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UK MIFIR PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPs ONLY TARGET MARKET – Solely for the purposes of the Manufacturer's product approval process, the target market assessment in respect of the CCDS which are subject to this information memorandum (the **CCDS**) has led to the conclusion that: (a) the target market for the CCDS 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 (the **EUWA**) (**UK MiFIR**); and (b) all channels for distribution of the CCDS to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the CCDS (a distributor) should take into consideration the manufacturer'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 CCDS (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

GUERNSEY – To the extent to which any promotion of the CCDS is deemed to take place in the Bailiwick of Guernsey, the CCDS are only being promoted in or from within the Bailiwick of Guernsey either (i) by persons licensed to do so under the Protection of Investors (Bailiwick of Guernsey) Law, 2020 (as amended) (the **POI Law**) or (ii) by reverse solicitation. Promotion is not being made in any other way. This information memorandum may not be distributed, or circulated or made available, directly or indirectly, to any persons in or from within the Bailiwick of Guernsey other than: (i) by a person licensed to do so by the Guernsey Financial Services Commission (**GFSC**) under the terms of the POI Law; or (ii) to those persons licensed regulated by the Guernsey Financial Services Commission as licensees under the POI Law, the Banking Supervision (Bailiwick of Guernsey) Law 2020, as amended, the Insurance Business (Bailiwick of Guernsey) Law 2002, as amended, the Insurance Managers and Insurance Intermediaries (Bailiwick of Guernsey) Law 2002, as amended, or the Regulation of Fiduciaries, Administration Businesses and Company Directors etc (Bailiwick of Guernsey) Law 20002020, as amended, or the Lending, Credit and Finance (Bailiwick of Guernsey) Law, 2022 by non-Guernsey bodies who (i) carry on such promotion in a manner in which they are permitted to carry on promotion in or from within, and under the law of, certain designated countries or territories which, in the opinion of the GFSC, afford adequate protection to investors and (ii) meet the criteria specified in section 44(1)(d) of the POI Law.

JERSEY - To the extent to which any promotion of the CCDS is deemed to take place in Jersey, the CCDS are only being promoted in or from within Jersey either (i) by persons authorised to conduct investment business under the Financial Services (Jersey) Law 1998 (as amended) and (a) such offer does not for the purposes of Article 8 of the Control of Borrowing (Jersey) Order 1958, as amended, constitute an offer to the public; or (b) is for the purposes of Article 8 of the Control of Borrowing (Jersey) Order 1958 valid in the United Kingdom by virtue of an identical offer is for the time being circulated in the UK without contravening the Borrowing (Control and Guarantees) Act, 1946 of the United Kingdom or the FSMA and is, mutatis mutandis, circulated in Jersey only to persons similar to those to whom, and in a manner similar to that in which, it is for the time being circulated in the United Kingdom or (ii) by reverse solicitation. Promotion is not being made in any other way.

The information memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Ecology Building Society or Allia C&C Ltd, any person who controls any of them or any board member, director, officer, employee or agent of any of them or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the information memorandum distributed to you in electronic format and the hard copy version available to you on request from Ecology Building Society or Allia C&C Ltd.

INFORMATION MEMORANDUM DATED 17 JULY 2025

ECOLOGY BUILDING SOCIETY

(incorporated in England and Wales under the UK Building Societies Act 1986, as amended, with registration number 733B and regulated by the Prudential Regulation Authority and the Financial Conduct Authority with reference number 162090)

Offer of up to 6,500,000 Core Capital Deferred Shares ("CCDS") of £1 each

LEAD MANAGER

Allia C&C

Your capital is at risk. This investment is not covered by the Financial Services Compensation Scheme. See the section '*Risk Factors*' on pages 52-75.

Application will be made to The International Stock Exchange Authority Limited (the Authority) for the additional CCDS to be listed on the Official List (the Official List) of The International Stock Exchange. The admission of the CCDS to the Official List does not constitute a warranty or representation by the Authority as to the competence of the service providers to or any other party connected with the Society, the adequacy and accuracy of the information contained in this Information Memorandum or the suitability of the CCDS for investment or for any other purpose. No application has been, or is currently intended to be, made for the CCDS to be admitted to listing or trading on any other stock exchange.

IMPORTANT NOTICE TO INVESTORS

Prospective investors should read this document in its entirety. If you are in any doubt about the contents of this document or what action to take, you should consult and seek advice from your investment, legal and tax advisers. An investment in the instruments referred to herein will not be suitable for all recipients of this Information Memorandum.

The information in this Information Memorandum is current only as of the date on its cover and may change after that date. For any time after the cover date of this Information Memorandum, Ecology Building Society (the "**Society**") does not represent that its affairs are the same as described or that the information in this Information Memorandum is correct, nor does the Society imply those things by delivering this Information Memorandum to you.

Capitalised words in this Information Memorandum have a particular meaning which is set out in the section '*Definitions*' on page 79.

This Information Memorandum is to be read in conjunction with the rules of the Society (the "**Rules**") and the Society's audited financial statements for the years ended 31 December 2020, 31 December 2021, 31 December 2022, 31 December 2023 and 31 December 2024 (together, the "**Financial Statements**"), which are deemed to be incorporated herein by reference and are available on the Society's website at **https://www.ecology.co.uk/corporate-information**. This Information Memorandum should be read and construed on the basis that the Rules and the Financial Statements are incorporated in, and form part of, this Information Memorandum.

An investment in the Core Capital Deferred Shares ("CCDS") to be issued by the Society is speculative and may expose you to a significant risk of losing all of the monies you invest. Prospective investors should read this document in its entirety and in particular the section '*Risk factors*' on pages 52-75 for a discussion of certain risks and other factors that should be considered in connection with an investment in the CCDS.

Prospective investors should be aware that an investment in the Society involves a degree of risk and that, if one or more of the risks described in this Information Memorandum were to occur, investors may find that their investment is materially adversely affected. As a provider of core capital to the Society, an investor in CCDS should be prepared to suffer losses on its investment if, in particular, the Society and/or the financial sector generally approaches or enters into a period of financial stress.

In particular, investors should note that the Society has neither an obligation to redeem the CCDS at any time nor any right to redeem the CCDS without prior approval of the Prudential Regulation Authority (the "PRA") (or any successor or other authority having primary supervisory authority with respect to prudential matters in relation to the Society (the "Supervisory Authority")) and the CCDS holders do not have any right to require the Society to do so.

The declaration of any Distribution on the CCDS by the Society in respect of any financial year is wholly discretionary.

Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the CCDS has led to the conclusion that: (i) the target market for the CCDS is 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 EUWA ("**UK MiFIR**"); and (ii) all channels for distribution of the CCDS are appropriate, including investment advice, portfolio management, non-advised sales and pure execution services, subject to the distributor's suitability and appropriateness obligations under COBS, as applicable.

All documentation provided by the Society to a potential investor relating to investment in the CCDS is intended for interested parties on the basis that they are professional clients or eligible counterparties or (as described above) and otherwise persons who (i) fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005, as amended (the "**Order**") or (ii) are high net worth entities falling within Article 49(2) (a) to (d) of the Order, or persons to whom it is otherwise lawful to distribute it without any obligation to issue a prospectus approved by competent regulators (each such person being referred to as a "**Relevant Person**") and are therefore exempt from the general restriction on financial promotions under the Financial Services and Markets Act 2000 ("**FSMA**").

By accepting this Information Memorandum each recipient warrants and represents that he, she or it is a Relevant Person to whom these documents may be lawfully issued. If you are not confident that you fall into any of these categories, you should contact your professional advisers. This Information Memorandum is for the recipient's use only and is not intended for onward distribution other than to the recipient's professional advisers and/or independent financial adviser authorised by the Financial Conduct Authority (the "**FCA**") to provide advice on non-readily realisable securities.

All investors are responsible for seeking their own advice in respect of their investments. Investors who do not wish to pursue an investment in the Society are requested to return this Information Memorandum to the Society or to delete or destroy it at their earliest convenience.

You agree that you will hold the information contained in this Information Memorandum and the transactions contemplated hereby in confidence. You may not distribute this Information Memorandum to any person, other than a person retained to advise you in connection with the purchase of the CCDS and only then with the understanding that the information contained herein is confidential and may not be disclosed to the public or used in any way except in connection with an investment in the CCDS.

The CCDS are deferred shares for the purposes of section 119 of the Building Societies Act 1986, as amended, and are not protected liabilities for the purpose of the Financial Services Compensation Scheme established under the FSMA.

Legal considerations

The services and products referred to in this Information Memorandum are intended for use by residents and tax-payers in the UK, Jersey and Guernsey only.

The CCDS are only intended to be offered to and held by Qualified Investors (as defined in the Equity Listing Rules – Specialist Companies of The International Stock Exchange Authority Limited) who are particularly knowledgeable in investment matters.

This Information Memorandum may not be used for the purposes of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. Persons who come into possession of this Information Memorandum are required to inform themselves about and to observe any such restrictions.

Allia C&C Ltd (the "**Lead Manager**") has agreed with the Society to procure subscribers for the CCDS. The Society will pay the Lead Manager a combined selling and management commission and will also reimburse the Lead Manager in respect of certain of its expenses and indemnify it against certain liabilities, incurred in connection with the issue of the CCDS.

The Lead Manager has represented and agreed that it has not circulated, and will not circulate, in Jersey any offer for subscription, sale or exchange of New CCDS unless such offer is circulated in Jersey by a person or persons authorised to conduct investment business under the Financial Services (Jersey) Law 1998, as amended and:

(a) such offer does not for the purposes of Article 8 of the Control of Borrowing (Jersey) Order 1958, as amended, constitute an offer to the public; or

(b) is for the purposes of Article 8 of the Control of Borrowing (Jersey) Order 1958 valid in the United Kingdom by virtue of an identical offer is for the time being circulated in the UK without contravening the Borrowing (Control and Guarantees) Act, 1946 of the United Kingdom or the FSMA and is, mutatis mutandis, circulated in Jersey only to persons similar to those to whom, and in a manner similar to that in which, it is for the time being circulated in the United Kingdom.

The Lead Manager has represented and agreed that:

(a) the CCDS cannot be promoted, marketed, offered, sold or made available in or from within the Bailiwick of Guernsey other than in compliance with the licensing requirements of the Protection of Investors (Bailiwick of Guernsey) Law 2020, as amended (the "**POI Law**"), and the regulations enacted thereunder, or any exemption therefrom; and

(b) this Information Memorandum may not be distributed, circulated or made available, directly or indirectly, in or from within the Bailiwick of Guernsey other than:

    (i) by a person licensed to do so by the Guernsey Financial Services Commission ("**GFSC**") under the POI Law; or

    (ii) to those persons licensed under the POI Law, the Banking Supervision (Bailiwick of Guernsey) Law 2020, as amended, the Insurance Business (Bailiwick of Guernsey) Law 2002, as amended, the Insurance Managers and Insurance Intermediaries (Bailiwick of Guernsey) Law 2002, as amended, the Regulation of Fiduciaries, Administration Businesses and Company Directors etc (Bailiwick of Guernsey) Law 2020, as amended, or the Lending, Credit and Finance (Bailiwick of Guernsey) Law, 2022 by non-Guernsey bodies who (i) carry on such promotion in a manner in which they are permitted to carry on promotion in or from within, and under the law of, certain designated countries or territories which, in the opinion of the GFSC, afford adequate protection to investors and (ii) meet the criteria specified in section 44(1)(d) of the POI Law.

This Information Memorandum is not available directly or indirectly in or from within the Bailiwick of Guernsey other than in accordance with the above paragraphs (i) and (ii) and must not be relied upon by any person unless made or received in accordance with such paragraphs.

On the basis that this Information Memorandum does not constitute an offer to the public within the meaning of the Prospectus Rules and Guidance, 2021 (the "**Prospectus Rules**") issued by the GFSC, the Prospectus Rules do not apply to this Information Memorandum and, accordingly, this Information Memorandum has not been, nor is required to be, submitted to or approved or authorised by the GFSC for circulation in Guernsey.

The CCDS have not been, and will not be, registered under the United States Securities Act of 1933 as amended (the "**Securities Act**") or the applicable securities laws of any jurisdictions and may not be offered or sold within the United States (within the meaning of Regulation S under the Securities

Act), unless the offer or sale is registered under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Society is not making an offer of these securities in any jurisdiction where the offer is not permitted.

Accuracy of the Information Memorandum

You should not assume that the information provided to you in this Information Memorandum is accurate as of any date other than the date of this Information Memorandum. All statements of opinion and/or belief contained herein, all views expressed and all projections, forecasts or statements relating to expectations as regarding future events or the possible future performance of the Society, represent the Society's own assessment and interpretation of the information available to it as at the date of this Information Memorandum.

Where information has been obtained from third party sources, the Society does not accept responsibility for the completeness or accuracy of that information.

Any decision to invest in the CCDS must be made solely on the basis of the information in this Information Memorandum. No person is or has been authorised by the Society to give any information or to make any representation not contained in, or not consistent with, this Information Memorandum and, if given or made by any such person, such information or representation must not be relied upon as having been authorised by the Society.

Whilst this Information Memorandum has been prepared in good faith, no representation or warranty, express or implied, is given by the Society or any of its respective directors, officers, affiliates, employees, advisers or agents (including the Lead Manager) (and any warranty expressed or implied by statute is hereby excluded to the fullest extent possible) as to the accuracy or completeness of its contents or any opinions or projections expressed.

No responsibility or liability is accepted for any loss or damage howsoever arising that you may suffer as a result of the information provided or any investment decision based (whether in whole or in part) on that information and any and all responsibility and liability is hereby expressly disclaimed by the Society and its respective directors, officers, affiliates, employees, advisers and agents including the Lead Manager).

Status of Information Memorandum

This Information Memorandum should not be considered as a recommendation by the Society or its respective directors, officers, affiliates, employees, advisers or agents (including the Lead Manager) to invest in the Society.

Neither the publication of this Information Memorandum nor any part of it is to be taken as any form of commitment on the part of the Society or any of its affiliates to proceed with the issue of CCDS and the Society reserves the right to terminate any discussions and negotiations with you at any time and without giving any notice or reason therefor.

The information within this Information Memorandum does not constitute or form any part of any offer for subscription nor the basis of any contract in respect thereof. The terms and conditions of the CCDS (the "**Terms and Conditions**") will constitute the contractual relationship between the CCDS holders and the Society.

In no circumstances will the Society or its respective directors, officers, affiliates, employees, advisers or agents (including the Lead Manager) be responsible for any costs or expenses incurred in connection with any appraisal or investigation of this Information Memorandum or the Society or for any other costs or expenses incurred by you in connection with any proposed investment in the Society.

Financial information

The Information Memorandum contains information extracted from the Society's audited financial statements. Certain key performance indicators and other non-financial operating data included in the Information Memorandum are not part of its financial statements or its accounting records. Its use or computation of these measures may not be comparable to the use or computation of similarly titled measures reported by other companies. Any or all of these measures should not be considered in isolation or as a substitute measure of performance under UK GAAP (including FRS102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland*).

No incorporation of website information

The Society's website is www.ecology.co.uk. The information on this website or any website mentioned in this Information Memorandum or any website directly or indirectly linked to these websites has not been verified and, save in respect of any information specifically incorporated by reference in this document which also appears on the Society's website, is not incorporated by reference into this Information Memorandum and investors should not rely on it.

