

Special Conditions of issue of the PPDS

The following are the special conditions of issue of the PPDS in the form in which they will appear on the reverse of each PPDS Certificate:

The PPDS (as defined below) are issued subject to, and with the benefit of, these special conditions of issue (the "**Conditions**", and each a "**Condition**").

1 General

- 1.1 The "**Society**" means Manchester Building Society and, following any amalgamation under section 93 of the Act or a transfer under section 94 of the Act as described in Condition 8.1, shall extend to any Transferee Society.
- 1.2 "**PPDS**" means the profit participating deferred shares of the Society having a nominal amount of £1,000 each (subject to any increase or decrease in accordance with these Conditions).
- 1.3 Terms defined in the rules of the Society for the time being (the "**Rules**") will, unless the context otherwise requires, have the same meanings when used in these Conditions.
- 1.4 PPDS holders are entitled to the benefit of, are bound by, and are deemed to have notice of, the Rules. In the event of any conflict between the Rules and these Conditions, these Conditions shall prevail.
- 1.5 The PPDS:
 - (a) **are deferred shares for the purposes of section 119 of the Act;**
 - (b) are classified for the purposes of the Rules as permanent interest bearing shares;
 - (c) **are not protected deposits for the purposes of the Financial Services Compensation Scheme established under FSMA;** and
 - (d) are not withdrawable.
- 1.6 The PPDS may be held jointly by up to four persons.
- 1.7 The PPDS rank pari passu in a Winding-up or Dissolution with any other deferred shares comprising core equity tier 1 capital issued or to be issued by the Society and rank behind any other deferred shares of the Society for the time being in issue not comprising core equity tier 1 capital, including the 1999 PIBS and the 2005 PIBS.
- 1.8 The Society shall pay any capital, stamp, issue, registration or transfer taxes and duties arising on the issue of any PPDS.
- 1.9 Each PPDS holder shall pay any withholding or deduction of such taxes and duties arising from the net proceeds of sale of its respective PPDS holding.
- 1.10 Rights to Conversion Benefits to which a PPDS holder may become entitled by reason of its holding of PPDS shall not be required to be assigned to a charity nominated by the Society pursuant to any scheme for charitable assignment established by the Society for the time being. In the event that a PPDS holder is a Member of the Society other than by reason of its holding of PPDS and has made a declaration to assign any Conversion Benefits to a charity, that

assignment declaration shall not apply to Conversion Benefits derived from its holding of PPDS. If there is a conflict between these Conditions and any other provisions for the assignment of Conversion Benefits derived from PPDS held by any PPDS holder, whenever the assignment of Conversion Benefits is made, these Conditions shall prevail in relation to the Conversion Benefits derived from those PPDS. For these purposes:

- (a) **"Conversion Benefits"** shall mean any benefits which a Person has a right to receive as a Shareholding Member under the terms of any transfer of the Society's business to a company under section 97 of the Act; and
- (b) the term **"Society"** shall extend to any mutual society which is a holding company of a Successor Entity for the purposes of the Mutuals Transfers Act.

1.11 In the event that an amendment to these Conditions is required for the PPDS to be treated as core equity tier 1 capital, the Issuer and the PPDS holders agree to negotiate in good faith with a view to agreeing such amendments to these Conditions so that the PPDS will be treated as core equity tier 1 capital.

1.12 The definitions in Condition 19 shall apply in these Conditions.

2 Form, transfer and title

2.1 The PPDS are in registered form and are transferable in accordance with the Rules and these Conditions in integral multiples of one PPDS.

2.2 Legal title to the PPDS will pass upon registration in the PPDS Register of a transfer made in accordance with these Conditions.

2.3 No legal transfer of a PPDS shall be valid unless made in the form endorsed on the PPDS Certificate or in such other form as the Board may agree, which form shall be presented to the Registrar. Such form may include a confirmation given by the transferee PPDS holder to enable the Society to determine whether or not:

- (a) the Society can lawfully make payments of dividends to such PPDS holder free and clear of any deduction or withholding for or on account of Taxes in the United Kingdom; and/or
- (b) the beneficial owner (or any of them) of such PPDS immediately following the transfer is an individual, or a Scottish partnership in which all of the partners are individuals, or a personal representative acting in that capacity, or a trustee of a discretionary or accumulation settlement (as defined in section 873 of the Income Tax Act 2007) acting in that capacity.

2.4 If the Society shall fail to pay any capital, stamp, issue, registration or transfer taxes and duties arising on transfer of the PPDS, the Registrar, at its sole discretion, may refuse to register such transfer.

3 PPDS Register

3.1 The Society shall procure that the PPDS Register, in which shall be entered the name and address of each PPDS holder, is maintained in accordance with these Conditions and in accordance with those provisions of the Rules relating to a "PIBS Register". Each PPDS holder shall notify the Registrar immediately of any change in its name or address and shall produce such evidence of change of name or address as the Registrar may reasonably require.

