MBS, MA, Non-Executive Director

Claire Hafner MA, ACA, Non-Executive Director

Debra Evans-Williams, Non-Executive Director

Ian Greenstreet, FCA, Non-Executive Director

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

Iain Mansfield, LLB (Hons), FCA, Chief Financial Officer

A list of each director's principal outside directorships as at 31 December 2022 can be found in the section headed "*Board of Directors*" of the Issuer's Annual Report and Accounts 2022, as incorporated by reference herein. 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 Legal Department, Principality Building Society, Principality House, The Friary, Cardiff CF10 3FA.

### **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 – Retail**

At 31 December 2022, the Society's total loans and advances to customers amounted to £8,241.4 million (2021: £8,033.3 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 2022, 89.2 per cent. was at fixed interest rates, 6.8 per cent. at discounted administered variable rates, 3.9 per cent. at the Society's standard variable rate and the balance of 0.1 per cent. linked to the Bank of England base rate.

16 properties were taken into possession by the Society during 2022 (2021: 10) and arrears of greater than three months represented 0.5 per cent. (2021: 0.5 per cent.) of all mortgage balances. At 31 December 2022, the Society held loan loss provisions after write offs of £15.4 million (2021: £8.3 million), which represented 0.19 per cent. (2021: 0.10 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. The business ceased accepting new business in March 2016. Following a successful transition from lender to servicer, the business continues to focus on delivering good customer outcomes and robust cost management.

This loan book continues to run off, reducing to £80 million as at 31 December 2022 (2021: £108.4 million).

At 31 December 2022, there were 452 loans (2021: 545 loans) considered 'non-performing', with balances of £10.3 million (2021: £14.1 million). At 31 December 2022, loan loss provisions after write offs of £3.7 million (2021: £3.1 million) were held which represented 4.6 per cent. (2021: 2.9 per cent.) of balances.

## Mortgage lending activities – Commercial

The commercial lending book stood at £762.0 million (2021: £776.3 million) as at 31 December 2022. When housing associations and residential investment business is excluded, the portfolio stands at £329.6 million (2021: £327.6 million).

The loan book at 31 December 2022 was split across balances as follows:

	%
Commercial investment	36.3
Residential investment	36.1
Housing Association	21.4
Development Funding	6.2
<b>Total</b>	<b>100.0</b>

As at 31 December 2022 there were no commercial mortgage customers (2021:1) three months or more in arrears. As at 31 December 2022, the aggregate balance for arrears of more than one month was £nil (2021: £0.2 million). At 31 December 2022, impairment provisions held against commercial lending activities amounted to £12.8 million (2021: £6.4 million) which represented 1.7 per cent. (2021: 0.8 per cent.) of balances.

## Finance position and liability management

### Capital base

As at 31 December 2022 the group had general reserves of £680.1 million (2021: £645.5 million). The Group's solvency ratio was 26.5 per cent. (2021: 34.0 per cent.). The Group's common equity tier 1 ratio decreased to 26.5 per cent. as at 31 December 2022 (2021: 34.0 per cent.). This reduction was as a result of an anticipated post model adjustment (**PMA**) applied in respect of the retail Internal Ratings Based (**IRB**) model redevelopment, which offset the positive impact on the ratio of increases in profits in the year and house price increases. The PMA is a result of regulatory changes which came into effect on 1 January 2022. The model redevelopment is in an advanced stage with consultation ongoing with the PRA. The PMA applied is based on the expected capital requirement following model completion.

A further measure of capital strength is the PRA Leverage ratio, a measure of Tier 1 capital held against total (non-risk-weighted) assets, including certain off-balance sheet commitments. As at 31 December 2022, the Group's PRA Leverage ratio was 6.5 per cent. (2021: 6.5 per cent.<sup>1</sup>).

### Retail funding

Savings from the retail sector amounted to £8,113.6 million (2021: £7,943.8 million) as at 31 December 2022 and are the primary source of funding for the Society. Retail savings balances represent 92 per cent. (2021: 89 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 2020 –2021, the Issuer made use of measures made available by the Bank of England to financial institutions. This included £900 million raised under the TFSME scheme.

The following table sets out the level of wholesale funding as at 31 December 2022 for the Society:

	Percentage of funds	
	£m	%
Amounts owed to credit institutions	1,639.0	60.5
Amounts owed to other customers	255.0	9.4
Unsecured debt	289.7	10.7
RMBS Notes	527.0	19.4
<b>Total</b>	<b>2,710.7</b>	<b>100.0</b>

### 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 31 December 2022 of 19.1 per cent. (2021: 18.5 per cent.) as a proportion of shares, deposits and loans (**SDL**). Of the total liquid assets, none (2021: none) 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 246 per cent. at 31 December 2022 (2021: 294 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 as at 31 December 2022 and 2021 are set out in the table below:

	2022	2021
	£m	£m
Cash and balances with the Bank of England	1,566.9	1,645.8

<sup>1</sup> The leverage ratio disclosed in the 31 December 2021 financial statements – being 5.6 per cent. – was calculated under the Capital Requirements Regulation; the PRA leverage ratio applies a different methodology.