CONTENTS

ABOUT ECOLOGY BUILDING SOCIETY

Background

As a member-owned building society, the Society offers a range of ethical savings and mortgage products in England, Scotland, Wales and Northern Ireland.

Founded in 1981, the Society was born from a desire to provide mortgages on sustainable properties and projects that other lenders would not consider – capitalising on a gap in the market and providing an opportunity for ethical savers to make a difference through their investment.

From its initial 10 members, the Society has grown to a membership of over 15,000 including over 1,400 mortgage customers and assets of nearly £337 million at its last year-end, 31 December 2024 (with mortgage assets of over £250m). The Society's balance sheet has increased by over £110m (or 49%) in 5 years and the Society employs for over 70 colleagues. The Society had a strong Net Interest Margin at December 2024 of 2.45% having managed its margin carefully through changes in the UK bank base rate in recent years.

Incorporation and regulatory

The Society is incorporated in England and Wales under the UK Building Societies Act 1986 (as amended from time to time) and regulated by the PRA and the FCA. It is registered in the FCA Mutuals Public Register with number 733B and in the Financial Services Register with reference number 162090. It has no subsidiaries or associated companies.

The registered address of the Society is 7 Belton Road, Silsden, Keighley, West Yorkshire, BD20 0EE.

Purpose

The Society's Memorandum sets out the Society's principal purpose as "*making loans which are secured on residential property and funded substantially by its Members*". The Memorandum also sets out "other purposes" of the Society including:

- to promote, in carrying on any business or other activity, ecological policies designed to protect or enhance the environment in accordance with the principles of sustainable development;
- to carry on the businesses of banking, investment, insurance and the provision of financial services and facilities;
- to carry on any businesses connected with the provision of housing or other accommodation or the provision of any services relating to housing or other accommodation; and
- the development of building practices, ways of living or uses of land which have a low ecological impact.

The Society also aims to promote ecological policies designed to protect or enhance the environment in accordance with the principles of sustainable development, the growth of a sustainable housing stock and the development of building practices, ways of living or uses of land which have a low ecological impact.

The Society's Ecological Policies are set out in the Society's Environmental Policy Statement that is available on the Society's website at https://www.ecology.co.uk/corporate-information/. The Society requires any borrower applying for a loan to demonstrate that the intended purpose of the loan is consistent with the ecological policies in the Environmental Policy Statement.

Mission & Vision

The Society is a member organisation dedicated to improving the environment and society by enabling sustainable buildings and communities. The lending for these projects through the investment of its Members into a range of ethical savings accounts. The Society's Vision is to support the creation of a fair society in a sustainable world.

This means:

- People and the environment benefit from homes with good ecological performance,
- People and the environment benefit from sustainable communities,
- People and the environment benefit from a fair and sustainable economy.

Financial indicators

The Society discloses a number of key performance indicators in its annual report and accounts, shown in the table below, to highlight the performance and position of the Society on a regular basis.

The following table presents selected historical financial information of the Society for the financial year ended 31 December, which has been extracted from the Society's management information and should be read together with the financial information set out in the section headed '*Financial information*' on page 34 and with the Society's audited financial statements.

	2020	2021	2022	2023	2024
Balance Sheet					
Total Assets (£000)	226,029	256,254	304,040	309,705	336,709
Mortgage Asset Growth (%)	9.4%	22.3%	12.2%	10.7%	3.8%
Mortgage Assets (£000)	158,689	194 ,069	217,716	241,081	250,342
Savings and deposits balances (£000)	210,348	239,470	285,507	289,967	316,381
Savings growth	13.6.%	13.8%	19.2%	1.6%	9.1%
Liquid Assets (% of shares and borrowing)	30.82%	24.96%	29.44%	22.66%	26.28%
Loan to deposit ratio	75.74%	81.26%	76.46%	83.35%	78.99%
Income and Expenditure					
Net interest Receivable (£'000)	4,323	5,171	7,213	8,147	7,908
Net interest Margin	2.04%	2.14%	2.57%	2.66%	2.45%
Management expenses as % of mean total assets	1.57%	1.59%	1.80%	2.20%*	2.34%
Profit before tax (PBT)	£0.65m	£1.28m	£1.96m	£1.34m*	£0.45m*
Underlying PBT	£0.65m	£1.28m	£1.96m	£1.84m	£1.38m
Profit after taxation as % of mean total assets	0.25%	0.42%	0.57%	0.33%	0.10%
Capital					
Core tier 1 capital (£000)	14,997	15,698	17,094	17,657	17,739

Leverage ratio**	6.23%	6.69%	6.68%	6.43%	6.44%
CET 1 as a % of Risk Weighted Assets	18.09%	15.32%	14.71%	14.83%	15.14%

Table 1 - Detailed KPIs

* *The Society has incurred one-off costs as part of its digital transformation activity. This is described in more detail within the section headed "Financial Information" on page 34.*

** *Leverage ratio reported on CRR basis in 2020, UK basis (as set out in the PRA Rulebook and Supervisory Statement SS45/15) in subsequent years.*

STRATEGY

The Society's strategy is to deliver significant modernisation of the business so it can give better service to its Members and achieve its intended sustainability impact (more particularly set out under 'Net Zero Transition Plan' below). This modernisation is three-fold:

Digital Transformation: The Society will update its IT infrastructure to offer enhanced digital functionality thereby making its processes more efficient and simpler for Members and employees. The digital transformation is intended to deliver a number of benefits:

- updating the Society's IT systems is expected to unlock new digital capabilities, such as an iOS and Android app, offering more functionality to Members;
- streamlining processes, creating efficiencies across the Society and future proofing its operations with scalable and adaptable solutions to ensure that the Society can grow its balance sheet effectively in the future;
- providing cloud systems, enabling the Society to take advantage of digital advances whilst not compromising cyber security;
- broadening the Society's appeal to new customers and benefitting existing Members through improved online experiences such as quicker account opening (which the Society hopes to make available in less than 4 minutes); and
- giving mortgage brokers a digital platform to interact with the Society, reducing the barriers to driving a broker-led distribution strategy.

The Society's digital transformation programme is intended to revolutionise the Society's IT systems to unlock new digital capabilities, create efficiencies and provide services that appeal to a broader range of customers. The programme is on-track to deliver to its stated Summer 2025 deadline. Upon completion, the Society will benefit from cutting-edge cloud systems, ensuring the Society remains at the forefront of digital advances, including security systems. It will realise streamlined processes, creating efficiencies, and future proofing its operations with scalable and adaptable solutions. This will include:

- a new telephony system creating operational efficiencies and enhancing customer service. This first stage of the digital transformation project was successfully delivered in the first half of 2025,
- a new Savings Platform and Ecology App to enhance customer experience with a quicker, simpler savings application process and allow easier and more efficient member growth,
- a new Mortgage Platform to deliver improved service for intermediaries, operational efficiencies for direct mortgage cases and quicker decisions and processing for customers

The new digital transformation solutions will be delivered in a newly developed brand for the future of the Society.

Risk Transformation: The Society will continue to develop its risk and governance processes so it can respond pre-emptively to the evolving regulatory environment. The Society's risk transformation programme is designed to support its growth ambitions, ensuring that it can successfully achieve its commercial and environmental aspirations while delivering good outcomes for Members and meeting its regulatory expectations. This includes building the Society's resilience to emerging risks (climate, market and operational). Its existing risk platform, based on a 'three lines of defence' model, gives the Society a firm foundation on which to develop.

Business Model Transformation: The Society intends to modernise its business model to ensure its products are designed to meet its current and future Members' needs while aligning with its principles for sustainability (set out in more detail below, under 'Net Zero Transition Plan'. The Society aims to achieve this through:

- diversifying through a focus on community banking provision and sustainability-oriented services;
- exploring new revenue streams and partnerships;
- ensuring a high standard of performance by staff, while continuing to be a leading employer and purveyor of sustainability business practices (e.g. Living Wage employer; Fair Tax Mark accredited);
- launching new products that have a broader social impact; and
- refreshing its brand to make the Society more appealing and relevant to more customers.

Lending focus

The Society provides purpose-driven mortgage solutions that aim to create positive environmental and societal change. Its core residential mortgage products include:

- Self-Build and Renovation Mortgages: products designed to support eco-friendly construction, refurbishment and retrofit, promoting low-carbon building materials and renewable technologies. Self-build mortgages support energy-efficient new builds while renovation mortgages fund activities bringing derelict properties back to life or improving a home's energy efficiency;
- Off Site Self-Build: for energy-efficient off-site or modular builds with one of the Society's supported suppliers. The Society was, to its knowledge, the first UK lender to offer mortgages for modular housing, teaming up with leading manufacturers. This approach realises a lower carbon footprint by reducing transport emissions, using more sustainable building materials and reducing construction lifecycles and waste;
- Shared Ownership: also known as part ownership mortgages or co-ownership mortgages, these mortgage products support home ownership by allowing borrowers to buy a share of a property rather than owning all of it. These mortgages support affordable housing for property purchases that are energy efficient; and
- Other: the Society also maintains small books in buy to let properties (where it has supported landlords to improve the energy efficiency of their rental property), small woodlands for conservation and moorings for houseboats.

Core Commercial Lending

While the Society's focus is inevitably on increasing the sustainability of housing stock, the Society also lends for a wide variety of purposes including community and commercial mortgages for businesses whose activity is compatible with sustainable economic activity, with some examples being:

- Community-led: for the development of community-driven housing projects,
- Housing Developers: for small-scale housing developers seeking to build or renovate residential properties in a sustainable manner to sell;

- Community Groups/Charities: mortgages for charities, voluntary organisations and community groups that support the environment or deliver benefits to local communities;
- Sustainable Business: for businesses that support the environment or deliver sustainable benefits to the economy and local communities; and
- Part-residential: for part-residential borrowers who run a sustainable enterprise from home.

The Society is a strong supporter of community-initiated housing provision and community ownership and management of housing stock. Community resilience and community building is a key supporting element of a sustainable society, and so the Society extends mortgage finance to housing co-operatives, development trusts, community land trusts, co-housing schemes and small and rural housing associations.

‘Post-pay’ discount

In order to encourage good environmental outcomes, the Society continues to take a different approach to mortgage pricing for customers who are building a new home or transforming an existing property. The initial rate reflects an element of construction risk in the early years, with structured discounted rates being applicable for the remainder of the term whereby the lower the environmental impact, the greater the discount (for more information go to **https://www.ecology.co.uk/mortgages/c-change-discounts)**. In doing so, the Society seeks to reward borrowers for the long-term and to add to the incentives for undertaking this work (for example, by offering lower rates on a mortgage product as a result of improved energy performance). Data from the Office of National Statistics shows that 61% of consumers are interested in green mortgages, which, like Ecology’s C-Change Discount, often offer discounted interest rates for homes with high EPC Certificates.

Mortgage Book Growth

Market research demonstrates the significant opportunities the Society has to grow its membership and profitability through enhanced service, new product developments, diversified distribution, and marketing and communications. If UK PLC achieves the Government ambition of 1.5m homes being built, it’s estimated the Self-Build market will grow by 10%

The Society believes it is well placed to attract the mortgage customers of the future with a third of 18-34 year olds selecting products based on a supplier’s climate credentials and 72% of GenZ consumers saying sustainability is a key factor when researching their financial provider. Furthermore, 37% of consumers believe that companies like the Society can do more to change the world than Governments can (Mintel Research 2024).

Further to enhancing its customer offering through digital transformation, the Society aims to grow its mortgage book through development of its product range, product types, proposition and by broadening the overall offering to our mortgage customers.

New Products & Retention

To support the Society’s plans to increase its balance sheet and profitability, the Society intends to enhance its impact-led product proposition. This is intended to create a balanced portfolio, allowing for continued Self-Build mortgage growth, while operating within regulatory limits.

- The Society’s newly launched ‘Eco Homes’ mortgage moves the Society into new lending territory, providing loans for energy-efficient new builds or remortgages for existing eco-friendly homes (Defined as EPC rated B or above). Around 16% of the UK’s housing stock is

EPC Rated B or above and this is a growing market, with the Ministry of Housing, Communities, and Local Government reporting that 87% of new properties were given an A or B rating in England from Q2 2024.

- In 2025, the Society expects to launch mortgages for discounted market sale homes*. The Society expects to launch – and hopes to become a leading lender of –mortgages for discounted market sale homes. Affordable housing for sale accounts for 27% of all new additional housing in England and the UK Government is investing further to increase availability of these homes. This is a growing niche market providing a positive social impact in supporting people to get on the property ladder, which ties in with our unique Purpose and the Society's Memorandum.

** Discounted market sale homes are properties sold below market value to eligible buyers (often first time buyers or local residents). These schemes are commonly part of affordable homes schemes backed by local councils. The discount remains attached to the home for future sales through restrictive covenants.*

The Society is also in the process of introducing new products, processes and contact strategies to improve retention of its existing mortgage Members. The Society hopes that higher retention of its existing mortgage Members will, alongside the increased diversification of lending across our enhanced portfolio, allow the Society to organically grow its mortgage book at pace.

Enhancing its Customer Experience

30% of the Society's existing Members tell it that it should improve its account opening process, which the Society intends to significantly enhance through the transformation programme. Transformation will also deliver a new App and improved online experience. The Society believes this will support growth by attracting more new members and aid retention of exiting members.

Fixed Rates

According to Financial Conduct Authority (FCA) data compiled from mortgage lenders, over 94% of the £68.8 billion residential mortgages lent in the UK in Q4 2024 were on fixed rates. The Society only currently operates in the minority 15% market, as it has no fixed rate mortgage products available. The Society expects to initially naturally hedge its fixed rate lending before then developing its approach to hedging through off balance sheet interest rate derivatives. It is expected that the introduction of fixed rate products will be enabled by the Society's digital transformation programme (set out in more detail above).

Intermediary Market

In 2024, intermediaries accounted for 87% of gross mortgage lending in the UK. The Society currently receives just 40% of its mortgage business from intermediaries, with 60% of mortgage loans and 100% of savings accounts originating directly from customers, providing significant opportunity for growth with intermediaries. We anticipate that we could double our intermediary mortgage business to move in line with the industry, while maintaining our existing volume of direct mortgage approvals. To capitalise on the opportunity, the Society is intending to:

- pioneer a new intermediary technology system, One Mortgage Solution, designed by intermediaries, for intermediaries, for end-to-end case management, including fast Decisions in Principles and processing. This is being delivered through the Society's current digital transformation programme;
- provide a dedicated intermediary contact through its Business Development Managers; and
- ramp up its intermediary communications to position the Society front of mind for eco-friendly self-builds, home purchase and remortgages, renovations and conversions.