- 3.2 Transfers and other documents or instructions relating to, or affecting the title of, any PPDS shall be recorded in the PPDS Register. No charge shall be made in respect of any entry in the PPDS Register. The PPDS Register shall be maintained at the Principal Office or at such other place as the Society and the Registrar shall agree and notify to the PPDS holders. The PPDS Register may be closed for such periods (not exceeding 30 days in any year) as the Board may specify.
- 3.3 A Person claiming to be entitled to be a PPDS holder (or one of a number of joint holders of a PPDS) shall, if required by the Registrar or the Society, provide the Registrar with a written certificate containing such instructions and other information (including information relating to the matters referred to in Condition 2.3) as the Society and/or the Registrar may reasonably require to satisfy themselves that such Person should be entered in the PPDS Register as the holder (or one of a number of joint holders) of the relevant PPDS and to complete, execute and deliver a PPDS Certificate to such person.
- 3.4 Subject to Condition 3.3, the Society shall procure that the Registrar shall, on behalf of the Society, issue a PPDS Certificate in respect of each holding of all PPDS held by each PPDS holder (or, in the case of a joint holding of PPDS, the first named holder, but indicating on the PPDS Certificate the names of all such joint PPDS holders) within 30 days after the date of the relevant registration of any transfer or request for a PPDS Certificate.
- 3.5 The Society shall procure that, forthwith after each occasion on which the Nominal Amount is increased or decreased in accordance with Condition 8, there shall be endorsed on the PPDS Register (by the time stipulated in Condition 8.9):
- (a) the amount of any increase or decrease in the Nominal Amount of the PPDS held by each PPDS holder;
 - (a) the date of any such increase or decrease; and
 - (b) the Nominal Amount of the PPDS held by each PPDS holder immediately after such increase or decrease.

4 Dividends

- 4.1 The PPDS shall entitle the holders thereof to dividends declared in accordance with these Conditions.
- 4.2 The Board may declare dividends in respect of the PPDS in respect of any Financial Year in such amounts as the Board may determine in its sole and absolute discretion, subject to the following provisions of this Condition 4. Any such dividend shall be paid, in accordance with Condition 7, within 10 Business Days of the Determination Date. No dividends shall be declared or paid in respect of the Final Period.
- 4.3 The aggregate amount of dividends declared by the Board in respect of the PPDS in respect of any Financial Year shall be such amount as the Board may determine in its sole and absolute discretion at the time when the Board approves the Relevant Accounts in respect of such Financial Year, but not in any event exceeding in aggregate the Available Dividend Amount in respect of such Financial Year.
- 4.4 No dividend shall be declared or paid in respect of the PPDS in respect of any Financial Year if at the relevant time (and after the making of any debit or credit to the PPDS Reserve Account required in respect of that Financial Year in accordance with Condition 5.2 or 5.3) the balance

on the PPDS Reserve Account or the distributable reserves of the Society is, or would following such declaration and payment be, less than zero.

- 4.5 Dividends on the PPDS are non-cumulative. If no dividend is declared in respect of the PPDS in respect of any Financial Year or the aggregate dividends declared in respect of the PPDS in respect of any Financial Year are less than the Available Dividend Amount in respect of such Financial Year, the PPDS holders shall not have any right to any dividend in respect of their PPDS in respect of that Financial Year other than the actual amount of any dividend declared in respect of the PPDS in respect of that Financial Year in accordance with these Conditions.
- 4.6 The amounts of the Net Profits or Net Losses and Available Dividend Amount in respect of any Financial Year shall be those amounts set out in a report from the Auditors addressed to the Society for the purpose of this Condition 4. The amounts of Net Profits or Net Losses shall, subject as provided in Condition 4.9, be determined by reference to the consolidated income statement in the Relevant Accounts in respect of such Financial Year.
- 4.7 Any dividend declared in respect of the PPDS shall be paid not later than the date on which the Society holds its Annual General Meeting or Extraordinary General Meeting, as the case may be, at which the Relevant Accounts in respect of the relevant Financial Year are laid before Members.
- 4.8 Only PPDS which are in issue on the last Business Day of that Financial Year shall be entitled to receive any dividend payable in respect of that Financial Year. All dividends in respect of the PPDS shall be declared and payable to the PPDS holders *pro rata* according to the number of PPDS held by them on the Record Date.
- 4.9 In the case of the initial Financial Year in respect of the PPDS:
- (a) the Society shall procure that unaudited interim accounts are prepared using accounting principles and practices consistent with those applied by the Society at the relevant time for the period from the date on which the PPDS are issued (the "**First Issue Date**") until the end of that Financial Year, and that those interim accounts ("**First Issue Interim Accounts**") are reviewed, to then current interim report standard for the Society, by the Auditors and are approved by the Board;
 - (b) following the preparation and review of any First Issue Interim Accounts, the Board shall, when it approves the First Issue Interim Accounts, also determine in good faith the amounts of the Net Profits, Net Losses and Available Dividend Amount in respect of the period from the First Issue Date until the end of that Financial Year, by reference to the consolidated income statement in the First Issue Interim Accounts in respect of the period for which the First Issue Interim Accounts were prepared;
 - (c) for the purposes of these Conditions:
 - (i) the period between the First issue Date and the end of the period for which the First Issue Interim Accounts were prepared shall be treated as a Financial Year; and
 - (ii) the amounts of the Net Profits, Net Losses and Available Dividend Amount as so determined by the Board in accordance with this Condition 4.9(c) shall be treated as the amounts of the Net profits, Net Losses and Available Dividend Amount respectively in respect of that Financial Year; and

(d) the Society will make the First Issue Interim Accounts (including the Board's determination under Condition 4.9(b)) available for inspection by PPDS holders during usual business hours at the Principal Office and, if different, at the specified office of the Registrar, for a period of 90 Business Days following their approval. Copies of such First Issue interim Accounts (including the Board's determinations under Condition 4.9(b)) will be available to PPDS holders upon request.

4.10 No dividend or other money payable in respect of a PPDS shall bear interest against the Society. Any amount payable by the Society in respect of a PPDS in respect of which no cheque or warrant has been cashed and no payment claimed shall cease to be payable and revert to the Society 12 years from the due date.

5 PPDS Reserve Account

5.1 The Society shall maintain a PPDS reserve account (**PPDS Reserve Account**) to which there shall be debited and credited the amounts described below in respect of each Financial Year. The PPDS Reserve Account may have a positive or negative balance.