Securities issued by the UK Government and Multilateral Development Banks	48.1	50.2
<b>Total Buffer Eligible Assets</b>	<b>1,615.0</b>	<b>1,696.0</b>
Loans and advances to credit institutions and other debt securities	391.7	191.9
<b>Total</b>	<b>2,006.7</b>	<b>1,887.9</b>

### 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	2022 %	2021 %	2020 %	Definition	Rationale for inclusion
Net Interest Margin	1.39	1.17	1.00	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	19.2	18.5	17.6	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	0.3	0.4	0.1	This ratio represents the net amount earned after all taxation related expenses have been deducted as a percentage of mean total assets.	Measure of the net amount earned after taxation.
Management Expense Ratio	0.90	0.84	0.73	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:

	2022	2021	2020
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	£m	£m	£m
Total Interest Receivable	284.6	198.7	205.6
Total Interest Payable	(130.7)	(69.5)	(97.0)
<b>Net Interest Receivable as a percentage of mean assets</b>	<b>153.9</b>	<b>129.2</b>	<b>108.6</b>
Assets b/f	10,907.9	11,120.9	10,695.8
Assets c/f	11,257.3	10,907.9	11,120.9
<b>Mean assets</b>	<b>11,082.6</b>	<b>11,014.4</b>	<b>10,908.35</b>
<b>Net interest margin</b>	<b>1.39%</b>	<b>1.17%</b>	<b>1.00%</b>

Liquidity Ratio is derived as follows:

	2022 £m	2021 £m	2020 £m
Cash in Hand and Balances with the Bank of England	1,566.9	1,645.8	1,438.5
Loans and Advances to Credit Institutions	391.7	191.9	318.5
Debt Securities	48.0	50.2	69.2
<b>Total Liquid Assets</b>	<b>2,006.7</b>	<b>1,887.9</b>	<b>1,826.2</b>
<i>As a percentage of SDLs:</i>			
Shares	8,113.6	7,943.8	8,187.4
Amounts Owed to Credit Institutions	1,639.0	1,296.2	1,026.2
Other Deposits	255.0	270.1	201.3
Debt Securities in Issue	467.2	696.0	972.6
<b>Total SDLs</b>	<b>10,474.8</b>	<b>10,206.1</b>	<b>10,387.5</b>
<b>Liquidity ratio</b>	<b>19.1%</b>	<b>18.5%</b>	<b>17.4%</b>

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

	2022 £m	2021 £m	2020 £m
Profit after Tax	37.7	48.8	15.9
Mean assets	11,082.6	11,014.4	10,908.35
<b>Return on Assets</b>	<b>0.3%</b>	<b>0.4%</b>	<b>0.1%</b>

Management Expense Ratio is derived as follows:

	2022 £m	2021 £m	2020 £m
Management expenses	100.2	93.1	79.9
Mean assets	11,082.6	11,014.4	10,908.35
<b>Management expense ratio</b>	<b>0.90%</b>	<b>0.84%</b>	<b>0.73%</b>

## Capital, MREL and liquidity requirements

The Issuer is prudentially supervised by the PRA under the prudential framework summarised below.

### *Capital management – overview*

The Basel Committee on Banking Supervision (the **BCBS**) has approved a series of significant changes to the Basel regulatory capital and liquidity framework in January 2011, January 2014 and December 2017 (such changes being referred to by the BCBS as **Basel III**, and referred to colloquially, as Basel III in respect of reforms finalised prior to 7 December 2017 and **Basel IV** or **Basel 3.1** in respect of reforms finalised on or following that date), including additional capital requirements, higher capital

ratios, more stringent eligibility requirements for capital instruments, a new leverage ratio and liquidity requirements.

The Basel III reform package agreed in 2010 has been implemented in the EEA through 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. The CRR establishes a single set of harmonised prudential rules which apply directly to all credit institutions in the EEA, with the CRD containing less prescriptive provisions to be transposed into national law. The CRR gives express recognition for Common Equity Tier 1 (**CET1**) capital instruments for mutual and co-operative entities and permits the use of a cap or restriction on the maximum level of distributions under those instruments to safeguard the interests of members and reserves. Full implementation began from 1 January 2014 (including in the UK), with particular elements being phased in over a period of time, to be fully effective by 2028.