Credit Assessment process

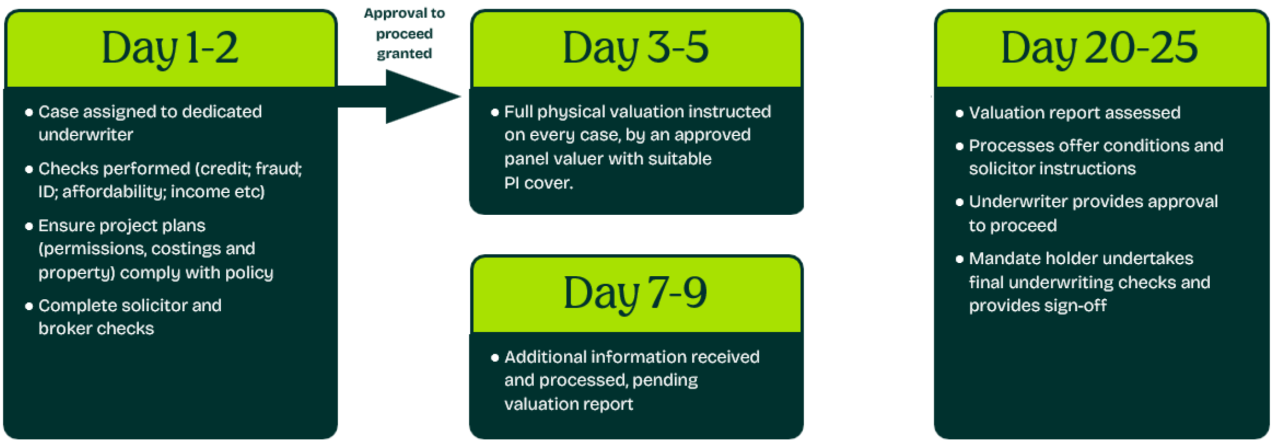
The Society undertakes specialist underwriting, aiming to deliver high-quality credit and member outcomes This means lending is completed responsibly, adhering to strong credit assessment process ensuring that it carefully considers affordability, security and alignment with its aims and purpose in all credit decisions. The Society ensures customers are treated fairly, in line with the principles of Consumer Duty.

For each self-build project specialist underwriters manually assess project plans, permissions and costs to ensure continued cashflow throughout the build as well as considering the build against recognised energy standards to ensure that minimum product and policy requirements will be achieved upon completion. RICS physical property valuations are undertaken for every case, using regional and specialist valuers. All projects are manually assessed, with no automated credit decisions, giving the Society the flexibility to lend to unusual or complicated projects.

The Society has a self-build lifecycle strategy in place to support customers throughout their build journey and in order mitigate risk. This includes:

- funds released in stages during the build of the property, against an updated valuation, ensuring that the loan-to-value ratio never exceeds policy limits. Funds are released "Post-works" rather than in advance, mitigating risk;
- customer contact during the build period to ensure progress on build and evidence of completion and that the product has achieved specified energy performance standards; and
- contact strategy in place to notify customers prior to the removal of unused retention after the 2-year build period, helping members to budget and the Society to remove unnecessary exposure and/or manage risk weighted assets.

The Society's credit assessment timeline and key steps is shown on the diagram below:



The Society operates a clear segregation between sales and underwriting to avoid conflicts of interest. It has a Board level agreed Lending Policy that sets out key lending limits and mandates and has a Credit Committee that meets monthly to ensure robust governance and oversight of lending policy and lending decisions.

Loan size ranges from £7,000 to £750,000 on residential lending and up to £3,000,000 on commercial lending. The maximum loan-to-value for residential projects is 90% (or 95% for shared ownership), and for commercial projects is 75% (or 80% for housing associations). The mortgage term ranges from 5 years to 30 years.

LOAN BOOK

The Society's loan book, as at 31 December 2024, was £250.3m million from 1,473 members. This represents growth over the two preceding years of 15% in value. Key trend information on the Society's loan book and mortgage customers is given below:

	2020	2021	2022	2023	2024
Mortgage Assets (£000)	158,689	194 ,069	217,716	241,081	250,342
Mortgage Asset Growth (%)	9.4%	22.3%	12.2%	10.7%	3.8%
Number of Mortgage members	1,146	1,302	1,323	1,425	1,473
Average size of loan per member (£)	138,472	149,055	164,562	169,180	169,954

The Society's strategic focus in 2024 was on Prime Retail Residential lending, focusing on offering unique, purpose-driven mortgage solutions.

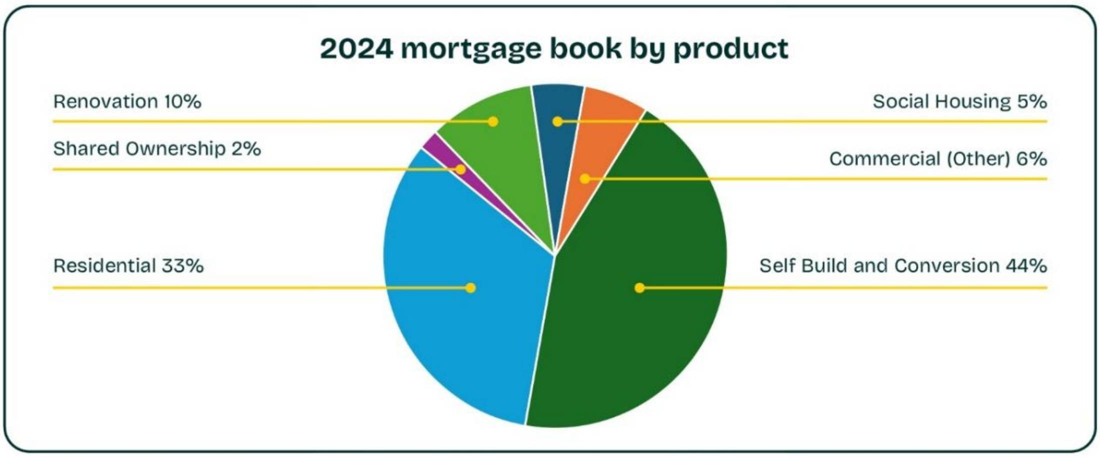
Loan Book Breakdown

The split of the Society's mortgage book at 31 December 2024 was: 88% residential prime income verified; 11% commercial; 1% other residential. These categories are further subdivided in the table below.

Mortgages as at 31 December 2024			
Residential (£000)		**Community/Commercial (£000)**	
Self-build/conversion	£109,333	Social landlord	£13,192
Renovation/retrofit	£24,334	Lending for community gain	£3,593
Other residential	£79,101	Buy to let commercial	£1,726
Shared ownership	£5,521	Non-residential lets	£1,201
Buy to let individual	£1,516	Shops/workshops/offices	£964
Woodlands	£1,040	Hotels/cafes/restaurants	£804
Moorings	£510	Small scale development	£430
Uncategorised	£783	Farms/horticulture	£156
		Uncategorised	£6,791
Total	**£222,138**	**Total**	**£28,857**
Total Mortgage book before provisions and fees			**£250,995**
Provision and Fees			-£653
Total Mortgage book			**£250,342**

Table 1 - Mortgage Values

The data in the table above, showing the Society's loan book split by product types is summarised in the pie chart below:



Interest only lending represents 9.22% of the Society's mortgage book and 84.10% of Retail BTL lending

The Society has a diversified mortgage portfolio with a conservative Loan-to-Value ratio ("**LTV**") which mitigates the Society's risk over security values. The average weighted indexed LTV (indexed against Nationwide HPI by Region) is low at 54% (Retail) and 45% (Commercial) as at December 2024.

The table below shows the Society's LTV for loans originating in that period ("**front book LTV**"), the LTV of loans made in previous financial years ("**back book LTV**") and the average LTV:

	2020	2021	2022	2023	2024
Front Book LTV	56%	57%	60%	61%	57%
Back Book LTV	41%	40%	43%	43%	42%
Overall Average LTV	44%	44%	46%	47%	45%

Table 2 - Mortgage LTVs

The Society's low LTV is maintained through the following factors:

- Lending policy LTV limits are in place to ensure lending remains within the Society's risk appetite. A maximum LTV of 80% is available on the Society's self-build mortgage product to mitigate the perceived higher risk of self-build lending.
- The Society releases funds to support self-build construction projects on an arrears basis (i.e. funds are released to the customer only after each stage of construction is completed and inspected). This reduces the risk and allows the Society to ensure LTV levels are controlled and in line with expectations before additional funds are released.
- LTVs of self-build projects typically reduce quickly over the first 2 years on book, due to increasing property values following completion of the project build.

The Society lends throughout the UK to create a geographically diverse portfolio, avoiding concentration risk. The table below shows the Society's mortgage book by region within the UK as at 31 December 2024:

	Balance as at 31 December 2024 (£000)	Split of balance %
Scotland	57,017	23%

Northern Ireland	45,751	18%
Wales	9,746	4%
England		
South West	28,436	11%
Outer South East	25,371	10%
West Midlands	14,468	6%
Yorkshire and Humberside	13,560	5%
East Midlands	10,772	4%
Greater London	10,407	4%
East Anglia	9,705	4%
North	9,339	4%
North West	9,251	4%
Outer Metropolitan Area	7,172	3%
Total mortgage book excluding provisions and fees	**250,995**	**100%**
Provisions and fees	-£653	
Total mortgage book	**£250,342**	

Table 3 - Geographical Split

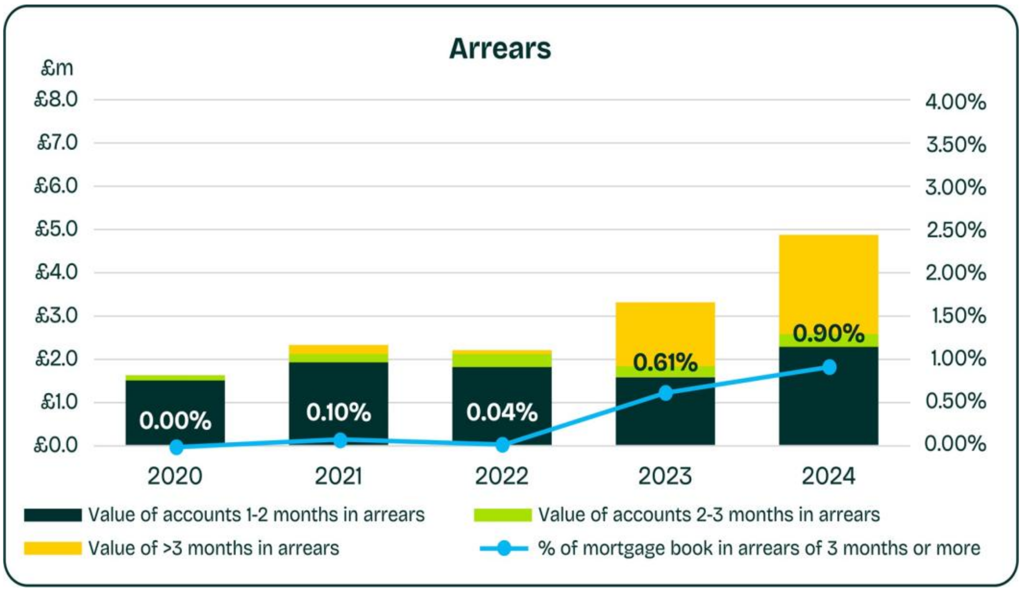
Annual new mortgage lending in Scotland and Northern Ireland is monitored within the Society's risk limits, and is restricted to 60% of the total loan book. The Society accepts a higher than market share in those two parts of the UK to support high impact and purposeful lending. The Society also recognises that lending to members in Scotland and Northern Ireland also reflects supportive planning policy, better availability of land and more affordable land prices.

The Society's Northern Irish stock has continued to grow, with lending supported by stronger than average economic indicators (i.e. GDP, Unemployment and House Price Index). Notwithstanding this, the Society recognises the risks of regional concentrations and historic shocks and continues to closely monitor its performance and exposure. As at 31 December 2024, the percentage of retail & commercial mortgages more than 3 months in arrears taken from UK Finance data (including possessions, by value) in Northern Ireland (0%) was lower than the overall UK average (0.9%), with Scotland above the UK average (1.1%).

Impairments, Arrears and Forbearance

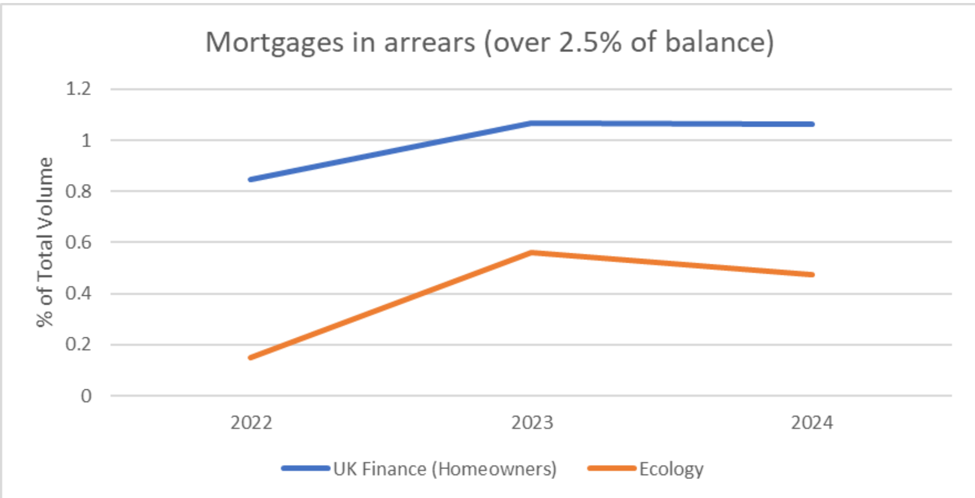
In certain circumstances the Society exercises a number of forbearance measures to support borrowers who are experiencing financial difficulty. While the Society will work sympathetically with a borrower in each individual case, it recognises the need to balance this with its broader responsibility to all of its Members.

The Society continues to have low numbers of properties where arrears or forbearance are needed. As at 31 December 2024, there were no properties in possession (2023: nil) and no properties were taken into possession during the year (2023: nil). The Society had nine properties with arrears of three months or more (2023: 7) with a total balance of £2.26m (2023: £1.46m) and there were 18 properties (2023: 27) under forbearance with total balances of £3.41m (2023: £5.76m) and arrears totalling £16.3k (2023: £7.0k).



The Society has not incurred a loss as a result of a borrower being in financial difficulty since 2019. The Society has never had to make a repossession of a property entire trading history.

Data from UK Finance also shows that the Society's arrears levels (over 2.5% of the mortgage balance) are consistently below industry average levels.



The Society updated its provisioning model and the assumptions in 2024 to ensure it remains in line with industry best practice and relevant to the credit risk within its mortgage book. The Society continually assesses whether there is any evidence that individual mortgage assets are impaired and would therefore require a provision set against them.

	2020	2021	2022	2023	2024
Loans more than 3 months in arrears (£'000)	0	195	84	1,463	2,259
Loans under forbearance (£'000)	5,988	2,504	2,983	5,754	3,415
Provisions against possible losses (£'000)	629	527	569	596	378

Table X- Arrears and Forbearance data

Arrears Movement

In 2023, the increase in arrears over three months was primarily due to a very low number of borrowers (3) facing financial difficulties. These borrowers remained in arrears in 2024, contributing to the further increase in arrears in 2024. Litigation is viewed as a last resort, and throughout 2024, the Society continued to work closely with these borrowers to find a resolution. In 2025, actions were initiated to bring these cases to a resolution.

Forbearance Movement

The Covid-19 pandemic in 2020 led to extraordinary circumstances, with the UK Government implementing mortgage payment deferrals. This resulted in a significant increase in requests for payment arrangements during 2020, many of which were successfully resolved in 2021. An increase in cases was also experienced in 2023 when the Society signed up to the Mortgage Charter, a scheme introduced by the UK Government in collaboration with major mortgage lenders. The Charter was designed to support homeowners struggling with rising mortgage payments due to higher interest rates following increases in the Bank of England base rate. Similar to the pattern experienced in 2020, a significant number of borrowers who opted for forbearance following introduction of the Charter have since returned to making full payments leading to the Society's forbearances cases reducing again in 2024.