5.2 If there are Net Profits in respect of any Financial Year, an amount equal to the Participation Percentage of the Net Profits in respect of that Financial Year shall be credited to the PPDS Reserve Account.

5.3 If there are Net Losses in respect of any Financial Year, an amount equal to the Participation Percentage of the Net Losses in respect of that Financial Year shall be debited to the PPDS Reserve Account.

5.4 Following the making of any debit or credit to the PPDS Reserve Account in respect of any Financial Year which is required by Condition 5.2 or 5.3, there shall be also debited to the PPDS Reserve Account the aggregate amount of any dividend declared and payable in respect of the PPDS in respect of that Financial Year,

5.5 Subject to Condition 5.6, relevant credits and debits to the PPDS Reserve Account shall be made on the Determination Date.

5.6 If any dividend is declared but not subsequently paid by its due date, the debits made to the PPDS Reserve Account in respect of such dividend shall be ignored for all purposes of these Conditions until and to the extent that that dividend is subsequently paid, whereupon this Condition 5.6 shall no longer have effect to that extent.

6 Repayment and Purchase

6.1 The PPDS constitute permanent non-withdrawable deferred shares in the Society and have no specified maturity. The PPDS will become repayable only as provided in Condition 6.2.

6.2 The PPDS will become repayable on the Dissolution Date, but only if and subject to the condition that all sums due from the Society:

(a) to creditors (including subordinated creditors) of the Society; and

(b) to Shareholding Members (other than holders of deferred shares in that capacity) as regards the principal and interest due in respect of their Shares, have been paid in full.

6.3 The claim of PPDS holders in respect of the PPDS upon a Winding-up or Dissolution, which shall be shared *pro rata* in respect of each PPDS, will be for:

- (a) any dividends on the PPDS held by them which have been declared in accordance with these Conditions but which have not been paid, and, subject thereto
- (b) in respect of each PPDS, an amount equal to:
 - (i) the aggregate Nominal Amount of the PPDS for the time being in issue less the amount, if any, of any negative balance on the PPDS Reserve Account at the Dissolution Date previously unaccounted for in determining the Nominal Amount, divided by
 - (ii) the number of PPDS in issue,

and PPDS holders will not be entitled to any further participation in respect of their PPDS in any final surplus upon a Winding-up or Dissolution.

6.4 The Society or a wholly-owned subsidiary of the Society may, having obtained prior Relevant Supervisory Consent, by agreement with the relevant PPDS holder, purchase any of the PPDS at any price and on such other terms as may be agreed with the relevant PPDS holder, provided that any purchase of PPDS shall be by way of a tender offer open to all the PPDS holders on equal terms and any such purchase by the Society pursuant to this condition 6.4 is not less than 5 years after the date of issue of the PPDS.

6.5 All PPDS purchased by the Society shall be cancelled forthwith and may not be reissued.

6.6 If some, but not all, of the PPDS are purchased by the Society in accordance with this Condition 6, the Participation Percentage shall be reduced with immediate effect from the amount immediately prior to such purchase by the proportion that the number of PPDS so purchased bears to the number of PPDS in issue immediately prior to such purchase.

7 Payments

7.1 All payments by the Society in respect of the PPDS will be made by sterling cheque or warrant drawn on a bank or building society in the United Kingdom and posted on the Business Day immediately preceding the relevant due date to the PPDS holder appearing in the PPDS Register at the close of business on the Record Date at his address shown in the PPDS Register on the Record Date. Every cheque or warrant shall be made payable to the order of the Person or Persons entitled or to such other Person as the Person or Persons entitled may in writing direct and payment of the cheque or warrant shall be a good discharge to the Society. Any joint holder or other Person jointly entitled to receive payment as aforesaid may give receipts for any dividend or other amount payable in respect of the PPDS.

7.2 Upon application of the PPDS holder to the Society, in the form for the time being prescribed by the Society, any payment in respect of any PPDS may be made by transfer on the due date to a sterling account maintained by the payee with a bank or building society in the United Kingdom which has been notified to the Society not less than ten days before the due date for payment.

7.3 Subject to Condition 7.4, all payments in respect of the PPDS shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax ("**Taxes**"), unless the withholding or deduction of the Taxes is required by law.

7.4 In making any payment in respect of any PPDS, in the event that the Society is not satisfied that it has information sufficient to enable it to determine whether it can lawfully make such payment

without deduction or withholding for or on account of Taxes, including information as to the capacity in which a PPDS holder holds the PPDS and the residence or tax status of the persons who are beneficially entitled to the payments on the PPDS (and the capacity in which they hold such beneficial interests), then the Society will be entitled upon giving the relevant PPDS holder reasonable notice in advance of the due date of such payment:

- (a) to request such information as it reasonably requires for such purpose; and
- (b) to make payment to that holder subject to deduction or withholding for or on account of Taxes at the maximum rate that is required by law.