A legislative package implementing a number of the later Basel III proposals was published in the Official Journal of the European Union on 7 June 2019, consisting of Regulation (EU) No. 2019/876 (the **Capital Requirements Regulation II** or **CRR II**), Directive (EU) No. 2019/878 (the **Capital Requirements Directive V** or **CRD V**), Directive (EU) No. 2019/879 (the **Bank Recovery and Resolution Directive II** or **BRRD II**) and Regulation (EU) No. 2019/877 (the **Single Resolution Mechanism Regulation II** or **SRMR II**) and came into force on 27 June 2019 (the **Banking Reform Package**), with certain provisions applying from 27 June 2019 and other provisions gradually being phased in and/or subject to national implementation. The Banking Reform Package includes the introduction into EU legislation of a net stable funding ratio, a binding leverage ratio requirement, provisions reflecting the Basel Committee's Fundamental Review of the Trading Book, incorporating a revised treatment for the calculation of own funds requirements for market risk, the Standardised Approach to Counterparty Credit Risk, and other regulatory measures. Further clarity is also provided in respect of the Pillar 2 supervisory review process, in particular the conditions which can lead to additional capital requirements and the split between Pillar 2 requirements and Pillar 2 guidance.

In relation to the Basel III reforms which were finalised in December 2017 (i.e. Basel IV), the BCBS published a press release in March 2020 deferring the implementation deadline to January 2023 in light of the Covid-19 outbreak. Notwithstanding the 1 January 2023 implementation deadline, the European Commission published its legislative package implementing the outstanding Basel III reforms on 27 October 2021 (the **Banking Package 2021**), which indicates that the outstanding Basel III reforms are only to be implemented in the EU from 1 January 2025 (with a further five-year transitional period). The Banking Package 2021 will address, amongst other things, the manner in which risk-weighted assets (**RWA**), should be calculated as well as a number of other reforms finalised in 2017.

On 21 March 2022, the PRA announced its intended timeline for the implementation of the final Basel III standards (which the PRA refers to as 'Basel 3.1') in the UK, also to commence on 1 January 2025.

The implementation of the CRD IV framework introduced significant changes to the calculation of the Group's capital adequacy as well as the introduction of new metrics, for example the leverage ratio. The Group currently satisfies all of the current capital requirements under CRD IV (as amended).

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

articles and the PRA published its Policy Statement 17/21, which was implemented in the UK on 1 January 2022.

Under the terms of the Withdrawal Agreement, the UK was required to transpose CRD V into national law, given that the application date (29 December 2020) fell before the Brexit transition period ended – this Directive, with some exceptions (including those aspects due to enter into force after 31 December 2020), now forms part of retained or onshored EU law in the UK. Equally, those provisions of the CRR II and BRRD II which applied before the end of the transition period also form part of retained EU law, with some exceptions.

While the tools and powers addressed above align with those applicable to relevant financial institutions in the EEA under the BRRD, HM Treasury and the Bank of England have already elected to diverge from the EU prudential and resolution frameworks in certain respects. For example, the following provisions of BRRD do not apply in the UK:

- Article 1(6) of the BRRD as amended by Directive (EU) No. 2019/879 (**BRRD II**), which inserted a new Article 16a in BRRD to provide the resolution authority with the power to prohibit an entity from distributing more than the ‘maximum distributable amount’ relating to the minimum requirement for own funds and eligible liabilities (**M-MDA**), where the entity fails to meet the combined buffer requirement, subject to certain conditions;
- Article 1(20) of BRRD II, which introduced a new Article 48(7) of BRRD, making changes to priority of debts in insolvency;
- Article 1(21) of BRRD II, which updated Article 55 of BRRD on the contractual recognition of bail-in; and
- Article 1(30) of BRRD II, which amended the existing in-resolution moratorium power under Article 69 of BRRD.

Furthermore, the PRA has confirmed it intends to make further changes to the prudential regime, including changes to payment restrictions based on maximum distributable amount (**MDA**) calculations in order to improve firms’ ability to use their combined buffers as intended when subject to a severe but plausible stress. The proposed changes include (i) removing the restriction which precludes firms from making distributions that would cause their CET1 levels to fall into the combined buffer, and (ii) amending the definition of the MDA to include certain profits already recognised as CET1 over the preceding four calendar quarters, net of distributions.

The Financial Services Act 2021 (**FS Act 2021**) (which largely sought to shape the regulatory framework for UK financial services outside of the EU following Brexit) brought about a number of changes and/or introduced a broad range of measures which will affect firms across the financial sector. The FS Act 2021 enables the implementation of the outstanding Basel III and Basel IV standards by giving HM Treasury the power to repeal elements of UK CRR that need to be updated to reflect the latest Basel standards. Following repeal, many of the updates will be (and, in the case of the CRR II changes discussed above, have been) implemented through rules made by the PRA in the PRA Rulebook. This involves technical changes to the UK prudential framework as it relates to credit risk, market risk, counterparty credit risk, operational risk, large exposures, collective investment units, liquidity standards and reporting, among others.