Provision Movement

On an annual basis, the Society reviews key assumptions used within its provisioning calculations and modelling . The Society considers evidence of impairment for loans and advances at both a specific asset and a collective level. All individually significant loans and advances are assessed for specific impairment. A range of factors will be considered to determine whether a specific provision is required to be held against a loan including if the loan is in arrears or possession. Further qualitative factors may also be taken into account. Those loans found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

The Society adopts a conservative approach, carefully considering specific cases within its residential and commercial mortgage books where provisioning may be required.

In 2024, the Society saw a reduction in the provisions it holds for potential loan losses, to a balance of £378k (2023: £596k). The movement was primarily driven by the Society's revision of its assumptions regarding the valuation of the security against which loans are secured. Concerns around house prices at the prior year end did not emerge with a generally positive movement seen through 2024. The Society therefore updated its assumptions in this area to recognise that, in the Society's view, the risk around UK house prices had reduced over the previous 12 months.

SAVINGS BOOK

Following the traditional building society model, the Society's impact-led lending to its borrowers is funded by the deposits it attracts from its savers.

The Society believes that it being an ethical provider is a key reason customers choose to invest in the Society, with that belief supported by its monthly member satisfaction survey.

In 2024, the Society launched its transparency tool, to show savers where their money is invested, and the type of projects which they help fund. This transparency tool, along with our other sustainability principles (set out in more detail below), has contributed to:

- a score of 100 from Ethical Consumer, their highest rating possible;
- a Good Egg rating from Good With Money, another leading ethical provider; and
- a rating of 4.89 out of 5 on Smart Money People, a leading Financial Services review site.

Key Savings Data and Statistics:

	2020	2021	2022	2023	2024
Savings and deposits balances (£000)	210,348	239,470	285,507	289,967	316,381
Savings balances Growth (%)	13.6%	13.8%	19.2%	1.6%	9.1%
Number of Shares and Deposits members	10,174	11,559	15,055	13,806	13,946
Average Shares and Deposits account balance per member (£)	20,675	20,717	18,964	21,003	22,686

In 2022, the Society saw a rapid influx of savings Members onboarded after substantial media coverage highlighted the Society's ethical stance and attractive rates. In a short period of time the Society onboarded £30million of new savings balances, which accounts for the increase in Member volumes in 2022 seen in the *table above* . As the Society reduced its interest rates (as a result of a reduction in the Bank of England base rate), it saw some of those Members onboarded during this period withdraw and close those accounts. The manual nature of the onboarding tasks during this period was a significant stimulus to the Society's desire to deliver a comprehensive digital transformation programme, which will allow it to scale in a more efficient manner.

Key Facts

- Over 46% of the Society's savings members have held their account(s) for five years or more; which we believe shows a strong and loyal customer base,
- The Society has shown a long term trend of successfully growing both its savings book overall balance and the number of savings members it supports with its savings book having increased in balance by over £100m (over 50%) since 2020;
- The majority of Savings accounts held with the Society in 2024 were opened online, with only c.20% through other channels.

The Society's savings accounts are designed to offer a fair return and be simple and straightforward to understand. Its product range, shown in the table below, offers different types of products to meet savers' needs and goals.

	2024 (£000)	2024 %
Cash ISA	£117,482	37%
Easy Access	£80,144	25%
Notice Accounts	£96,836	31%
Deposit Accounts	£9,296	3%
Regular Savers	£12,623	4%
Total	£316,381	100%

Table 4 - Savings Balances

The Society is, as it moves through its digital transformation project, looking to build out its saving product offering with a focus on launching products that deliver additional positive impact. For example, directing interest to social or environmental outcomes linked to the Society's mission.

SUSTAINABILITY AND IMPACT

Tackling the climate and ecological emergency

When the Society was created in 1981, the founders were motivated by concerns over environmental degradation and consumerism. Forty-four years on, the Society considers climate change, ecological collapse, deepening social inequalities, political division and armed conflict overseas to be the defining issues of this period. In 2021, its Members, colleagues, Board and key partners co-developed the 'Our 2030 Strategy' (available at:) in which the Society sets out its vision for the future and how it will address the climate and ecological emergency in this pivotal decade.

Climate change ambition

In its Our 2030 Strategy, the Society outlined how addressing the climate emergency is central to its mission and strategy. In particular, it aims to achieve net zero in its business operations and its lending by 2050. It intends to do this through the provision of impact-led products and services, the sharing of knowledge, and agitation for wider system change. In all its activities, the Society seeks to minimise the impact of physical and transition climate risks on the Society, its Members and wider society.

Partnerships

The Society is part of a number of wider international movements seeking ways to build a sustainable society. This is expressed through the Society's membership of the Global Alliance for Banking on Values ("**GABV**"), an independent network of banks and regulated financial institutions using finance to deliver sustainable economic, social and environmental development. As a values-based financial institution and a member of GABV, the Society holds to the Principles of Values-based Banking published by GABV.

In 2019 the Society was a founder signatory of the United Nations ("**UN**") Principles of Responsible Banking ("**PRB**"). The UN's Sustainable Development Goals ("**SDGs**") are a universal call to action to end poverty, protect the planet and improve the lives and prospects of everyone, everywhere. The UN PRB are a global framework that guides financial institutions to align their business strategies and operations with the UN SDGs the Paris Climate Agreement. The Society has identified the SDGs most relevant to its work and is committed to aligning its commercial activities to these goals, reporting on that basis and engaging in coalition-building activity to further realise these goals.

These are set out below and each loan made by the Society contributes and will contribute to at least one of these.

UN Sustainable Development Goals relevant to the Society	
SDG 7	**Affordable and Clean Energy**
	Ensure access to affordable, reliable sustainable and modern energy for all
SDG 11	**Sustainable Cities and Communities**
	Make cities and human settlements inclusive, safe, resilient and sustainable

SDG 13	**Climate Action**
	Take urgent action to combat climate change and its impacts

Table 5 - Applicable SDGs to the Society

The Society is proud to have also been accredited with:

In 2024, geospatial data providers Kamma Climate ranked the Society second among 85 UK lenders of all sizes for its publicly available climate plans and actions in their report "The State of the Climate Transition for UK Mortgage Lenders in 2024".

Investors in the Environment: The Society has held Investors in the Environment's highest 'green' accreditation for sustainability action since 2017.

FairTax Mark: in 2016 the Society was the first building society in the UK to be awarded the Fair Tax Mark, the world's first independent accreditation scheme to address the issue of responsible tax. The scheme demonstrates the Society's commitment to be open and transparent about its tax affairs and pay the right amount of corporate tax at the right time and in the right place.

United Nations Environment Programme Financial Initiative (UNEF FI): Founding signatories to the UNEP FI Principles for Responsible Banking and Net Zero Banking Alliance; members of the Global Alliance for Banking on Values since 2013.

Net Zero Transition Plan

The Society published its formal Net Zero Transition Plan in 2025 (available at https://www.ecology.co.uk/wp-content/uploads/2025/03/EBS-Net-Zero-Transition-Plan.pdf).

The plan commits the Society to achieving net zero in its business operations and lending by 2050.

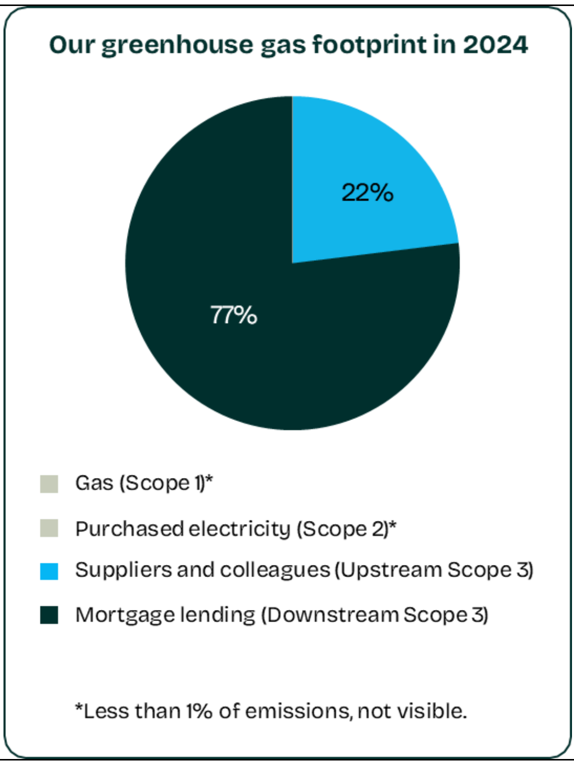
What the Society has done	What the Society is doing	What the Society intends to do
From first declaring a climate and ecological emergency in 2019, the Society has provided an annual update on its climate plans, established its climate risk appetite and set net zero carbon targets, and has been recognised externally for its transparency. To Society was (and remains) an active contributor to developing a measure for emissions from residential mortgages and the first building society to publish our financed emissions using the PCAF Global Standard.	The Society is implementing its 2030 Strategy, focusing first on opportunities where it can have the most impact with its resources today, and looking ahead to emerging opportunities. The Society is mapping how it can embed the transition planning cycle throughout it's governance. The Society is continuing to publicly report its progress on the Principles for Responsible Banking, and to the Net Zero Banking Alliance and GABV annually.	The Society intends to continue to review and evolve credit risk appetites in the light of ongoing assessment of climate risks. It intends to move to a more quantitative approach to its climate risk appetite, from the current qualitative measures. The Society intends to review its targets at the point that it achieves them, with any significant updates to UK climate or reporting legislation relevant to it, or updated science published by the IPCC. At a minimum, the Society intends to review its targets every five years, in line with its commitment to the Net Zero Banking Alliance.

		The Society intends to update on progress against its Net Zero Transition Plan each year in its annual report & accounts, any material changes to the business will prompt a review of the Plan to encompass the changes.

Table 6 - NZTP

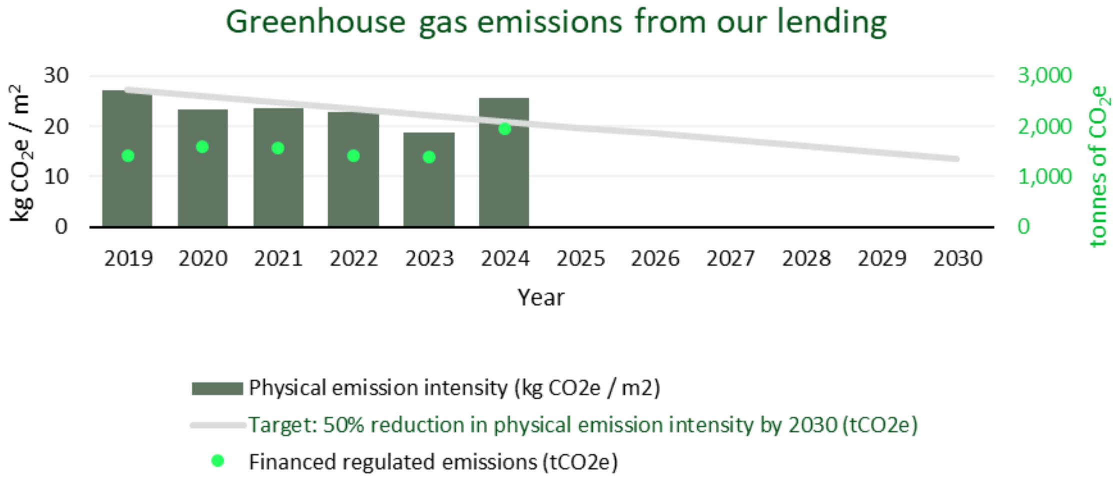
Leading the Way with our Net Zero Plan as an SME exemplar

The Society also intends to achieve zero greenhouse gas emissions in the running of its head office by the end of 2025, and halve emissions from its suppliers and colleagues against a 2019 baseline by 2030.

<table>
<tr><td>The Society's climate targets are:</td><td></td></tr>
<tr><td>To achieve zero greenhouse gas emissions in the running of our head office by 2025.
To halve emissions from our suppliers and colleagues by 2030.
To achieve net zero greenhouse gas emissions in our lending by 2050 or sooner (by physical intensity in tCO2e/m2 against a 2019 baseline, with an interim target to halve emissions by 2030).</td><td>
</td></tr>
</table>

Leaning into the challenges of Scope 1, 2 and 3

Since 2019 the Society has reduced emissions from gas by 59% and business travel by 52%. Electricity is 100% renewable, a mixture of on-site generated and purchased. Our headcount growth and extraordinary investment in our business transformation have increased emissions from suppliers and commuting. In 2024 we changed our methodology to help us identify and prioritise suppliers for engagement on emissions and we have a sustainable travel plan in place to help reduce colleague commuting emissions.



In 2024 the Society increased the proportion of its lending on renovations and conversion of low-EPC properties to improve their energy efficiency. These ongoing projects have higher emissions than completed renovations and new buildings with higher energy efficiency standards and has had a short-term impact on our performance against our net zero target. However, with 80% of the buildings we'll be using in 2050 already in existence, financing this change is critical for the transition to a low-carbon economy. In future, we aim to measure and publish the total emissions reductions achieved by the Society-mortgaged renovations each year.

Lending impact / Products

The Society requires any borrower applying for a loan to demonstrate that the purpose of the loan is consistent with its policies, as per its Memorandum. The Society aims to have a positive sustainable impact in its residential and commercial lending.

Sustainable homes – Modern Methods of Construction (MMC)

In January 2023, the Society partnered with leading modular manufacturers to launch its new and unique range of mortgages to support the growth of off-site, manufactured homes.

During 2024 it extended these partnerships to cover nine manufacturers. This innovative approach enables lending to be secured on the modular panels before they arrive on site, ensuring that finance is available for the more than 50% of self-builders who use off-site construction. The Society is, to its knowledge, the first UK lender to bring together modular construction manufacturers with a dedicated mortgage solution (including an advanced payment option), making it easier to access mortgage finance for this type of self-build.

ECO Homes

In April 2024, the Society launched its Eco Home mortgage created especially for first-time buyers, families and retirees purchasing or re-mortgaging an energy-efficient home. The product rewards homebuyers for choosing high EPC-rated homes through its unique full-term mortgage discount, providing financial support for non-standard and innovative construction techniques (for example, timber frame), which many high street lenders may not accept. The product is also available to reward existing Members, to enable balance sheet growth and improve capital strength.

Enabling people-powered housing

The Society's commercial mortgages support homes which offer benefits to the occupiers, including affordable rent, shared ownership options, or are sold at a discount compared to open market prices. This is taken into account when assessing the proposition in relation to Society's lending policy in relation to these homes. Once completed, these homes deliver affordable energy-efficient homes for local people.

Often these projects are in fragile, rural communities and help sustain other services, such as schools and shops. Others are in more urban settings impacted by high property prices, second home ownership, private landlords and holiday lets, which further restrict the ability of local people, including key workers, to afford their own home. As well as supporting community groups, the Society remains committed to not lending to second homeowners or to holiday lets in areas of high tourism.