8 Succession and transfers

8.1 If the Society amalgamates with another building society under section 93 of the Act or transfers the whole (or a part containing the PPDS) of the engagements of the Society to another building society under section 94 of the Act (in each case such other building society being the "**Transferee Society**"):

- (a) the PPDS (other than any PPDS held by the Transferee Society, which shall be cancelled at the Transaction Time) shall become profit participating deferred shares in the Transferee Society ("**Successor PPDS**") on the following terms of this Condition 8;
 - (i) immediately prior to the Transaction Time, the aggregate Nominal Amount of the PPDS shall, to the extent not previously so adjusted, be:
 - (i) increased by the capitalisation of the amount (if any) standing to the credit of the PPDS Reserve Account (after taking account of any adjustments required by virtue of Condition 8.8) and the application thereof in paying up a further amount on the PPDS; or
 - (ii) decreased by having the amount of any negative balance on the PPDS Reserve Account (if any, and after taking account of any adjustments required by virtue of Condition 8.8) written off against it,

and any such increase or decrease shall take effect *pro rata* in relation to each PPDS, save that the Nominal Amount of each PPDS will not be reduced to less than one penny;

- (c) accordingly the Successor PPDS held by each PPDS holder as a consequence of such amalgamation or transfer will be in a nominal amount as increased or decreased by the operation of the preceding provisions of this Condition 8.1, and that nominal amount shall be the original nominal amount of those Successor PPDS; and
- (d) the terms and conditions of the Successor PPDS shall:
 - (i) be:
 - (A) such as to secure that, subject to Relevant Supervisory Consent, they will be treated as core equity tier 1 capital or its equivalent (if any) for the purposes of Applicable Regulatory Capital Requirements; and, subject thereto
 - (B) in all material respects identical to the terms of the PPDS, except as provided in this Condition 8.1 and Condition 8.2; and

- (ii) be available for inspection by PPDS holders during usual business hours at the Principal Office and, if different, at the specified office of the Registrar, for a period beginning not less than 20 Business Days before the relevant Transaction Time and ending on a date not earlier than 40 Business Days following the relevant Transaction Time.

8.2 The individual profit participation percentage applicable to each of the profit participating deferred shares in the Transferee Society shall be the New Participation Percentage, as confirmed by a Report issued by an Independent Investment Bank.

8.3 Upon a transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company (a "**Successor Entity**", which expression includes a subsidiary of a mutual society as referred to in the Mutuels Transfers Act), the Successor Entity will, in accordance with section 100(2)(a) of the Act, as from the Transaction Time, assume a liability (subject to this Condition 8) to each qualifying Member of the Society in respect of a deposit made with the Successor Entity corresponding in amount to the value of the qualifying Shares held by such Member in the Society. The liability so assumed by the Successor Entity in respect of each PPDS shall be their Nominal Amount, determined on the basis that:

- (a) immediately prior to the Transaction Time, the aggregate Nominal Amount of the PPDS shall, to the extent not previously so adjusted, be:
 - (i) increased by the capitalisation of the amount (If any) standing to the credit of the PPDS Reserve Account (after taking account of any adjustments required by virtue of Condition 8.8) and the application thereof in paying up a further amount on the PPDS; or
 - (ii) decreased by having the amount of any negative balance on the PPDS Reserve Account (if any, and after taking account of any adjustments required by virtue of Condition 8.8) written off against it,

and any such increase or decrease shall take effect *pro rata* in relation to each PPDS, save that the Nominal Amount of each PPDS will not be reduced to less than one penny; and

- (b) the liability so assumed to each PPDS holder as a consequence of such transfer will be in respect of a perpetual non-transferable subordinated deposit (a "**Deposit**") in an amount equal to the aggregate Nominal Amount of that PPDS holder's PPDS, as increased or decreased by the operation of the preceding provisions of this Condition 8.3.

8.4 Each Deposit will be applied at the Transaction Time (or as soon as reasonably practicable thereafter) on behalf of the relevant PPDS holder in the subscription or acquisition of Successor Securities. In this Condition 8.4 "**Successor Securities**" means:

- (a) ordinary shares in the Successor Entity, ranking *pari passu* in all respects with the then existing ordinary shares of the Successor Entity; or
- (b) other securities issued either directly or indirectly by the Successor Entity whose terms and conditions shall be such that, subject to Relevant Supervisory Consent, they will be treated as core equity tier 1 capital or its equivalent (if any) for the purposes of Applicable Regulatory Capital Requirements and, to the extent possible, not materially less marketable than the PPDS that such Successor Securities replace; or
- (c) securities issued by any body corporate of which the Successor Entity is a subsidiary in circumstances where that body corporate makes or procures the making of a contribution

of capital, of an equivalent value to the Successor Securities, to the Successor Entity which will, subject to Relevant Supervisory Consent, be treated as core equity tier 1 capital or its equivalent (if any) of the Successor Entity for the purposes of Applicable Regulatory Capital Requirements, provided that such Successor Securities shall, to the extent possible, not be materially less marketable than the PPDS that such Successor Securities replace,

in each case as the Board may determine subject to Relevant Supervisory Consent, provided that if the Successor Entity is a body corporate that is incorporated in an OECD member state and has ordinary shares listed on a Recognised Stock Exchange, the Successor Securities shall be ordinary shares in such Successor Entity, and the Successor Entity shall use all reasonable endeavours to secure that such ordinary shares are so listed. In the case of Condition 8.4(b) and (c), the terms and conditions of any Successor Securities shall, no later than the time at which notice is given to members of the Society of resolutions to be proposed to approve such amalgamation or transfer, be available for inspection by PPDS holders during usual business hours at the Society's principal office for the time being and, if different, at the specified office of the Registrar.