On 26 September 2022, the PRA published policy statement 8/22, by which the UK Technical Standards for own funds requirements for institutions were transferred into PRA rules, with amendments to reflect revisions to the UK CRR and updates to PRA Supervisory Statement (SS) 7/13 “*Definition of capital (CRR firms)*” to clarify the PRA’s expectations of UK CRR firms regarding capital issuances and reductions. The changes came into effect from 1 January 2023.

CRD IV requirements adopted in the UK may change, including as a result of policy developments to reflect regulatory technical standards developed by the EBA notwithstanding that they do not form part of UK law, as well as changes to the way in which the PRA continues to interpret and apply these requirements to UK banks (including as regards individual model approvals or otherwise) and implement the final Basel III standards.

#### *Capital management - risk-based capital requirements*

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.

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 Policy Statement PS22/21, which took effect from 1 January 2022. The PRA expects firms to meet Pillar 2A with at least 56.25 per cent. in Common Equity Tier 1 capital, at least 75 per cent. in 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.

#### *Capital management - leverage ratio requirements*

CRD IV also introduced a new leverage ratio requirement which is in effect for UK banks and building societies. Revisions to the leverage ratio finalised by BCBS in December 2017 were required to be implemented by 1 January 2023. 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). The PRA applies a minimum leverage requirement 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 countercyclical leverage ratio and, from 2019, a supplementary leverage ratio buffer which the PRA may apply to firms. The Bank of England Act 1998 (Macro-prudential Measures) (Amendment) Order 2021 (the **MPM Order 2021**), which took effect from 21 July 2021, was adopted to align the FPC's power of direction with changes made under the FS Act 2021, giving the FPC the necessary powers to direct (rather than recommend) that the PRA implement its proposed changes to the leverage ratio framework.

The FPC and PRA have undertaken a review of the existing UK leverage ratio framework, culminating in the publication of a joint policy statement in October 2021 (PS21/21). The revised policy maintains the minimum UK leverage ratio requirement and its calibration; leverage ratio buffers and their calibration (both subject to changes to the leverage exposure measure); the capital quality requirements; and the exclusion of qualifying central bank claims from the exposure measure, but extends (from 1 January 2023) the scope of application and applies, broadly speaking, on: a consolidated basis; a ring-fenced bank (RFB) sub-consolidated basis; and an individual (solo) basis or, at the PRA's discretion, on a sub-consolidated basis.

As at date of this Prospectus, the Issuer is subject to a supervisory expectation under the UK leverage framework but is not subject to a binding minimum leverage ratio requirement.

The Issuer's leverage ratio as at 31 December 2022 was 6.5 per cent.

### *Capital management – MREL*

To support the effectiveness of bail-in and other resolution tools, the UK implementation of BRRD requires that all institutions must meet an individual “minimum requirement for own funds and 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”. The Banking Reform Package also included amendments to the MREL requirements in the BRRD to align with the “Total Loss Absorbing Capacity” (**TLAC**) standard adopted by the Financial Stability Board (the **FSB TLAC standard**) in relation to global systemically important institutions (**G-SIIs**). These reforms included the introduction of the concept of a Pillar 2 MREL requirement, which allows resolution authorities the power to require entities to have an additional MREL requirement above the minimum, including a market confidence buffer.

In the UK, the BRRD was implemented by amendments made to the UK’s existing special resolution regime contained principally in the Banking Act and associated regulator rules. The Banking Reform Package amendments to the MREL requirements were not made in the UK on the basis that the UK already had an MREL framework that applies the FSB TLAC standard.

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 most recently updated in December 2021) set 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. From 1 January 2020, the Bank of England has required relevant institutions to maintain more significant MREL, in accordance with the calculations set out in the PRA’s Statement of Policy. As at the date of this Prospectus, the Issuer’s MREL requirement is limited to its own funds requirement. On 3 December 2021, in connection with the revised MREL Statement of Policy, the Bank of England published a call for ideas aimed at minimising the disruption caused by the insolvency of banks and building societies to those depositors who are protected by the FSCS but are reliant on their accounts with the failed firm for day-to-day banking and access to money. Once the Bank of England has had an opportunity to consider these ideas, it may be subject to formal procedures, such as public consultation, as appropriate.

The Issuer has been designated as a ‘single point of entry’ firm for resolution purposes, and accordingly the external MREL resources of the Group are issued directly by the Issuer.

### *Capital management – internal capital adequacy assessment*

The Group conducts an Internal Capital Adequacy Assessment Process (**ICAAP**) at least annually to assess the Group’s current and projected capital requirements to support the current risks in the business and future risks arising from the corporate plan. The ICAAP addresses all the Group’s material risks and includes Board-approved stress scenarios that are intended, as a minimum, to meet regulatory requirements. The ICAAP is approved annually by the Board and is reviewed by the PRA when setting the Group’s Total Capital Requirements.

The Group adopts the following approaches to calculate its Pillar 1 minimum capital requirements:

- Internal Ratings Based (**IRB**) approach for retail mortgage exposures;
- IRB approach for secured/development and investment lending on real estate;
- Standardised approach for other lending exposures;
- Standardised approach for treasury portfolios; and
- Standardised approach for operational risk.