The Society continues to support community-led housing projects across the UK in partnerships with Community Land Trusts, Development Trusts and housing co-operatives. In 2024 it supported the provision or improvement of over 50 homes, as well as lending for community projects. This included supporting:

- the retrofit of 39 homes to bring them up to a more environmentally-friendly standard and to reduce tenants' energy costs;
- the building of new permanently affordable homes;
- the purchase of newly-completed affordable homes into Community Land Trust ownership; and
- the conversion of commercial property space into quality affordable living space for tenants.

Case studies for a wide range of projects that the Society has supported are available on its website at https://www.ecology.co.uk/projects.

GOVERNANCE

The Board of Directors is responsible for the governance of the Society on behalf of its Members and is committed to best practice in corporate governance. The Society's approach to corporate governance is underpinned by the principles of the UK Corporate Governance Code, January 2024 (the Code) published by the Financial Reporting Council. Although the Code does not directly apply to the Society, the Board pay due regard to the principles of the Code.

The Society ensures that members of the Board and its committees have the appropriate balance of skills, experience, independence and knowledge of the Society to enable them to discharge their respective duties and responsibilities effectively. All Directors must meet the test of fitness and propriety, as laid down by the Relevant Regulators, to fulfil their roles.

The Board of Directors

The Directors of the Society are:

Louise Pryor Appointed: February 2020 Non-Executive Director and Chair	Louise is an actuary and risk specialist with 30 years of experience in actuarial consulting, software development and academia, having worked with a variety of clients in the public and private sectors. Her recent experience is in climate risk and sustainability, with a focus on the role of the financial services sector. Louise is a past President of the Institute and Faculty of Actuaries and an Honorary Professor in the Bartlett School of Sustainable Construction.
Gareth Griffiths Appointed: June 2022 Chief Executive	Gareth joined the Society in June 2022 and was elected to the Board in April 2023. He was previously Head of Retail Banking at Triodos Bank and also held leadership roles at RAC and HSBC. Gareth is a Chartered Banker and has a passion to try and achieve change.
Giovanni D'Alessio Appoint ed: September 2022 Non-Executive Director	Giovanni is an IT professional with over 25 years' industry experience and spent his early career as a management consultant for PwC and IBM – initially in the USA, before relocating to the UK. He has worked in a variety of industries, including retail, manufacturing, telecoms and energy, leading large-scale implementations, and transformations. In his previous role, Giovanni was CEO & CIO of Doosan Digital Innovation Europe for ten years, a company delivering IT services including Application Development and Management, Infrastructure and Cloud, Digital Transformation and Cybersecurity.
Andrew Mulligan – Appointed: April 2024 Non-Executive Director	Andy is an experienced board member with more than 30 years in finance and business. He brings relevant experience to the Society including being Chief Finance Officer at Hampden & Co, a growing small independent bank, safely driving it from inception to profitability. A Fellow of the Institute of Chartered Accountants England & Wales, Andy also supports a number of community groups in his local area.
Jaedon Green – Appointed: March 2023 Non-Executive, Deputy Chair (from 1 January 2025)	Supporting the national housing agenda, Jaedon brings extensive experience in consumer regulated industries, housing and financial services. Prior to becoming a Director of the Society, Jaedon was Chief Customer Officer at Leeds Building Society and routinely consulted by the Government and the Bank of England as an independent subject matter expert. Jaedon is also a non-executive director at Community Housing Group Ltd and at Castles & Coasts Housing Association Ltd, as well as an Independent Member of the Audit &

	Risk Committee at Yorkshire Housing Ltd. He served as a non-executive director at Leeds Federated Housing Association until September 2024.
Christopher White Appointed: September 2023 Chief Financial Officer	Christopher was co-opted to the Society's Board in September 2023 as Chief Financial Officer and elected as a Director in April 2024. Christopher is also a non-executive director at Believe Housing Limited, a housing association providing affordable homes across the North East. After 2 years at Ecology, transforming Ecology's Financial Planning, leading the Society's complex Transformation programme Christopher has decided to leave the Society and will be leaving the Society w.e.f 7th August.
Nigel Turner Appointed: w.e.f August 2025 Finance Director	Nigel has been appointed by the Board as Finance Director, and he takes over from Christopher w.e.f 11th August. Nigel is a Chartered Accountant, who is currently the Head of Finance at Chorley Building Society, having previously undertaken roles in Financial Control, Financial Planning and Analysis, Decision Support and Head of Capital Planning. Nigel has very strong ties to the mutual sector, having worked at Leeds Building Society, followed by a stint at a start-up Bank, where Nigel gained strong experience around capital raising and investor relations. Nigel is a Trustee at Citizens Advice Leeds, Vice-Chair of Governors at a local primary school, and is passionate about helping others with financial education.
Kellie-Ann Hargraves – Appointed: April 2024 Non-Executive Director	Kellie has over 24 years' experience in global regulations and risk management within the financial services industry. She served as a non-executive director on Quoted Company Alliance (UK) during 2024 and is the founder of a consultancy that advises start-ups, SMEs and listed companies on financial, risk and sustainability standards. She helps businesses build efficient operating models, secure funding, obtain licences and navigate change, with a focus on purpose-led and social impact businesses. Outside work, Kellie volunteers with a charity which provides coaching, mentoring and advice to disadvantaged 12 to 14 year olds, helping them to progress through education so they can understand and work towards their career aspirations.
Sameera Khaliq Appointed: February 2025 Non-Executive Director	Sameera is a qualified accountant and has worked in the mutual sector for almost 20 years, latterly as Director of Financial Strategy and Business Partnering with Skipton Building Society. Sameera's expertise spans across several financial and strategic disciplines, including financial planning, stress testing, business partnering, strategic costs, procurement and commercial strategy, within a complex regulated environment. Beyond the Society, Sameera served as a Non-Executive Director of Leeds Credit Union until November 2024 and chairs Beckfoot Allerton School Trust, in her local West Yorkshire community. Recently, Sameera was appointed to the Board of DF Capital Bank as Chief Financial Officer, subject to regulatory approval.

Each year, Directors are subject to a formal appraisal at which their contribution to the Board's performance is assessed. This assessment includes training, development and attendance. The Chair carries out the Chief Executive's appraisal and the Chair is appraised by the Senior Independent Director (currently, Andy Mulligan). Appraisals of all other non-executive Directors are undertaken by the Chair.

Organisational Structure

The Society recognises that an effective Board is fundamental to its long-term success. The Board works with the Core Management Committee (made up of the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, the Chief Member Officer, the Head of Operations and the Head of People and Culture) to set the Society's strategic and policy direction, acting in the best interests of Members, both financially and ethically.

The Board directs the business of the Society, paying particular attention to strategy, risk, ethics and environmental impact. The Board reviews business performance and ensures that the necessary systems, procedures, controls and resources are in place for the management of risk, to safeguard Members' interests.

Specific matters are reserved for Board decision-making, supported by specialist Board sub-committees with delegated powers. The structure of the Board sub-committees and management committees is shown in the diagram below:

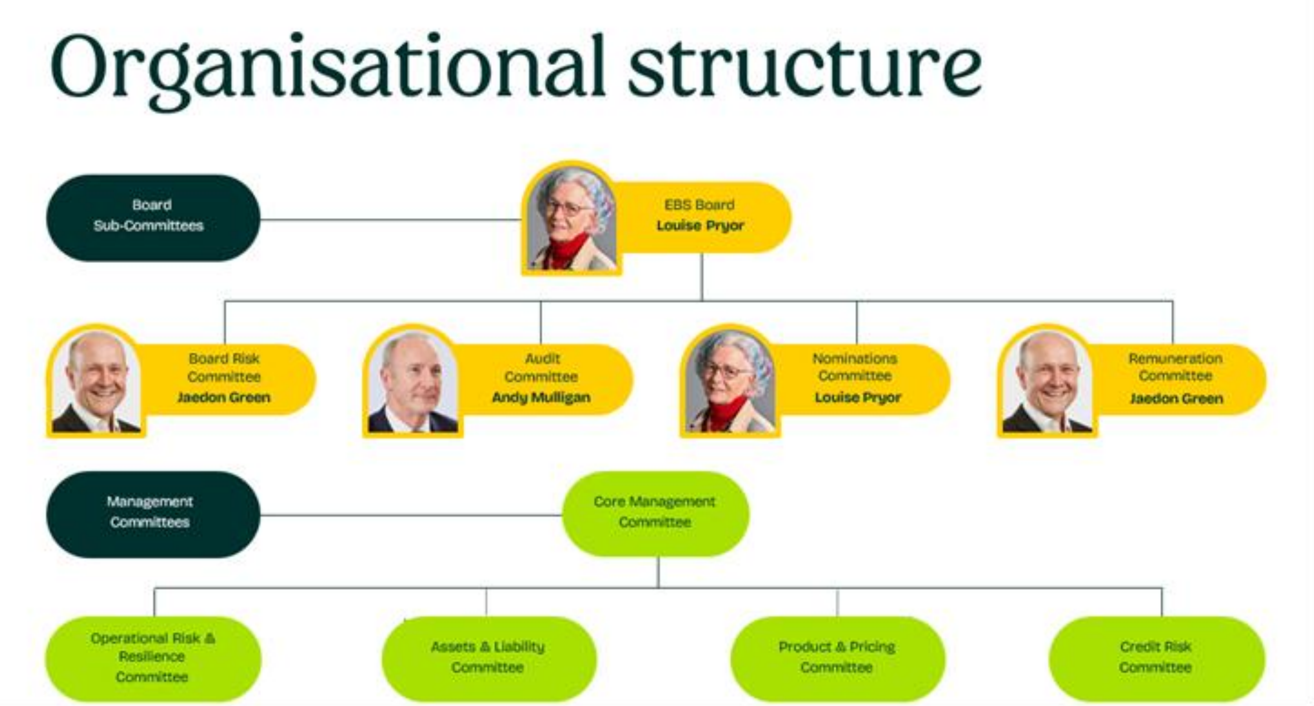


Figure 1 - Board Schematic

Committees

The Board delegates some of its powers to the following committees:

Committee	Terms of Reference
Board Risk Committee	In addition to protecting the independence of the risk function, this Committee provides oversight of risk management across the Society. The Committee focuses on current and emerging risks to the Society's business model (macroeconomic, commercial, conduct and regulatory), while supporting

	continued development of risk management capability, aligned to the Society's needs and aspirations.
Audit Committee	This Committee considers the Society's external financial reporting and oversees external audit of that reporting. Its remit also includes oversight of second and third lines of defence and it receives independent assurance over the Society's internal controls from risk-based compliance monitoring and internal audit activity. Further detail on the purpose, membership and activities of the Committee in 2024 are set out in the 'Annual Report of the Audit and Compliance Committee' section of the annual report and accounts.
People, Remuneration and Culture Committee	Aligned to the Society's values, this Committee provides oversight of people-related issues, including equality, diversity and inclusion. The Committee focuses on culture, remuneration of the leadership team and human risks that naturally emerge in any people-based business.
Nominations Committee	This Committee leads the process for appointments, ensures plans are in place for orderly succession both to Board and senior management positions, and oversees the development of a diverse pipeline for succession.

In 2025, the Society completed a review of its governance arrangements and structures. As part of this review, the Board agreed to move away from having a separate Environmental and Society Impact Committee ("**ESIC**"). The Board agreed that given the importance of the ESIC agenda, it was appropriate for these matters to be considered by the entirety of the Board. This shows the Board's focus on the mission of the Society, and therefore reflects best practice as outlined in the latest version of the Corporate Governance Code. The Society also determined that governance oversight should be overseen directly by the Board, as opposed to by a sub-committee.

FINANCIAL INFORMATION

Financial performance summary

The Society's audited financial statements for the years ended 31 December 2020, 31 December 2021, 31 December 2022, 31 December 2023 and 31 December 2024 (together, the "**Financial Statements**"), are incorporated by reference in this Information Memorandum and can be viewed on the Society's website at **https://www.ecology.co.uk/corporate-information**. A summary of the Society's historical income and expenditure account and balance sheet for each of these years, which has been extracted without material adjustment from the Financial Statements, is set out below.

	2020 £'000	2021 £'000	2022 £'000	2023 £'000	2024 £'000
Mortgage interest	6,235	6,961	9,687	13,570	15,565
Liquidity interest	141	73	806	3,632	3,186
Interest payable & similar charges	(2,053)	(1,863)	(3,280)	(9,055)	(10,843)
Net Interest Income	**4,323**	**5,171**	**7,213**	**8,147**	**7,908**
Income from investments	56	34	33	61	50
Other Income and fees receivable	15	20	43	46	57
Fees and Commission payable	(139)	(145)	(116)	(101)	(104)
Net gain on other financial instruments at fair value through profit and loss	(6)	10	18	(3)	-
Total operating income	**4,249**	**5,090**	**7,191**	**8,150**	**7,911**
Administrative expenses	(3,229)	(3,746)	(4,970)	(6,625)	(7,395)
Depreciation and amortisation	(91)	(89)	(80)	(135)	(163)
Impairment on investment*	(180)	(75)	(12)	(25)	(126)
Adjustment to provisions	(98)	102	(42)	(27)	218
Provisions for liabilities	(3)	(1)	5	-	-
Provision for impairment of intangible assets		-	(134)	-	-
Profit before tax	**648**	**1,281**	**1,958**	**1,338**	**445**
Tax expense	(124)	(262)	(373)	(318)	(121)
Profit for the financial year	**524**	**1,019**	**1,585**	**1,020**	**324**

***2021 Net of loss on conversion of investment of 265k**

Table 7 - Statement of Comprehensive Income 2020 – 2024

Analysis of the Society's financial performance over the 5-year period to 31 December 2024 is set out later in this document.