- 8.5 The aggregate number or amount of Successor Securities to be subscribed or acquired by the PPDS holders under Condition 8.4 shall be such as, as confirmed in a Report by an Independent Investment Bank, have an aggregate market value immediately following such subscription or acquisition of an amount of as near as practicable to, but not less than, the aggregate Nominal Amount of the PPDS (as increased or decreased by the operation of Condition 8.3) held by the PPDS holders immediately prior to the Transaction Time.
- 8.6 If and to the extent that any Deposit cannot be applied in subscribing for or acquiring Successor Securities under Condition 8.4, any Deposit which cannot be so applied on behalf of any holder will remain outstanding on such terms as are deemed appropriate by the Board and an Independent Investment Bank to give effect to and preserve substantially the economic effect of the terms and conditions of the PPDS, so far as practicable.
- 8.7 Prior to a Transaction Time, the Society shall procure that unaudited interim accounts are prepared using accounting principles and practices consistent with those applied by the Society at the relevant time for the period from the commencement of the then current Financial Year up to the most recent practicable date prior to the Transaction Time (to be no later than 1 month prior to the Transaction Time), and that those interim accounts ("**Interim Accounts**") are reviewed, to then current interim report standard for the Society, by the Auditors and are approved by the Board.
- 8.8 Following the preparation and review of any Interim Accounts:
- (a) the Board shall, when it approves the Interim Accounts, also determine in good faith:
 - (i) the amounts of the Net Profits, Net Losses and Available Dividend Amount in respect of that Financial Year, by reference to:
 - (A) the consolidated income statement in the Interim Accounts in respect of the period for which the Interim Accounts were prepared; and
 - (B) the Board's estimate of the likely Net Profits or Net Losses of the Society for the period between the date to which the Interim Accounts were prepared and the Transaction Time; and

- (ii) whether or not to declare a dividend in respect of the PPDS in respect of that Financial Year;
- (b) where the Board makes determinations under Condition 8.8(a)(i) or 8.8(a)(ii):
 - (i) Conditions 4.3 to 4.5 (inclusive), 4.8 and 4.10 and 16.1 shall apply thereto;
 - (ii) any dividend determined to be payable under Condition 8.8(a)(ii) shall be payable no later than 7 days after the date such dividend is declared; and
 - (iii) Conditions 5.2 to 5.6 (inclusive) shall apply thereto,modified so far as necessary in each case; and
- (c) the Society will make the interim Accounts (including the Board's determinations under Condition 8.8(a)) available for inspection by PPDS holders during usual business hours at the Principal Office and, if different, at the specified office of the Registrar, from the Business Day following their approval until the Transaction Time and at the registered office or principal office (as the case may be) for the time being of the Successor Entity for not less than 90 Business Days following the Transaction Time. Copies of such Interim Accounts (including the Board's determinations under this Condition 8.8) will be available to PPDS holders upon request.

8.9 The Society shall cause any increase or decrease in the Nominal Amount made under this Condition 8 to be notified to the Registrar, and the Registrar to endorse the PPDS Register accordingly in accordance with Condition 3.5, immediately prior to the relevant Transaction Time.

8.10 The Society undertakes to procure that it and any Transferee Society or Successor Entity will comply with this Condition 8 in relation to any Transaction.

9 Acquisitions of Mutual Societies

9.1 This Condition 9 applies to the transfer:

- (a) to the Society of the whole or part of the engagements of another building society under section 94 of the Act or the Banking Act 2009; and
- (b) to a subsidiary of the Society of the business of another mutual society under the Mutuels Transfers Act,

or, in each case, pursuant to any similar legislation or any successor to any such legislation (each a "**Mutual Acquisition**").

9.2 The individual profit participation percentage applicable to each of the PPDS, with effect from the time any Mutual Acquisition takes effect, shall be the Mutual Acquisition Participation Percentage as confirmed in a Report by an Independent Investment Bank.

10 Further issues

10.1 The Society shall be at liberty from time to time without the consent of the PPDS holders to create and issue:

- (a) other profit participating deferred shares; or

(b) other deferred shares,

in each case upon such other special terms of issue as the Society may at the time of issue determine provided that the Society shall not issue any deferred shares (including for the avoidance of doubt profit participating deferred shares or permanent interest bearing shares) ranking ahead of the PPDS in a Winding Up or Dissolution.

10.2 If the Society issues (whether by a direct issue or on conversion of other securities) further profit participating deferred shares or other core equity tier 1 capital with a right to participate in a stated percentage of the profits of the Society (such other profit participating deferred shares or other core equity tier 1 capital being "**Further Capital**"), that Further Capital shall have its own separate participation percentage and, subject as provided in Condition 10.3, the Participation Percentage and the related dividend entitlement of the PPDS shall not be reduced by reason of such issue.

10.3 If:

(a) the Society issues Further Capital (or such Further Capital comes into issue on the conversion of the other securities) pursuant to a re-capitalisation of the Society in order to comply with any Applicable Regulatory Capital Requirements or other requirement of, or to meet individual capital guidance provided by, a Supervisory Authority; and

(b) following any issue of Further Capital (including any Further Capital coming into issue on the conversion of other securities), the terms of the Further Capital are such that the aggregate of the Participation Percentage of the PPDS in issue and the participation percentages of all the Further Capital in issue would amount to more than 100 per cent,

then on each such occasion the Society may, subject to Condition 10.4, but without any further sanction from the PPDS holders, with effect from the date of issue of the relevant PPDS or Further Capital reduce the Participation Percentage of the PPDS and the participation percentages of all the Issued Further Capital immediately following such issue or such date of conversion, as the case may be, by the same proportionate amount until the aggregate thereof is 100 per cent.

10.4 The Society shall not reduce the Participation Percentage under Condition 10.3 unless it also makes corresponding proportionate reductions taking effect at the same time in the participation percentages of all Further Capital.

10.5 Other than as provided in this Condition 10, the PPDS shall not have any rights in respect of any shares or other securities issued by, or borrowings made by, the Society.

11 Unclaimed interest

Rule 48 (*Sales of PIBS of untraceable holder*) shall not apply to the PPDS.