### *Changes in IRB models and risk-weight floors*

Changes may be made from time to time with respect to how the Issuer applies its IRB model or is otherwise required to calculate its risk-adjusted assets. For example, RWA output floors are due to be implemented through a transitional period (currently expected to be from 2025 to 2030), and other reforms for the calculation of risk-weights are also due to be implemented. Further, a number of PRA reforms for IRB calibration have also been made effective from 1 January 2022. These include the amendment of all rating systems to align with the PRA's updated definitions of 'default', 'probability of default' and 'loss given default', floors for mortgage exposures and the amendment of the PRA's expectations regarding residential mortgage rating systems. From 1 January 2022, mortgage exposures classified as in default are excluded from the 10 per cent average minimum risk weight expectation.

The introduction of an RWA floor for secured lending combined with IRB calibration changes with the implementation of new secured models will lead to a significant increase in the Issuer's RWA over time. The Issuer currently expects the consequential impact on its reported CET1 ratio ultimately to be a reduction of approximately 40-45 per cent. relative to its reported CET1 ratio of 34.0 per cent. as at 31 December 2021 (although underlying business growth is expected to be capital accretive). As further discussed above under "*Finance position and liability management - Capital base*", the implementation of the PRA's reforms for IRB calculation since 1 January 2022 has resulted in the Issuer's CET1 ratio falling to 26.5 per cent. as at 31 December 2022 (with the model redevelopment offsetting the positive impact on the ratio of increases in profits in the year and house price increases).

### *Liquidity*

The Group holds liquid assets designed to ensure it has sufficient access to funds to meet its financial obligations in both normal and stressed scenarios. The Group is required to comply with a Liquidity Coverage Ratio (**LCR**), which is a measure of the Group's ability to withstand a short-term liquidity stress, and a Net Stable funding Ratio (**NSFR**), which is a longer-term stable funding metric and measures the sustainability of the Group's long-term funding.

## 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 published 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 Condition 14) 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.



## SUBSCRIPTION AND SALE

### Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an amended and restated Dealer Agreement dated 26 April 2023 (as amended or supplemented from time to time, the **Dealer Agreement**) between the Issuer, the Permanent Dealers and the Arranger, the Notes may 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 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 this 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 (EU) 2016/97 (the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

### **United Kingdom**

#### *Prohibition of sales to UK Retail Investors*

Unless the Final Terms in respect of any Notes specifies “*Prohibition of sales to UK Retail Investors*” as “Not Applicable”, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision, the expression **retail investor** means a person who is one (or more) of the following:

- (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; and
- (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

#### *Other UK regulatory restrictions*

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent 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.

## **Italy**

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 to any investor in Italy.

## **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 re-sale, 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 (EU) 2016/97 (the **Insurance Distribution 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 **EU 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 EU PRIIPs Regulation.]

**[PROHIBITION OF SALES TO UK 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 United Kingdom (**UK**). For these purposes, a **retail investor** means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**EUWA**); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000, as amended (the **FSMA**) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

**[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.]

**UK MiFIR 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 only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (**COBS**), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**UK MiFIR**); 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**)] [distributor] should take into consideration the manufacturer[‘s/s’] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market

assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.

Final Terms dated [            ]

**PRINCIPALITY BUILDING SOCIETY**

*(Legal Identifier Number (LEI): 2138003CSNVJEPFZ3U52)*

Issue of

**[Aggregate Nominal Amount of Tranche]**

**[Title of Notes] [Senior Preferred / Senior Non-Preferred / Subordinated/ Deposit] Notes due [   ]**

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 26 April 2023 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus (the **Prospectus**) for the purposes of Regulation (EU) (2017/1129) as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the **UK Prospectus Regulation**). This document constitutes the Final Terms of the Notes described herein for the purposes of the UK Prospectus Regulation and must be read in conjunction with the Prospectus in order to obtain all the relevant information. The Prospectus has been published on the website of the London Stock Exchange through a regulatory information service ([www.londonstockexchange.com/exchange/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html)).]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Prospectus dated [original date] [and the supplement[s] to it dated [date] and [date]] which are incorporated by reference in the Prospectus dated 26 April 2023. This document constitutes the Final Terms of the Notes for the purposes of Regulation (EU) (2017/1129) as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the **UK Prospectus Regulation**) and must be read in conjunction with the Prospectus dated 26 April 2023 [[and the supplement[s] to it dated [date] and [date]] which [together] constitute[s] a base prospectus for the purposes of the UK Prospectus Regulation (the **Prospectus**), including the Conditions incorporated by reference in the Prospectus, in order to obtain all the relevant information. The Prospectus has been published on the website of the London Stock Exchange through a regulatory information service ([www.londonstockexchange.com/exchange/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html)).]