	2020 £'000	2021 £'000	2022 £'000	2023 £'000	2024 £'000
Assets					
Liquid assets	64,830	59,781	84,059	65,710	83,425
Loans and advances to customers					
Fully secured on residential property	148,464	185,110	208,082	230,896	240,621
Other Loans	10,225	8,959	9,634	10,185	9,721
Investments	922	830	695	640	325
Tangible fixed assets	1,248	1,179	1,253	1,350	1,300
Intangible assets	134	134	-	224	160
Prepayments & Accrued Income	206	261	317	700	1,157
Total Assets	**226,029**	**256,254**	**304,040**	**309,705**	**336,709**
Liabilities					
Shares held by individuals	200,335	228,960	275,379	280,154	307,085
Amounts owed to credit institutions	-	-	-	-	1,018
Amounts owed to other customers	10,013	10,510	10,128	9,813	9,296
Corporation tax payable	110	250	377	292	125
Other liabilities	261	440	732	1,329	979
Accruals & deferred income	146	225	268	199	258
Deferred Tax	54	66	62	93	89
Other provisions	5	5	-	-	-
Total liabilities	**210,924**	**240,456**	**286,946**	**291,880**	**318,850**
General reserves	12,214	12,907	14,203	14,934	14,968
Core Capital Deferred Shares	2,891	2,891	2,891	2,891	2,891
Total Reserves and Liabilities	**226,029**	**256,254**	**304,040**	**309,705**	**336,709**

Table 8 - Statement of Financial Position 2020 - 2024

	2020 £'000	2021 £'000	2022 £'000	2023 £'000	2024 £'000
Total Assets	226,029	256,254	304,040	309,705	336,709
Growth in Total Assets	27,991	30,225	47,786	5,665	27,004
Net Interest Income	4,323	5,171	7,213	8,147	7,908
Administrative expenses and depreciation and amortisation	3,320	3,835	5,050	6,760	7,558
Profit Before Tax	648	1,281	1,958	1,338	445
Profit After Tax	524	1,019	1,585	1,020	324
Lending Limit	7.30%	5.29%	4.91%	4.77%	4.46%
Funding Limit	2.70%	2.51%	2.17%	2.01%	2.15%
Gross Capital Ratio	7.18%	6.60%	5.99%	6.16%	5.63%
Free Capital Ratio	6.65%	6.14%	5.72%	5.80%	5.21%
CET 1 as a % of Risk Weighted Assets	18.09%	15.32%	14.71%	14.83%	15.14%
Liquidity / SDL Ratio	30.82%	24.96%	29.44%	22.66%	26.28%
Cost to Income	78.13%	75.34%	70.23%	82.93%	95.53%
Man. Ex as a % of Mean Assets	1.57%	1.59%	1.80%	2.20%	2.34%
Profit after Tax % of Mean Assets	0.25%	0.42%	0.57%	0.33%	0.10%
Return on Equity	3.91%	6.59%	9.64%	5.84%	1.82%
Leverage Ratio *	6.23%	6.69%	6.68%	6.43%	6.44%
Asset Growth	14.1%	13.4%	18.7%	1.9%	8.7%
Savings Book Growth	13.6%	13.8%	19.2%	1.6%	9.1%
Mortgage Book Growth	9.43%	22.30%	12.19%	10.73%	3.84%

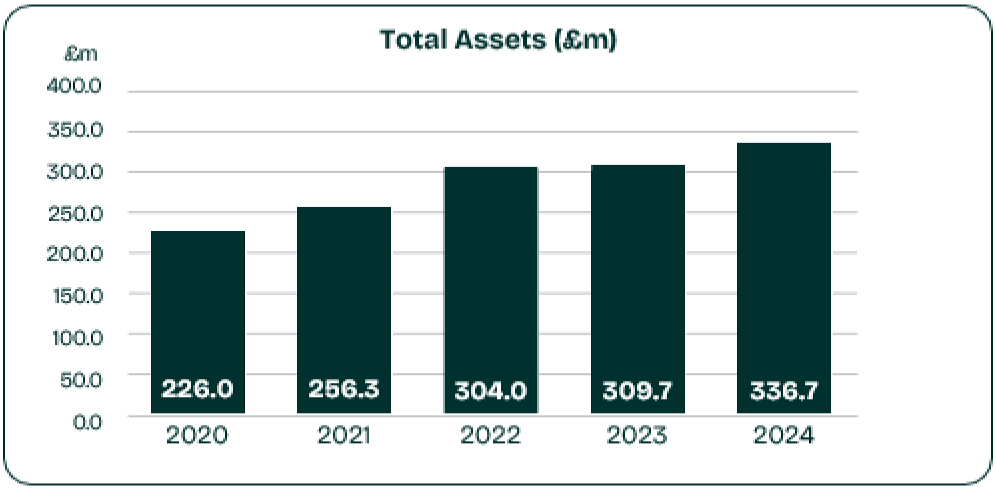
Table 9 - Key Ratios

*Leverage ratio is reported on a CRR basis in 2020, a UK basis in subsequent years.

2020 to 2024 Financial Analysis

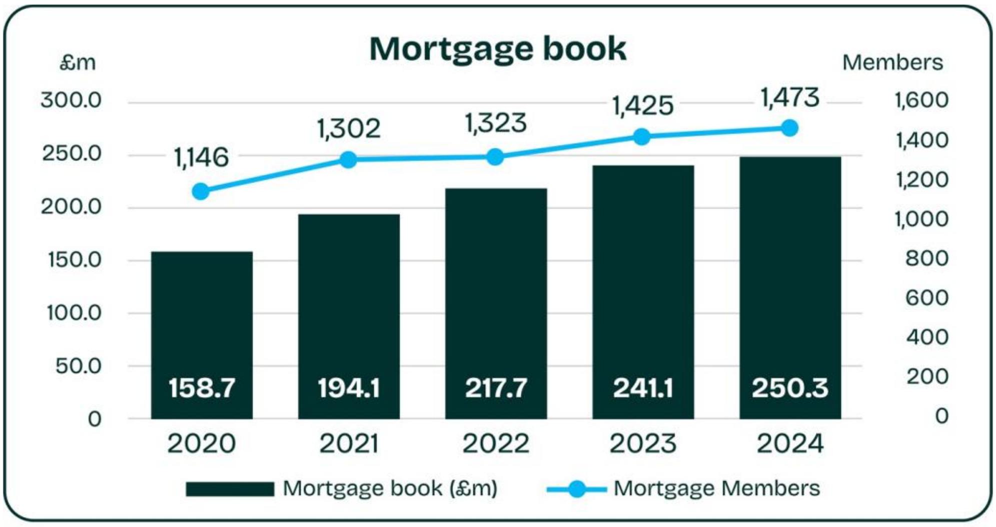
Total Assets

The Society has seen consistent growth in its total assets year on year since 2020 in line with its growth strategy.



The Society's balance sheet has increased by over £110m (or 49%) in 5 years. Growth has been driven by strong growth in the savings and mortgage books.

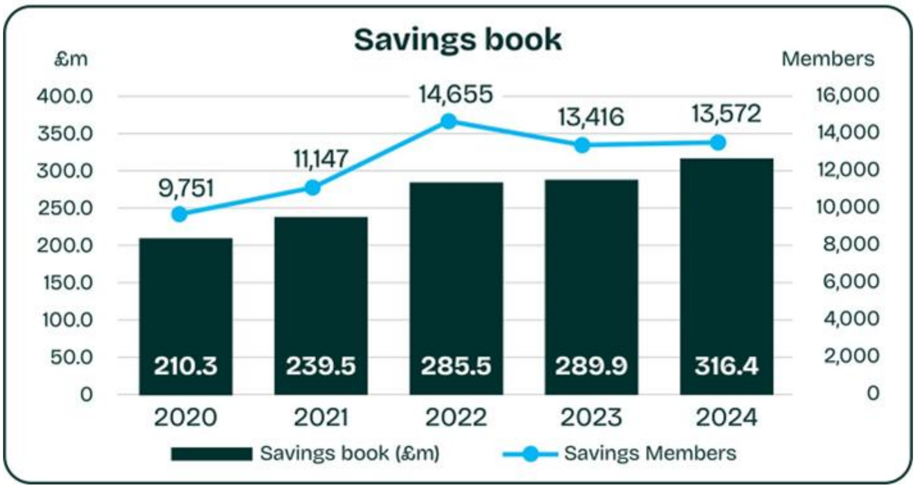
Mortgage Book



Mortgage book growth in 2024 was slightly lower than previous years partly as a result of the Society moderating the level of lending while the digital transformation programme is completed.

Funding Book

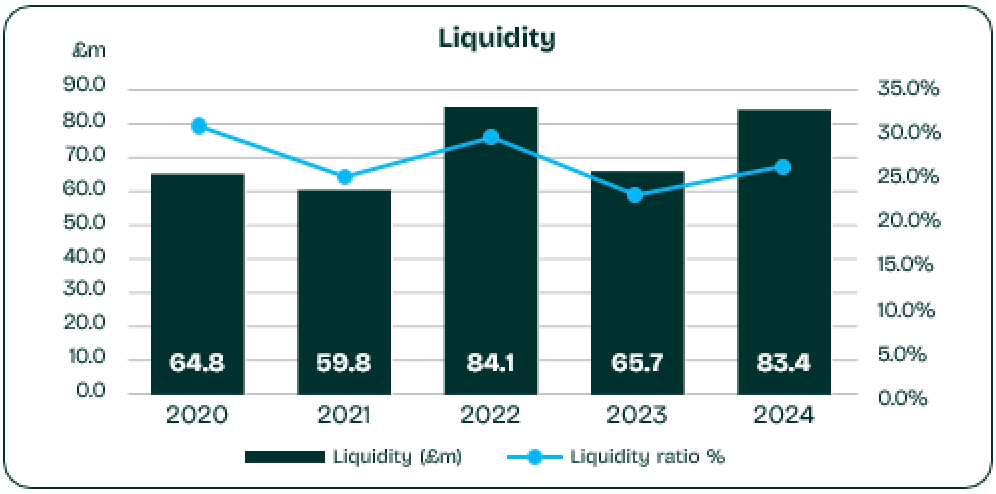
The overall balance of the savings book increased by 9.1% in 2024. The Society saw outflows from its savings book in the second half of 2023 as volatility in the UK retail savings market led to increased customer activity. The Society restored this position in 2024 by attracting funds from new and existing customers.



Liquidity

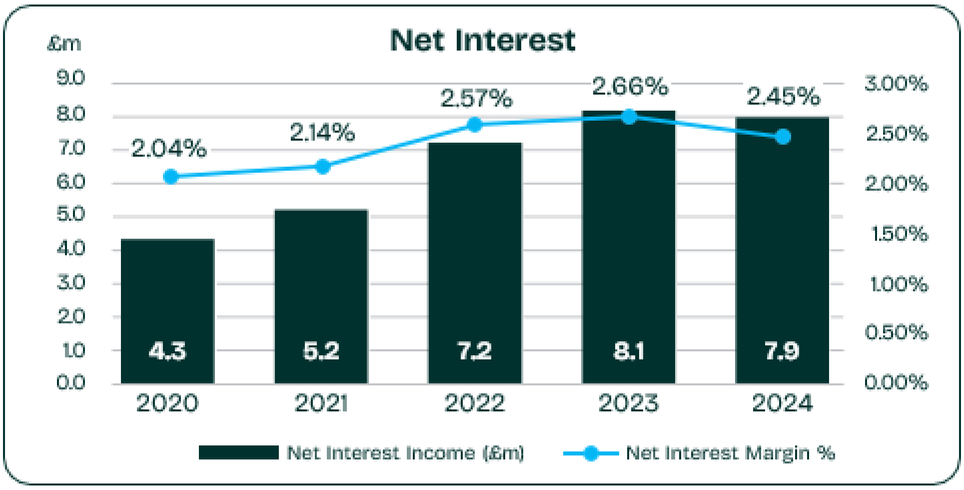
The Society has ensured that liquidity has remained sufficient to meet customer and business needs and significantly greater than regulatory requirements. The Society saw liquidity reduce in 2023 as a result of movements in funding . This was restored through activity in 2024.

The regulatory measure of the Society's liquidity position, Liquidity Coverage Ratio, stood at 390% at the year-end against a regulatory limit of 100%.



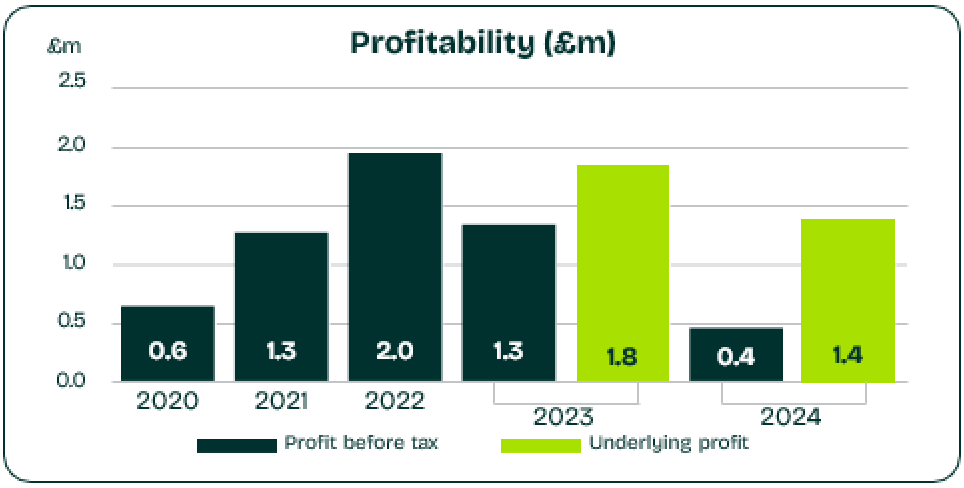
Net Interest Margin

The Society has carefully managed the rates offered to its mortgage and savings Members in the context of changes in UK bank base rate, macroeconomic conditions and market conditions. This has allowed the Society to control its net interest margin to respond to changes in market movements and to support the underlying costs of running the business and supporting the digital transformation programme.



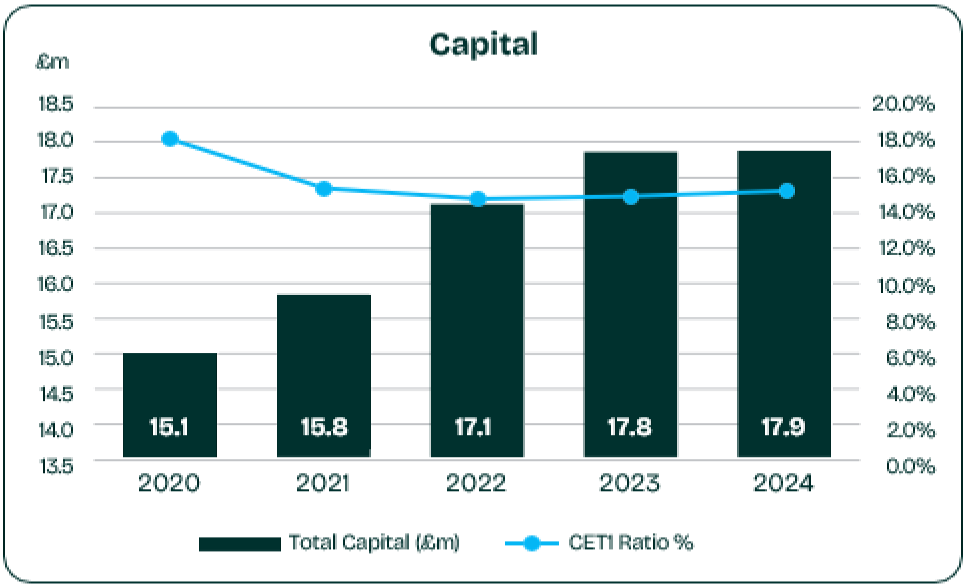
Profitability

As a result of investment in the Society's digital transformation, administrative expenses increased to £7,396k (2023: £6,625k). The Society expects expenses to remain high in 2025 as it completes the digital transformation programme. The costs associated with the programme have been, and continue to be, carefully controlled and monitored throughout the project. While this means the Society recorded a reduced profit before tax for the year ending 31 December 2024 at £445k (2023: £1,338k) its underlying profit, removing one-off transformation costs, was comparable to the previous year at £1,383k (2023: £1,843k).