12 Replacement of PPDS Certificates

A PPDS holder who has lost a PPDS Certificate shall immediately give notice in writing of such loss to the Society at its Principal Office and to the Registrar at the specified office. If a PPDS Certificate is damaged or alleged to have been lost, stolen or destroyed, the Society shall procure that a new PPDS Certificate representing the same PPDS shall be issued by the Registrar to the PPDS holder upon request, subject to delivery up of the old PPDS Certificate or (if alleged to have been lost, stolen or destroyed) subject to compliance with such conditions as to evidence and indemnity as the Society and the Registrar may think fit and to payment of

any exceptional expenses of the Society and the Registrar incidental to their investigation of the evidence of such alleged loss, theft or destruction.

13 Variation of these Conditions

13.1 These Conditions may only be varied by the Society with:

- (a) Relevant Supervisory Consent; and
- (b) the consent in writing of the holders of not less than three quarters of the number of PPDS for the time being in issue or with the sanction of a resolution passed at a separate meeting of the PPDS holders held in accordance with Condition 14.

13.2 These Conditions do not limit the rights of Members to change the Rules.

14 Meetings of PPDS holders

14.1 The Society alone may at any time convene a separate meeting of the PPDS holders. Every meeting shall be held at such time and place as the Society may specify.

14.2 At least 21 clear days' notice shall be given of a separate meeting of the PPDS holders. The notice shall specify the hour, date and place of the meeting, and shall be given to the PPDS holders entered in the PPDS Register at the close of business on the 35th day prior to the date specified for the meeting by sending it by post to their respective addresses as shown in the PPDS Register at that time. The notice shall specify generally the nature of the business to be transacted at the meeting and the terms of any resolution to be proposed to vary these Conditions.

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

14.4 Subject to Condition 14.7, at any meeting one or more Persons present in person or by proxy and holding or representing in aggregate not less than one-third of the number of PPDS for the time being in issue shall form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum shall be present.

14.5 Every question submitted to the meeting (other than the choosing of a chairman) shall be taken on a poll and, in order to be passed, must be supported by one or more Persons present and holding PPDS or being proxies and representing (in each case as determined by the PPDS Register as at the latest practicable time) in aggregate not less than three quarters of the number of PPDS voting on that question.

14.6 At any meeting of the PPDS holders, every PPDS holder who is present in person or by proxy shall have one vote on a show of hands and on a poll every PPDS holder who is present in person or by proxy shall have one vote for every PPDS held.

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

- 14.8 The chairman may with the consent of (and shall if directed by a resolution of) the meeting adjourn any meeting from time to time and from place to place but no business shall be transacted at any adjourned meeting other than business left unfinished or not reached at the meeting from which the adjournment took place.
- 14.9 A poll shall be taken in such manner as the chairman directs and the result of the poll shall be deemed to be the resolution of the meeting.
- 14.10 Notice of any adjourned meeting shall be given in the same manner as notice of an initial meeting but as if:
- (a) "10" were substituted for "21"; and
 - (b) "most recent practicable" were substituted for "35th",
- in Condition 14.2.
- 14.11 Any director or officer of the Society and its professional advisers may attend and speak at any meeting of the PPDS holders. Save as provided in the preceding sentence, no Person shall be entitled to attend and speak nor shall any Person be entitled to vote at any such meeting unless he is a PPDS holder or is a proxy thereof.
- 14.12 A PPDS holder entitled to attend a meeting of the PPDS holders:
- (a) may appoint another Person (whether a PPDS holder or not), or two or more Persons in respect of PPDS on whose behalf the PPDS holder is holding the PPDS as his proxy to attend and to vote at such meeting instead of him; and
 - (b) may direct the proxy how to vote at the meeting.
- A proxy shall be appointed by an instrument in writing which shall be in such form and include such declarations as the Board may from time to time determine. The instrument shall enable the PPDS holder appointing the proxy to direct him how to vote and, if the instrument is not in the form specified by the Society or is not duly executed by the appointer in the required manner, the appointment of the proxy shall be invalid. The instrument appointing a proxy or a representative shall be deposited at the Principal Office (or at such other place as the Board may approve) not less than 48 hours before the day appointed for holding the meeting, or adjourned meeting, and in default the instrument shall not be treated as valid.
- 14.13 The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll but a proxy shall have no right to speak at the meeting. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or mental disorder of the appointer or revocation of the proxy or of the authority under which the instrument of proxy was executed, or the transfer of a PPDS in respect of which the proxy is given, provided that no intimation in writing of such death, mental disorder, revocation or transfer shall have been received by the Society at its Principal Office before the commencement of the meeting or adjourned meeting at which the proxy is used.
- 14.14 A corporation which is a PPDS holder may, by resolution of its directors or other governing body, authorise such person or persons as it thinks fit to act as its representative or representatives at any meeting of the PPDS holders. The corporation shall for the purposes of these Conditions be deemed to be present in person at any such meeting if a person so authorised is present at it. All references in these Conditions to attendance and voting in person shall, subject to the Act, be construed accordingly. A director of the Society, the Secretary or some other person

authorised for the purpose by the Secretary may require the representative to produce a certified copy of the resolution so authorising him or such other evidence of his authority reasonably satisfactory to such person before permitting him to exercise his powers.

- 14.15 Any resolution passed at a meeting duly convened and held in accordance with these provisions shall be binding upon all the PPDS holders, whether or not present at the meeting and whether or not voting, and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution. Notice of any resolution duly passed by the PPDS holders shall be given in writing to each PPDS holder by the Society within 14 days of the passing of the resolution, provided that failure to give such notice shall not invalidate the resolution.
- 14.16 Minutes of all resolutions and proceedings at every meeting shall be made and duly entered by the Society in books to be from time to time provided for that purpose by the Society and any minutes purporting to be signed by the chairman of the meeting at which resolutions were passed or proceedings had shall be conclusive evidence of the matters contained in the minutes and until the contrary is proved every meeting in respect of the proceedings of which minutes have been so made and signed shall be deemed to have been duly held and convened and all resolutions passed or proceedings had to have been duly passed or had as provided in the minutes.
- 14.17 The accidental omission to send notice of a meeting or to send any document required to be sent with the notice or otherwise before the meeting to, or the non-receipt of notice of a meeting or any such document as aforesaid by, any Person entitled to receive notices or documents shall not invalidate the proceedings at that meeting.