1 Issuer: Principality Building Society

**Type of Notes**

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

**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 [27] 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: [ ] [and integral multiples of [ ] in excess thereof [up to and including [ ]]. No Notes in definitive form will be issued with a denomination above [ ]]
- (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/ 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]  
[Regulatory Event Call]  
[Loss Absorption Disqualification Event Call]  
[(further particulars specified below)]
- 14 Date [Board] approval for issuance of Notes obtained: [ ]

**Provisions Relating to Interest (if any) Payable**

15	Fixed Rate Note Provisions	[Applicable/Not Applicable]
	(i) Rate[(s)] of interest:	[ ] per cent. per annum payable [annually / semi-annually / quarterly / monthly / <i>other</i> ] in arrear on each Interest Payment Date
	(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) / <i>other</i> ]
	(vi) Determination Dates:	[[ ] in each year] [Not Applicable]
16	Resettable Note Provisions	[Applicable/Not Applicable]
	(i) Initial Rate of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(ii) Interest Payment Date(s):	[[ ] [and [ ]] in each year from (and including) [ ] up to (and including) the Maturity Date
	(iii) First Margin:	[+/-] [ ] per cent. per annum
	(iv) Subsequent Margin:	[+/-] [ ] per cent. per annum
	(v) Fixed Coupon Amount to (but excluding) the First Resettable Note Reset Date:	[ ] per Calculation Amount
	(vi) Broken Amount(s):	[[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
	(vii) 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]
	(viii) Reset Reference Rate:	[Mid-Swaps/Reference Bond]

	(ix)	First Resettable Note Reset Date:	[            ]
	(x)	Second Resettable Note Reset Date:	[            ]/[Not Applicable]
	(xi)	Subsequent Resettable Note Reset Date(s):	[            ] [and [            ]] [Not Applicable]
	(xii)	Reset Determination Date(s):	[[            ] in each year] [Not Applicable]
	(xiii)	Relevant Screen Page:	[            ]
	(xiv)	Mid-Swap Rate	[Single Mid-Swap Rate] [Mean Mid-Swap Rate] [Not Applicable]
	(xv)	Fixed Leg Swap Duration:	[12 months / 6 months / [            ]] [Not Applicable]
	(xvi)	Floating Leg Swap Duration:	[12 months / 6 months / 3 months / [            ]] [Not Applicable]
	(xvii)	Mid-Swap Floating Leg Benchmark Rate:	[[6]-month EURIBOR (calculated on an Actual/360 day count basis)] / [Overnight SONIA rate compounded for the Floating Leg Swap Duration (calculated on an Actual/365 day count basis)] / [Overnight SOFR rate compounded for the Floating Leg Swap Duration (calculated on an Actual/360 day count basis)] / [            ] / [Not Applicable]
	(xviii)	Mid-Swap Fallback Rate:	[[            ] per cent.] [Not Applicable]
	(xix)	Reference Bond Reset Rate Time:	[            ] [Not Applicable]
	(xx)	Reference Bond Fallback Rate:	[            ] [Not Applicable]
	(xxi)	Business Centre(s):	[            ]
	(xxii)	Calculation Agent:	[Issuing and Paying Agent]/[            ]
17		Floating Rate Note Provisions	[Applicable/Not Applicable]
	(i)	Specified Interest Period(s)/ Specified Interest Payment Dates:	[            ] in each year from (and including) [            ] up to (and including) [the Maturity Date][            ] [, subject, in each case, to adjustment in accordance with the Business Day Convention set out in (iii) below/not subject to adjustment, as the Business Day Convention in (iii) is specified to be Not Applicable]
	(ii)	First Interest Payment Date:	[            ]



- (iii) Business Day Convention: [Floating Rate Business Day Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention] [Not Applicable]
- (iv) Business Centre(s): [ ]
- (v) Manner in which the Rate(s) of Interest is/are to be determined: Screen Rate Determination
- (vi) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount: [Issuing and Paying Agent]/ [ ] (the **Calculation Agent**)
- (vii) Screen Rate Determination: Applicable
- Reference Rate: [[ ]-month] [SONIA/EURIBOR]/[ ]
  - Term Rate [Applicable/Not Applicable]
    - Specified Time [[11.00 a.m./[ ] in the Relevant Financial Centre] / [Not Applicable]
    - Relevant Financial Centre: [London/ New York/ Brussels/[ ]] / [Not Applicable]
  - Overnight Rate: [Applicable/Not Applicable]
    - Index Determination: [Applicable/Not Applicable]
      - Relevant Number [[5 / [ ]] [[London Banking Days]/[Not Applicable]

*(If 'Index Determination' is 'Not Applicable', delete 'Relevant Number' and complete the remaining bullets below)*