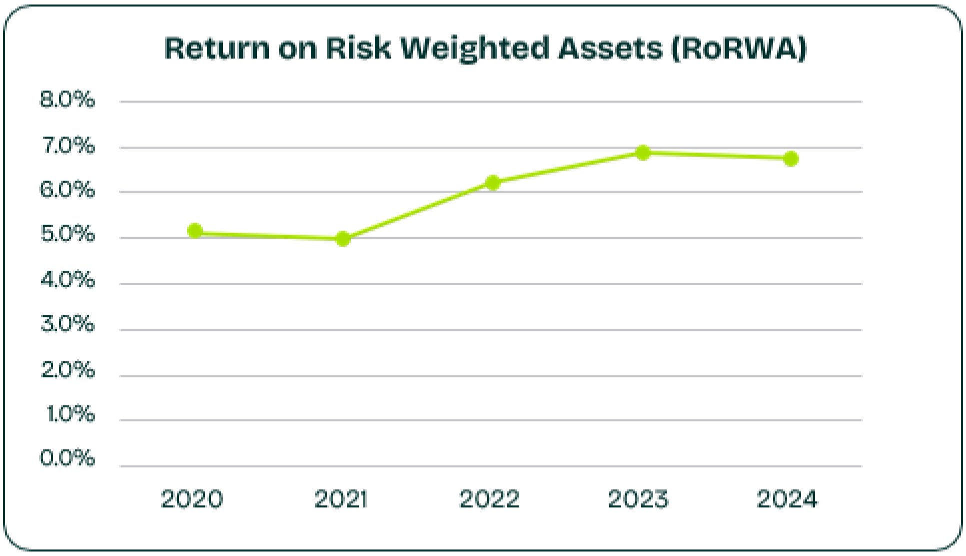


Capital

The Society's policy is to hold a strong capital base to maintain Member, creditor and market confidence and to sustain future development of the business. The Society increased its total capital in 2020 through raising £3.0m of CCDS. The Society's capital position (reserves plus CCDS) remained stable in 2024, with total capital as at 31 December 2024 of £17.9m (2023: £17.8m). The Society balanced its asset and capital growth carefully through the year to ensure its regulatory capital metrics remained comfortably above regulatory requirements with the Society's CET1 ratio at the year-end being 15.1% (2023: 14.8%).



The return on risk weighted assets (RoRWA) is a proxy for return on equity for a building society. The Society increased its return on risk weighted assets from 5.2% in 2020 to 6.8% in 2024. The return was more static from 2023 to 2024 due to lower balance sheet growth, as the Society focused on de-risking its digital transformation programme.



2024 Financial Analysis (exerpt from 2024 Annual Report and Accounts)

The Society has, in 2024, focused on transformation of its core banking system to modernise its Member offering and customer experience. While this means the Society has recorded a reduced profit before tax for the year at £445k (2023: £1,338k) its underlying profit, removing one-off transformation costs, remains strong at £1,383k (2023: £1,843k). The expenditure on the core system transformation project has been carefully planned, managed and monitored. Costs in 2024 were in line with the Society's financial planning and the project is progressing in line with our expectations.

The Society's total assets increased to over £336.7m (2023:£309.7m), successfully growing its balance sheet by 8.7% in the year (2023: 1.9%). This growth was driven by an increase of nearly 10% in our savings book in the year to £316.4m (2023: £289.9m). The Society's mortgage book also grew by £9.3m (2023: £23.4m), taking mortgage assets to over £250.3m (2023: £241.1m).

The Society maintained its Tier 1 capital (general reserves) at£15.0m (2023: £14.9m). It balanced its asset and capital growth carefully through the year to ensure our regulatory total capital ratio remained stable ending the year at 15.3% (2023: 15.3%).

Profitability

The Society committed significant effort and resources to work on transformation activities in 2024 and, as a result, recorded a lower profit before tax result for the year of £445k (2023: £1,338k). While the recorded profit reduced in the year, the underlying profit, once the costs of one-off transformation costs were removed, remained in line with prior year profitability.

As a result of the investment expenditure, management expenses increased to £7,395k (2023: £6,625k). The increases resulted in the management expenses ratio (as a percentage of mean total assets) increasing to 2.34% (2023: 2.20%).

The Society intends to continue to work on delivery of its core system transformation project through 2025 and therefore expects profit to be materially suppressed in the current year. Importantly, underlying profitability is expected to remain strong in 2025.

Underlying Profit	**2023 £000**	**2024 £000**
Profit before Tax	**1,338**	**445**
Exceptional adjustment		
Risk Transformation	–	250
Core System Transformation	505	582
Business Model Transformation	–	106
Sub Total	505	938
Underlying Profit	**1,843**	**1,383**

Capital

The Society's capital position remained stable in the year, with total capital as at 31 December 2024 of

£17.9m (2023: £17.8m). The Society's regulatory capital metrics remained stable with leverage ratio being 6.44% at December 2024 (2023: 6.43%) and its regulatory total capital ratio reducing marginally to 15.27% at the 2024 year end (2023:15.28%). Capital levels and ratios remained comfortably above regulatory requirements throughout the year.

Balance Sheet

The Society's total assets increased to £336.7m (2023: £309.7m), which represented an increase of £27.0m or 8.7% (2023: £5.7m, 1.9%).

The Society increased its mortgage assets by 3.8% to over £250.3m (2023: 10.70%, £241.1m). It has looked to moderate the level of lending it completes while it undertakes transformation of its core banking system, meaning mortgage book growth has been lower in 2024 compared to previous years. Furthermore, the Society elected to reduce the amount of self-build mortgages it completed in part of 2024, a core product area for the Society, to ensure continued adherence to regulatory agreed limits.

The Society saw a 9.1% increase in the overall balance of its savings book in the year to £316.4m at year end (2023: £289.9m).

The Society increased its liquidity in 2024, to £83.4m (2023: £65.7m), also increasing the overall proportion of funds held as liquid assets to 26.3% (from 22.7% at the end of 2023).

Capital and Capital Adequacy

The Society's planning process seeks to ensure that the Society will have enough capital to meet the base regulatory requirements under the Capital Requirements Regulation ("**CRR**"), to support the business's expected growth potential, concomitant with its risk appetite and its assessments of current and future material risks. The Society's Corporate Plan ("**Corporate Plan**") is reviewed at least annually by the Board, taking account of changes in the business and economic environment. The current Corporate Plan covers the period to 2030 in line with the Society's 2030 Corporate Strategy. The Corporate Plan establishes strategic and business objectives and assesses future financial and non-financial resources required to meet these objectives.

The Society's Internal Capital Adequacy Assessment (the "**ICAAP**") ensures that the capital resources of the Society will support its Corporate Plan in both normal and stressed conditions. This ensures that the Society has sufficient capital to meet potential risks and the associated capital required. The ICAAP is submitted to the Board for approval with the necessary supporting stress testing. The Society's Board approves the ICAAP annually, using the level of individual capital guidance and capital planning buffer advised by the PRA. Having regard to total regulatory capital requirements, the Board sets an amount above this requirement that it will maintain.

Regulatory capital requirements

The Society operates under a supervisory framework enforced in the UK by the PRA. The global standards for capital adequacy set under the Basel Accords are set out in the Capital Requirements Directive IV (CRD IV), which is implemented in the PRA rulebook, and in the CRR which is directly applicable, without implementation in national legislation.

The Capital Requirements Directive IV (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 UK, with EU Capital Requirements Regulation (CRR) and related EU regulations (which had direct binding effect in the UK until expiry of the transition period) being retained as domestic UK law, with certain exceptions and adjustments, primarily through the EUWA and ancillary legislation (the "UK CRR").

Basel 3.1 is the final set of international banking reforms designed in response to the 2008 global financial crisis. It is designed to improve banks' and building societies own measurement of risk, standardising approaches between firms to make their capital ratios more consistent and comparable. The Prudential Regulation Authority (PRA) has set the implementation of Basel 3.1 standards within the UK as from 1 January 2027. The Society meets the criteria and has applied to be a Small Domestic Deposit Takers (SDDT) firm allowing it to benefit from simplified capital and disclosure requirements. The Society has assessed the impact of Basel 3.1 and the SDDT regime and expect it to have a beneficial impact on the Society's capital requirements.

The capital requirements legislation sets out the rules that determine the amount of capital institutions
must hold to provide security for members and depositors. It consists of three main elements, referred to
as "Pillars":

- Pillar 1: sets out the minimum regulatory capital requirements focused on credit, market and operational risk. The Society uses the Standardised Approach to calculate credit risk which is expressed as 8% of the risk weighted exposure amounts for each applicable exposure class. Capital required to cover operational risk is assessed under the Basic Indicator Approach.

- Pillar 2: is an assessment of any additional capital resources required to cover the specific risks faced by the Society that are not covered, or not fully covered, by the minimum regulatory capital resource requirement set out under Pillar 1. This review is documented in the Society's Internal Capital Adequacy Assessment Process (ICAAP) and is then subject to the PRA's Supervisory Review and Evaluation Process (SREP).

- Pillar 3: requires disclosure of key information on the Society's capital adequacy, risk exposures and risk management processes.

Key Capital Metrics

The Society disclosures key information regarding its capital position and capital adequacy within its Pillar 3 document which is available on its website at https://www.ecology.co.uk/corporate-information. Key information from this document regarding the Society's capital is shown in the table below:

UK KM1 - Key metrics template (extract)

	31-Dec-24	31-Dec-23
	£000	£000
Available own funds (amounts)		
Common Equity Tier 1 (CET1) capital	17,739	17,656
Total capital	17,890	18,184
Risk-weighted exposure amounts		
Total risk-weighted exposure amount	117,155	119,037
Capital ratios (as a % of risk-weighted exposure amount)		
Common Equity Tier 1 ratio (%)	15.14%	14.83%
Total capital ratio (%)	15.27%	15.28%
Combined buffer requirement (as a %)		
Combined buffer requirement (%)	4.50%	4.50%
Overall capital requirements (%)	13.01%	13.01%
CET1 available after meeting the total SREP own funds requirements (%)	6.63%	6.32%
Leverage ratio		
Leverage ratio excluding claims on central banks (%)	6.44%	6.43%

Liquidity Requirements and Funding

The business model of the Society , and any building society, inherently creates liquidity and funding risk. The Society's Individual Liquidity Adequacy Assessment Process (ILAAP) outlines how the Society assesses and manages liquidity and funding risk. The ILAAP also sets out how the Society adheres to regulation set out by the PRA regarding funding and liquidity. The Society must ensure it adheres to the 'Overall Liquidity Adequacy Rule' (OLAR), as outlined in the PRA rulebook.

To assess liquidity and funding risk the Society completes a comprehensive assessment of its liquidity and funding risks against:

a) regulatory requirements and guidance;
b) detailed analysis of its balance sheet funding risks (particularly within the Society's retail funding book);
c) historical assessment of the Society's gross and net retail flows in business as usual and stressed conditions; and
d) benchmarking against examples of liquidity challenges in other financial institutions.

Further to this, the Society completes a process to identify and consider idiosyncratic, market and combined stress scenarios that would have a severe but plausible impact on the Society's liquidity position. The ILAAP is also supported by a broader set of liquidity and funding limits within the Society's Financial Risk Management Policy (FRMP).

The Society believes that its management of liquidity and funding risks ensures that it complies with the required level of liquidity to meet its liabilities as they become due, as well as meeting regulatory requirements (i.e. the OLAR rule).

Key Liquidity and Funding Metrics

The Society also disclosures key information regarding its Liquidity and Funding positions within its Pillar 3 document which is available on its website at https://www.ecology.co.uk/corporate-information. Key information from this document regarding the Society's capital is shown in the table below:

UK KM1 - Key metrics template (extract)

	31-Dec-24	31-Dec-23
	£000	£000
Liquidity Coverage Ratio*		
Total high-quality liquid assets (HQLA) (Weighted value - average)	60,411	75,624
Liquidity coverage ratio (%)	390%	369%
Net Stable Funding Ratio		
Total available stable funding	314,819	289,051
Total required stable funding	169,037	164,024
NSFR ratio (%)	186%	176%

**Based on 12 point average over the preceding 12 months the 2024 LCR was 390%. The LCR at 31 December 2024 month end 2024 was 536% (2023: 299%)*

ABOUT THE CCDS

Introduction

Core capital deferred shares are a form of financial instrument that allows building societies, such as the Society, to raise Common Equity Tier 1 Capital ("**CET1**"). Under international banking regulations, firms providing banking services must hold an amount of capital, calculated in proportion to their loan assets, to enable them to absorb unexpected losses. A certain percentage of this capital must be the bank's core capital, which includes common shares and retained earnings.

Since building societies are not able to issue common shares, they have historically been dependent on retained earnings to grow their capital base and, accordingly, the amount of loans they were permitted to make. The core capital deferred share model was developed to address this challenge and enable building societies to issue shares that qualify as CET1.

This section describes the key features of the CCDS and should be read together with the section '*Terms and Conditions*' in Appendix 2.

Any potential investor who is in any doubt as to the suitability of the CCDS as an investment should take professional advice.

Issuance and distribution history

3,000,000 CCDS were issued on 15 December 2020 to raise £3,000,000 of CET1 on the Terms and Conditions of issue dated 15 September 2020 ("the **Existing CCDS**"). A distribution rate of 9.625% per annum was set on the existing CCDS. Since the Society issued the CCDS instruments in 2020 it has paid all interim and final distributions in full and on time.

The terms and conditions of the Existing CCDS were amended on 20 May 2025 to allow for the Existing CCDS to be cleared in Euroclear SA/NV and Clearstream Banking S.A and listed on The International Stock Exchange. The Existing CCDS were subsequently listed on The International Stock Exchange on 27 June 2025.

The Society is now proposing to issue up to 6,500,000 further CCDS (the "**Additional CCDS**") to raise up to £6,500,000 of CET1. The Additional CCDS will, once issued, be consolidated and form a single series with the Existing CCDS.

The issue price to be paid in respect of each Additional CCDS will be exclusive of any amount attributable to potential future Distributions and, in line with market convention for secondary market trading, the final price payable by investors will also include an amount attributable to potential future Distributions. However, investors should note that the CCDS are CET1 instruments and the Society has full discretion whether or not to declare Distributions (in contrast to interest on a debt instrument, there is no accrual of Distributions on CCDS).

Perpetual instruments

Like common shares, core capital deferred shares are perpetual instruments. Holders of the CCDS will have no right to repayment or to have their CCDS redeemed. The Society may offer or agree to purchase CCDS, as described below, but there is no guarantee that it would choose to do so.

The CCDS are transferable, subject to certain conditions described below. However, a CCDS holder may not be able to find a buyer for the CCDS and may not therefore be able to realise value for its investment.

Given the uncertainty as to whether an investor will be able to sell its holding, that the CCDS are perpetual instruments, that the Society has no obligation to redeem or repurchase the CCDS and that any repurchase or redemption of CCDS would require the approval of the PRA, an investor in CCDS should be prepared to hold its CCDS for an indefinite period of time.

Distributions

The Society expects to make periodic distributions to holders of the CCDS in accordance with its distribution policy (as set out in Appendix). Potential investors should note however that holders of the CCDS will have no right to Distributions and that the amount of any Distribution paid on the CCDS is entirely within the discretion of the Board and subject to certain limitations, including the fact that:

- the Society is not permitted to, and will not, declare a Distribution that is greater than the amount of profits and reserves (if any) of the Society which are available, in accordance with applicable law and regulation for the time being, for the payment of such Distribution;
- under the PRA Rulebook, the Society will not be permitted to declare Distributions to an extent which would decrease its CET1 to a level where the combined buffer requirement is not met and, if at any point the Society fails to maintain sufficient CET1 to meet the combined buffer requirement, it will not be permitted to pay any Distributions in excess of a 'maximum distributable amount' calculated in accordance with the PRA Rulebook; and
- the total Distribution declared on each CCDS in respect of any given financial year of the Society is subject to a cap determined by the Board in accordance with the Rules.