15 Publication of information

15.1 The Society shall:

- (a) procure that the amounts of the Net Profits or Net Losses, the Nominal Amount, the Available Dividend Amount, the amount of any dividends declared in respect of the PPDS and the amount of any increase or decrease in the PPDS Reserve Account in respect of each Financial Year are set out in the Relevant Accounts for that Financial Year; and
- (b) display on its main corporate web site:
- (i) details of the Nominal Amount for the time being and the aggregate amount of PPDS outstanding;
- (ii) details of the balance (whether positive or negative) on the PPDS Reserve Account for the time being;
- (iii) details of the Participation Percentage for the time being, and the dates and amounts of any adjustments thereto effected in accordance with these Conditions; and
- (iv) for not less than 14 days beforehand, details of each Record Date.

16 Obtaining, and reliance upon, Reports etc

16.1 The Society undertakes to enter into all agreements and take such other steps as are necessary to give effect to the provisions of these Conditions, including, but not limited to:

- (a) instructing the Auditors to prepare and deliver any report required by Condition 4.6; and
- (b) instructing any Independent Investment Bank to give any Report, and instructing the Auditors to review any Interim Accounts, for the purposes of Condition 8.

16.2 All reports, notifications, opinions, advice, determinations, estimates, certificates, calculations, quotations and decisions given, expressed or made by:

- (a) the Auditors for the purposes of Condition 4 or Condition 8.7 (each an **"Auditors' Report"**); or
- (b) an Independent Investment Bank for the purposes of Condition 8 or Condition 9.2 or by the Board under Condition 8.8(a) (each a **"Report"**),

shall (in the absence of wilful default, bad faith or manifest error) be conclusive and binding on the Society, the Registrar and all PPDS holders and (in the absence as aforesaid) no liability shall attach to the Board or the person giving any such report or the exercise or non-exercise of such person's powers, duties and discretions in that regard. None of the Auditors or an Independent Investment Bank shall owe any client duties to the holders of PPDS or securities in the Successor Entity or Transferee Society.

17 Listing

The PPDS will not be listed or capable of being listed on any recognised stock exchange as defined in section 1005 Income Tax Act 2007.

18 Notices

All notices regarding PPDS shall be valid if sent by post to the PPDS holders at their respective addresses in the PPDS Register. Any such notice shall be deemed to have been given on the second Business Day following the mailing of such notice.

19 Definitions

For the purpose of these Conditions:

"1999 PIBS" means the £5,000,000 8% permanent interest bearing shares of the Society including, for the avoidance of doubt, any further such permanent interest bearing shares of the Society issued under the special conditions relating thereto.

"2005 PIBS" means the £10,000,000 6.75% permanent interest bearing shares of the Society including, for the avoidance of doubt, any further such permanent interest bearing shares of the Society issued under the special conditions relating thereto.

"Act" means the Building Societies Act 1986, as amended, from time to time, whether before or after the date on which any PPDS are issued.

"Applicable Regulatory Capital Requirements" means any requirements contained in Capital Regulations for the time being applicable to the Society.

"Auditors" means the auditors of the Society for the time being.

"Auditors' Report" has the meaning given in Condition 16.2.

"Available Dividend Amount" means in respect of any Financial Year an amount equal to the Net Profits for that Financial Year multiplied by the Participation Percentage or such lesser amount as would result in compliance with Condition 4.4.

"Board" means the board of directors of the Society or a duly authorised committee thereof.

"Business Day" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London.

"Capital Regulations" means the rules, regulations or guidance from time to time of the relevant Supervisory Authority or otherwise applicable to the Society that requires authorised persons to meet minimum capital adequacy or liquidity standards and includes, without limitation, any obligations imposed by or under CRR or CRD.

"core equity tier 1 capital" means core tier 1 capital calculated in accordance with Applicable Regulatory Capital Requirements, or any rules made in replacement thereof by a successor Supervisory Authority, in each case as in effect and applied at the relevant time.

"CRD" means the Directive of the European Parliament and of the Council on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and amending Directive 2002/87/EC of the European Parliament and of the Council on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate, together with any regulatory technical standards or guidance published by the European Supervisory Agencies.

"CRR" means the Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, together with any regulatory technical standards or guidance published by the European Supervisory Agencies.

"deferred shares" has the meaning given in the Act (and, for the avoidance of doubt, includes permanent interest bearing shares and profit participating deferred shares).

"Determination Date" means a date on which the Relevant Accounts in respect of the relevant Financial Year are approved by the Board (including any date upon which the Board approves any First Issue Interim Accounts under Condition 4.9 or any Interim Accounts under Condition 8.7).

"Dissolution Date" means the date that an instrument or order is made or an effective resolution is passed for a Winding-up or Dissolution.

"EEA Regulated Market" means a regulated market as defined by Article 4.1(14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

"European Supervisory Agencies" means the European Systemic Risk Board, the European Banking Authority, the European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority.

"Final Period" means the financial period of the Society commencing on the day after the last day of the Financial Year before the Financial Year in which the Dissolution Date falls and ending on the Dissolution Date.