*(If 'Index Determination' is 'Applicable', insert number of days (expected to be five or greater) as the Relevant Number, and the remaining bullets below will each be 'Not Applicable')*
    - Observation Method: [Lag / Observation Shift / Not Applicable]
      - Lag Period: [5 / [ ] [London Banking Days] [[City] Banking Days (as defined below)] [Not Applicable].
      - Observation Shift Period: [5 / [ ] [London Banking Days] [[City] Banking Days (as defined below)] [Not Applicable]

(NB: A minimum of 5 relevant business/banking days should be specified for the Lag Period or Observation Shift Period, unless otherwise agreed with the Calculation Agent)

- Interest Determination Date(s): [ ] [T2/[ ]] Business Days [in [ ]] prior to the [ ] day in each Interest Period/each Interest Payment Date][The [first/[ ]] [London Banking Day] falling after the last day of the relevant Observation Period][The [first/[ ]][ ] Banking Day falling after the last day of the relevant Observation Period (and, as used in these Final Terms, **[City] Banking Day** means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in [City])[ ]
- Relevant Screen Page: [ ] [Not Applicable]
- (viii) Linear Interpolation: [Not Applicable/Applicable – the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (ix) Margin(s): [+/-] [ ] per cent. per annum
- (x) Minimum Rate of Interest: [[ ] per cent. per annum] [Not Applicable]
- (xi) Maximum Rate of Interest: [[ ] per cent. per annum] [Not Applicable]
- (xii) 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]
- 18 Zero Coupon Note Provisions [Applicable/Not Applicable]
  - Amortisation Yield: [ ] per cent. per annum

**Provisions Relating to Redemption**

- 19 Notice periods for Condition 6(c) and 6(f): Minimum period: [ ] days  
Maximum period: [ ] days
- 20 Call Option [Applicable/Not Applicable]
  - (i) Optional Redemption Date(s): [ ] / [Any [day / Business Day] falling in the period commencing on (and including) [ ] and ending on ([and including/but

		excluding)] [the [first] Resettable Note Reset Date]/[the Maturity Date]/[ ]
	(ii) Optional Redemption 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
21	Regulatory Event (Subordinated Notes only):	[Full Exclusion / Full or Partial Exclusion / Not Applicable]
22	Senior Non-Preferred Notes only:	[Applicable/Not Applicable]
	(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. / per Calculation Amount]
	(iv) Senior Non-Preferred Notes: Substitution and Variation:	[Applicable/Not Applicable]
23	Put Option	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[ ] / [Any day falling in the period commencing on (and including) [ ] and ending on ((and including/but excluding)) [the [first] Resettable Note Reset Date]/[the Maturity Date]/[ ]
	(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: Minimum period: [ ] days  
Maximum period: [ ] days
- 24 Final Redemption Amount: [ ] per Calculation Amount
- 25 Early Redemption Amount payable on redemption for taxation or regulatory reasons or an event of default or other early redemption: [ ] per Calculation Amount

**General Provisions Applicable to the Notes**

- 26 Form of Notes:
- (i) Form [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)]]

- |  |   |
|--|---|
| (ii) New Global Note/ New Safekeeping Structure:   | [New Global Note]/[New Safekeeping Structure]/ [Not Applicable]   |
| 27 Financial Centre(s) or other special provisions relating to payment dates:                            | [Not Applicable/ <i>Give details.</i> ]   |
| 28 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.] [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 **Principality Building Society**:

By: .....  
*Duly authorised*

## PART B — OTHER INFORMATION

### 1 LISTING

- (i) Admission to trading: [Application [has been / 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 main market and to listing on the Official List of the FCA with effect from [on or around] [ ]/[the Issue Date].]
- (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]:

[Moody's Investors Service Limited (**Moody's**): [ ]]

[Fitch Ratings Ltd (**Fitch**): [ ]]

[A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.]

The rating agenc[y/ies] above [has/have] published the following high-level description[s] of such rating[s]:

- A rating of [ ] by Moody's is described by it as indicating [ ]. (Source: [ ])
- A rating of [ ] by Fitch is described by it as indicating [ ]. (Source: [ ])

The above description[s] [has/have] been extracted from the website of the relevant rating agency. 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 the relevant rating agency, no parts have been omitted which would render the reproduced information inaccurate or misleading.]

### 3 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[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 REASONS FOR THE OFFER AND ESTIMATED NET PROCEEDS

(i) Reasons for the offer: [See “Use of Proceeds” in the Prospectus][Give details]]

(ii) Estimated Net Proceeds: [ ]

### 5 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.]

[retain for Fixed Rate Notes/Resettable Notes only]

### 6 OPERATIONAL INFORMATION

(i) ISIN: [ ]

(ii) Common Code: [ ]

(iii) CFI: [[See/[*include code*]<sup>2</sup>, 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]

(iv) FISN: [[See/[*include code*]<sup>3</sup>, 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]

(v) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/[ ]]

<sup>2</sup> The actual code should only be included where the issuer is comfortable that it is correct.

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

- (vi) Delivery: Delivery [against/free of] payment
- (vii) Names and addresses of additional Paying Agent(s) (if any): [ ]
- (viii) Intended to be held in a manner which would allow Eurosystem eligibility [Yes. Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the International Central Securities Depositories (**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.]
- [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 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.]]
- (ix) Relevant Benchmark[s]: [[*specify benchmark*] is provided by [*administrator legal name*]]. As at the date hereof, [[*administrator legal name*][appears]/[does not appear]] in the register of administrators and benchmarks established and maintained by the FCA pursuant to Article 36 (Register of administrators and benchmarks) of the UK Benchmarks Regulation]/[As far as the Issuer is aware, as at the date hereof, [*specify benchmark*] does not fall within the scope of the UK Benchmarks Regulation]/[Not Applicable]

## 7 [PERFORMANCE OF RATES (FLOATING RATE NOTES ONLY)]

[Details of performance of [EURIBOR/SONIA] can be obtained from [Reuters/Bloomberg/give details of electronic means of obtaining the details of performance].]



8      **DISTRIBUTION**

- |   |   |
|---|---|
| (i) Prohibition of Sales to EEA Retail Investors: | [Applicable/Not Applicable]   |
| (ii) Prohibition of Sales to UK Retail Investors: | [Applicable/Not Applicable]   |
| (iii) U.S. Selling Restrictions:                  | [Reg S Compliance Category 2: TEFRA D/TEFRA C/TEFRA not applicable] |

## **GENERAL INFORMATION**

### **Listing**

Application has been made to the FCA for the Senior Preferred Notes, Senior Non-Preferred Notes and Subordinated Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's main market. The admission to listing of the Programme in respect of Notes is expected to be granted on or about 2 May 2023.

The listing of each Series of Notes on the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted to listing on the Official List of the FCA and to trading on the London Stock Exchange main market will be admitted separately as and when issued, subject only to the issue of a global Note initially representing the Notes of such Tranche.

### **Authorisation**

The update of the Programme was authorised by resolutions of the Board of Directors of the Issuer passed on 23 March 2023. The Issuer has authority to issue Notes under the Programme without the approval of the Board of Directors, provided such issue of Notes is approved by a duly appointed sub-committee of the Board in accordance with the resolutions of the Board passed on 23 March 2023.

### **Significant or Material Change**

There has been no significant change in the financial performance or financial position of the Issuer or of the Group since 31 December 2022 (being the reference date of the latest published consolidated financial statements of the Issuer).

There has been no material adverse change in the prospects of the Issuer or of the Group since 31 December 2022 (being the reference date of the latest published audited consolidated financial statements of the Issuer).

### **Litigation**

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.

### **U.S. tax legend**

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".

### **Clearing Systems**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of the Notes allocated by Euroclear and Clearstream, Luxembourg will

be specified in the applicable 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.

The address of Euroclear is Euroclear Bank SA/NV, 1 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.

### **Conditions for determining price**

The price and amount of Notes to be issued under the Programme will be determined by the Issuer at the time of issue based on prevailing market conditions.

### **Post-issuance information**

The Issuer does not intend to provide any post-issuance information in relation to any issue of Notes.

### **Documents Available**

For the period of 12 months following the date of this Prospectus, copies of the following documents will, when published, be available for inspection from <https://www.principality.co.uk/about-us/your-principality/treasury-services>:

- (a) the Rules and the Memorandum of the Issuer (with an English translation thereof);
- (b) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates (including Global Certificates), the Coupons and the Talons) and the Agency Agreement and all amendments thereto and restatements thereof;
- (c) a copy of this Prospectus;
- (d) any future prospectuses and supplements, including Final Terms, to this Prospectus and the documents incorporated herein and therein by reference;

The information on the above-mentioned website does not form part of this Prospectus, except where that information has otherwise expressly been incorporated by reference into this Prospectus.

### **Auditors**

Deloitte LLP has audited and rendered unqualified audit reports on the accounts of the Issuer for the year ended 31 December 2022 and 31 December 2021, in accordance with the International Standards on Auditing (UK) as issued by the Financial Reporting Council in the United Kingdom. The auditors of the Issuer have no material interest in the Issuer.

### **Dealers transacting with the Issuer**

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.

### **Third party information**

The Issuer confirms that all third party information contained in this 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 House  
The Friary  
Cardiff CF10 3FA

**THE ARRANGER**

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ

**DEALERS**

**Barclays Bank PLC**

1 Churchill Place  
London E14 5HP

**BNP Paribas**

16, boulevard des Italiens  
75009 Paris  
France

**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

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

**TRUSTEE**

**HSBC Corporate Trustee Company (UK) Limited**

8 Canada Square  
London E14 5HQ

**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

**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

**AUDITORS TO THE ISSUER**

**Deloitte LLP**

1 New Street Square  
London, EC4A 3HQ