"Financial Year" means any financial year commencing after 31 December 2012, including:

- (a) any shorter period commencing after that date and ending on a Transaction Dissolution; and
- (b) any period commencing on a First Issue Date and referred to in Condition 4.9(c)(i),

but in each case excluding the Final Period.

"FSMA" means the Financial Services and Markets Act 2000 as amended from time to time.

"GENPRU" means the General Prudential Sourcebook of the Supervisory Authority, as amended from time to time.

"Independent Investment Bank" means any independent investment bank or firm of accountants of international standing with experience in making determinations of the type contemplated by the Reports delivered under these Conditions and selected by the Society.

"Interim Accounts" has the meaning given in Condition 8.7.

"Mutual Acquisition Participation Percentage" means, in relation to a Mutual Acquisition, the Participation Percentage multiplied by the amount of the Society's core equity tier 1 capital immediately prior to the effective date of that Mutual Acquisition and divided by the amount of the Society's core equity tier 1 capital immediately after the effective date of that Mutual Acquisition (after taking account of any adjustments to such amount as a result of the Mutual Acquisition and of any bonus distribution made pursuant to the terms of the Mutual Acquisition, but ignoring any fair value adjustments to the Society's core equity tier 1 capital occasioned by such Transaction).

"Mutuals Transfers Act" means the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007, as amended from time to time, whether before or after the date on which any PPDS are issued.

"Net Profits" or **"Net Losses"** with respect to any Financial Year are, subject as provided in Condition 4.9, the consolidated post-tax net profits, or as the case may be, consolidated post-tax net losses of the Society and its subsidiaries during that Financial Year as set out in the audited report and accounts:

- (a) prior to any adjustment in respect of any dividends declared in respect of the PPDS and any associated tax provisions or payments;
- (b) prior to any adjustment in respect of any goodwill, including any release of negative goodwill to the income statement in that Financial Year, and any associated tax provisions or payments in respect of that goodwill;
- (C) after recognising any provision for Purchaser payment of interest on any permanent interest bearing shares for the time being in issue and any associated tax provisions or payments; and
- (d) after deducting any profits or losses attributable to minority interests and any associated tax provisions or payments.

"New Participation Percentage" means, in relation to a Transaction, the Participation Percentage multiplied by the amount of the Society's core equity tier 1 capital immediately prior to the Transaction Time and divided by the amount of the Transferee Society's core equity tier 1 capital immediately after the Transaction Time (after taking into account any adjustments to the amount of the Transferee Society's core equity tier 1 capital as a result of the Transaction,

including any bonus distribution made pursuant to the terms of the Transaction, but ignoring any fair value adjustments to the Transferee Society's core equity tier 1 capital occasioned by the Transaction).

"Nominal Amount" means the nominal amount of a PPDS at the time of its issue, as increased or decreased in accordance with these Conditions.

"Participation Percentage" means, as at the time that any determination of Available Dividend Amount is required to be made in accordance with these Conditions, 30% or such lower percentage as is produced by any reduction effected by Condition 6.6, Condition 8 or Condition 9.

"PPDS Certificate" means a certificate representing a holding of PPDS made out in the form prescribed by the Society, and constituting a "PIBS Certificate" for the purposes of the Rules.

"PPDS holder" means a Person whose name and address is entered in the PPDS Register as the holder of PPDS or, in the case of a joint holding of PPDS, the first person whose name is entered in the PPDS Register in respect of the joint holding of the PPDS.

"PPDS Register" means the records of the Society maintained for the purposes of the PPDS, and constituting a "PIBS Register" for the purposes of the Rules.

"Recognised Stock Exchange" means an EEA Regulated Market or another regulated, regularly operating, recognised stock exchange or securities market in an OECD member state.

"Record Date" means in respect of any Financial Year and any dividend to be declared in respect of a Financial Year:

- (a) the 30th day after the end of the Financial Year; or
- (b) in the case of a dividend declared in accordance with Condition 8, the relevant Determination Date.

"Registrar" means the Society or such other Person as is appointed as registrar for the time being by the Society in respect of the PPDS.

"Relevant Accounts" means, with respect to any Financial Year, the Annual Accounts of the Society for that Financial Year and, where used pursuant to Condition 8, includes any Interim Accounts.

"Relevant Supervisory Consent" means consent to the relevant matter from the Supervisory Authority:

- (a) in the form of a waiver of the Applicable Regulatory Capital Requirements or other requirement; or
- (b) where a waiver is not required, in any other written form.

"Report" has the meaning given to it in Condition 16.2.

"Secretary" means the secretary of the Society or any other person appointed to perform any of the duties of the secretary of the Society including a joint, temporary, assistant or deputy secretary.

"Successor Entity" has the meaning given to it in Condition 8.3.

"Successor PPDS" has the meaning given to it in Condition 8.1,

"Supervisory Authority" means the Prudential Regulation Authority and/or the Financial Conduct Authority appointed under FSMA to carry out the functions of the competent authority under FSMA and any successor body appointed to carry out such functions.

"Taxes" has the meaning given in Condition 7.3.

"Transaction" means an amalgamation under section 93 of the Act or a transfer under section 94 of the Act as described in Condition 8.1 or a transfer under section 97 of the Act as described in Condition 8.3.

"Transaction Dissolution" means a dissolution of the Society under section 93(5), section 94(10), section 97(9) or section 97(10) of the Act.

"Transaction Time" means the time when any Transaction takes effect.

"Transferee Society" has the meaning given in Condition 8.1.

"Winding-up or Dissolution" means a winding-up or dissolution of the Society but excluding a Transaction Dissolution or, for the avoidance of doubt, any administration, receivership or other insolvency action or proceeding which would not result in the liquidation of the Society.

20 Governing law

The rights and obligations in respect of the PPDS 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.