Payments of Distributions will be made for value by electronic transfer to the account specified by each holder of CCDS. The Society will not be liable for any failure or delay in payment which results from events beyond its control.

Risk capital

CCDS are deferred shares for the purposes of section 119 of the Building Societies Act 1986, as amended, and are not protected liabilities of the Society for the purposes of (and holders of the CCDS will not therefore benefit from) the Government Financial Services Compensation Scheme.

As a provider of core capital to the Society, an investor in CCDS should be prepared to suffer losses on its investment if, in particular, the Society and/or the financial sector generally approaches or enters into a period of financial stress. Such losses could be manifested in a number of ways, including (without limitation) that:

- the Society may elect or may be required by law or by the PRA or Supervisory Authority to cease declaring Distributions (or reduce the amount declared) either on a temporary or a permanent basis and at any time or whilst any specified circumstances (as referred to above) subsist or during a specified period;
- further CCDS or other regulatory capital instruments may be issued which dilute (either initially or upon conversion into CCDS) the holdings of CCDS investors; and
- in a worst-case scenario, the United Kingdom authorities could take action under the Banking Act 2009 (or similar future legislation) or the Society could enter into an insolvent winding-up,

with the result that investors in the CCDS could lose all or substantially all of their initial investment in the CCDS.

Registered Holder(s) of the CCDS

CCDS must be held through an account (or through an institution (such as CREST) which has an account) in Euroclear SA/NV or Clearstream Banking S.A or any replacement or successor clearing system (the "**Clearing Systems**"). This requirement applies for so long as the Clearing Systems remain in business and, even if they cease to carry on business, will apply so long as there is a successor or alternative clearing system available. The Society considers that it is unlikely that there will not be a Clearing System through which the CCDS can be held. However, should this be the case, each investor would at the appropriate time receive a CCDS certificate registered in its name.

The Existing CCDS are, and the new CCDS will be, represented by a global certificate registered in the name of U.S. Bank Europe DAC, UK Branch as nominee (the "**Nominee**") for the Clearing System. Investors in the CCDS will hold beneficial interests in the CCDS through an account with a Clearing System. However, the Nominee shall be the sole owner of legal title to the CCDS represented by the global certificate, and shall be the registered holder for those CCDS for the purposes of the Rules and the CCDS Conditions.

The holding structure for CCDS has a number of consequences for investors, including with respect to member voting rights and rights to conversion benefits in the event of a demutualisation of the Society, as further described in the section '*Risk factors'* below.

Summary of characteristics

Status	The CCDS constitute direct, unsecured and subordinated investments in the Society and, on a winding-up or dissolution of the Society, rank (a) pari passu among themselves and with any other investments ranking or expressed to rank pari passu with the CCDS (provided that participation of CCDS holders in the Surplus (as defined below) will be in the manner and proportion described in the Terms and Conditions), and (b) junior to (i) all liabilities of the Society and (ii) any claims in respect of declared, unconditional and unpaid periodic investment returns and claims ranking or expressed to rank pari passu therewith.
Form & denomination	The CCDS will be issued in registered form and will upon issue be represented by a Global Certificate and will be deposited with, and registered in the name of, a nominee for the Clearing Systems. Beneficial interests in the CCDS may be traded in the Clearing Systems. Definitive certificates will not be printed unless both Clearing Systems close and there is no appropriate successor or alternative clearing system available.
Clearing Systems	Euroclear SA/NV and Clearstream Banking S.A
Transfer	The CCDS are transferable. Transfers of book-entry interests in the CCDS will be effected through the records of the Clearing Systems and their direct and indirect

	respective participants in accordance with the rules and procedures of the Clearing Systems and their respective direct and indirect participants. A transfer of CCDS will not be valid unless the number of CCDS transferred is a whole number that is equal to or greater than the minimum transfer amount prevailing at the time of transfer. The initial minimum transfer amount is fixed at 5,000 CCDS and will not be reduced except in agreement with the Relevant Regulators. The Society has no current intention to seek the request of the Relevant Regulators to reduce the minimum transfer amount.
Distribution	Payment of a periodic Distribution is entirely at the discretion of the Society and will be determined in accordance with the Distribution Policy.
Redemption	The CCDS are perpetual instruments and constitute permanent non-withdrawable deferred shares so they have no maturity date. The Society has neither an obligation nor any right to redeem or, save following a purchase as referred to in '*Purchases*' below, cancel the CCDS, and the CCDS holders do not have any right to require the Society to redeem, purchase or cancel the CCDS.
Purchases	The Society may, at any time, subject to the consent of, or absence of objection from, the PRA if then required, purchase CCDS in the open market or otherwise at any price. CCDS so purchased may, at the option of the Society, be held, re-issued and/or re-sold or surrendered to the registrar for cancellation.
Winding up	On a winding-up or dissolution of the Society, the rights of the CCDS holders will be limited to (i) a subordinated claim in respect of any Distributions which have been declared (and are unconditional) but which remain unpaid (which claim will rank behind the claims of all other creditors, including subordinated creditors, of the Society) and (ii) an entitlement to share in the surplus assets (if any) of the Society remaining following payment of all amounts in respect of all liabilities of the Society to creditors (including subordinated creditors) and other investing members of the Society (the "**Surplus**"). If the Society is wound up and there is no Surplus (which would be the case in an insolvent winding-up), the investors will not receive any return on their investment in CCDS in the winding-up. If there is a Surplus, it will be shared on a proportionate basis between CCDS holders and the other investing members in the Society. The proportion of the Surplus that the CCDS holders (as a class) will be eligible to receive upon the winding-up will be determined by reference to the relative proportion (expressed as a percentage) of the total Common Equity Tier 1 Capital of the Society which is determined, in

accordance with a specified formula, to have been contributed by CCDS holders (as a class) as at the time of commencement of the winding-up.

The amount determined in the manner described above will then be shared amongst the CCDS holders *pro rata* based on the number of CCDS they hold, unless that *pro rata* amount per CCDS exceeds the average principal amount per CCDS, in which case CCDS holders will instead be eligible to receive the average principal amount for each CCDS held by them. The average principal amount per CCDS will be re-calculated upon each new issue of CCDS and is, broadly, the aggregate of all amounts paid at initial subscription of all CCDS issued up to the time of calculation divided by the total number of CCDS issued up to that time (whether or not all such CCDS remain outstanding at that time).

Voting rights

At any meeting of the CCDS holders as a separate class, each CCDS holder shall have one vote for each CCDS held.

At any general meeting of the members of the Society, the registered holder of any CCDS shall have a single vote (regardless of the number of CCDS held by it). However, for so long as the CCDS are traded in the Clearing Systems (which is expected to remain the case indefinitely), the only registered holder of CCDS shall be the nominee for the Clearing Systems, and the nominee will elect not to exercise that single vote, with the effect that investors in the CCDS will not be entitled to vote at general meetings of the Society.

Listing

Application will be made for the CCDS to be admitted to the Official List of The International Stock Exchange.

Risk Factors

This section describes the risk factors which are considered by the Society to be material to it and an investment in the CCDS. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Should any of the risks described below or any other risks or uncertainties occur this could have a material adverse effect on the Society's business, results of operations, financial condition or prospects, which in turn would be likely to cause the value of the CCDS to decline and/or could result in an investor in the CCDS losing some or all of its investment. Such risks can substantially and adversely affect the Society's prospects and ability to pay Distributions on the CCDS.

The CCDS are complex and high-risk financial instruments and may not be a suitable investment for all investors. Investors should ensure that they understand the risks of investing in the CCDS before they make their investment decision. They should make their own independent decision whether to invest in the CCDS and decide whether an investment in the CCDS is appropriate or proper based upon their own judgement and upon advice from such advisers as they consider necessary. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Society may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Society's control. Accordingly, although the Society believes that the factors described or referenced below represent the principal risks inherent in investing in the CCDS, the Society may be unable to pay interest or other amounts in connection with the securities for other reasons and the Society does not represent that the risks of CCDS as set out in the statements below or in the information are exhaustive.

1 Factors that may affect the Society's ability to fulfil its obligations under the CCDS

External sector risks related to the Society's business, financial condition and financial performance

Risks arising from macro-economic conditions in the UK or globally

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

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

1.3 The Society's lending and savings activities are focused in its core regions in the UK, including Scotland, Wales and Northern Ireland Lending activities could be adversely affected by a lack of legal harmonisation across the UK, specifically through the further devolution of powers to the Scottish Parliament. For example, differences in legislation between Scotland and England may result in additional compliance and other costs for the Society or adversely impact the financial performance and prospects of its Members.

1.4 In addition, changes in global economic conditions or circumstances (in particular in the Eurozone) may have secondary (indirect) consequences that adversely impact the Society's results of operations and financial condition due to the nature of global financial markets, trade relationships, and investor sentiment.

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

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

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

Risks arising from the economic and social impact of UK Government and Bank of England policies

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

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

1.10 After more than a decade of an accommodative monetary policy of ultra-low interest rates, the UK's interest rate environment has undergone significant shifts, transitioning from historically low levels to a period of tightening and, more recently, cautious easing. The Bank of England has to balance the risks related to interest rates combined with quantitative easing to bring inflation under control without derailing further economic recovery. Interest rates increased through 2022 to 2023 from 0.5% to a high of 5.25% in August 2023. Gradual reductions in interest rates have been seen from August 2024. On 8 May 2025, the Bank of England's base rate was 4.25%, with economists predicting further reductions in 2025.

1.11 A cut in interest rates (in particular the Bank of England base rate) and any subsequent period of very low interest rates may have the effect of reducing the net interest margin of the Society, and so adversely impacting the profitability of the Society. If these circumstances prevail for a significant period of time, this may have an impact on the Society's results of operations, financial condition and prospects.

1.12 Interest rates also affect the cost and availability of the principal sources of the Society's funding, which is provided by Member deposits. A sustained low-interest rate environment reduces the incentives for consumers to save. However, higher interest rates in response to increased inflationary pressures may result in customers increasing their deposit balances in higher rate products, which could result in increased interest expense for the Society.

1.13 The UK Government's growth agenda, under the Labour administration, is significantly influencing the Prudential Regulation Authority ("**PRA**") and Financial Conduct Authority

("**FCA** "). The FCA has published its first consultation into simplifying the mortgage rules to make it easier to remortgage with a new lender, reduce the overall cost of borrowing through term reductions, discuss options with a firm, whilst still having the option to seek advice if needed. However, the pressure of sustained inflationary costs could continue to have adverse effects on household disposable income. There remains a risk that the additional cost associated with high interest rates, the maturity of fixed rate mortgage terms, the transition to higher interest rates from historically low rates over a sustained period, coupled with sustained inflationary costs which are not matched by wage growth, could have the cumulative effect of placing increased pressure on the ability of households to maintain monthly mortgage payments.

1.14 These pressures on households may lead to an increase in arrears in the Society's residential mortgage book, and an associated increase in retail impairment. The Society may have to further increase its provisions for loan losses in the future as a result of increases in non-performing loans and/or for other reasons beyond its control. Material increases in the Society's provisions for loan losses and write-offs/charge- offs could have an adverse effect on the Society's operating results, financial condition and prospects.

1.15 The Society's operating results, financial condition and prospects, may also be adversely impacted, directly or indirectly, through compliance with the FCA's PS24/2: Strengthening protection for borrowers in financial difficulty, any future widening of regulatory or government intervention measures, affecting it and its affected members, such as, but not restricted to, introduction of codes of conduct or rules in respect of savings or mortgage rates, transitional measures regarding climate change, measures impacting Member behavior or the private rental market, or any other measures that could negatively impact the business models of the Society.

Risks related to UK house prices

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

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

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

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

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

Risks relating to the supply and affordability of property in the UK

1.21 The Society's lending is, and will continue to be, dependent on several factors related to the supply and affordability of property in the UK.

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

1.23 Average house prices in the UK have generally been on an upward trend since February 2009 and, in particular, surged during the UK Government's stamp duty holiday in 2020 and 2021. However, if UK average house prices were to follow a falling trend or if house prices in several UK regions where the Society has more significant exposure follow a falling trend, this may result in an increase in the Society's residential mortgage loan impairment charges as the value of the security underlying its mortgage loans is eroded.

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

Risks arising from the impacts of inflation and cost-of-living pressures.

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

1.26 The Society's customers and business activities are based in the UK. Its operating results, financial performance and prospects are largely driven by the UK residential mortgage and savings markets, which in turn are driven by the prevailing economic conditions in the UK and the economic confidence of borrowers and savers. Since 2021, the UK's interest rate environment has undergone significant shifts, transitioning from historically low levels to a period of tightening and, more recently, cautious easing. Concerns over energy and commodity prices, and the effects of higher inflation will continue to have an impact on household incomes and all of these factors have cumulatively resulted in a significant level of uncertainty in the Society's operating environment and market conditions.

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

1.28 Whilst the Society's level of arrears is below that of the industry as it continues to work to support customers facing financial difficulties, additional capital may be required by the Society to absorb the heightened levels of credit risk and any increase in impairment levels over time as a result of the current cost of living crisis, which could have a material adverse impact on the Society's business and financial condition.

Risk arising from concentration of credit risk

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

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

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

Risks relating to interest-only mortgage loans

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

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

Risk resulting from climate change and affecting natural and human systems and regions

1.34 Climate risk is likely to manifest itself as physical events such as extreme weather conditions. It may lead to systemic changes in public policy as society moves to a low-carbon economy.

1.35 Climate risk is of the upmost importance to the Society and, as such, it is a key consideration in all of the Society's principal risk assessments and is given consideration by the Board. In addition, Board sub-committee terms of reference have been updated, where appropriate, to take account of explicit climate risk considerations.

1.36 The Society's response to climate risk is to take a strategic approach because of the centrality of this issue to its concerns. This means that the Society's fundamental approach is to be pro-active in combatting climate change directly through its policies and then to consider the threats societal failure to address climate change poses to its business model. This approach seeks to limit the likely incidence of loss from the outset by determining if the asset contributes to climate change mitigation and is climate resilient. The Society's responses to climate change serve to drive its funding, the development of its sustainable lending programme, the development of its savings and lending products, and all its actions can be seen to be aimed at adaptation or mitigation.

2 Internal risks related to the Society's business, financial condition and financial performance

The Society faces risks relating to the delivery of its Strategy and Purpose

2.1 The Society's operating environment is expected to remain highly competitive leading to heightened levels of business risk for the Society. A significant reduction in the demand for the Society's products and services could negatively impact the Society's business and financial condition.

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

2.3 The UK mortgage market has experienced significant changes in recent years, marked by fluctuations in lending activity, market size, and borrower behavior. Following a reduction to the size of the mortgage market in 2023, improvements have since been noted. As of quarter 4 2024, the total value of outstanding residential mortgage loans is at the highest level since reporting began in 2007. The mortgage market is expected to continue to further recover in 2025 supported by easing interest rates and improved affordability. However, challenges such as inflation and housing supply constraints may influence market dynamics.

2.4 The activities of challenger banks and fintech firms, as well as rapidly accelerating digital transformations of direct competitors, continue to gather momentum, which could increase the risk of the Society failing to attract depositors and borrowers. The Society's three transformation programmes are key enablers to deliver improvements to systems and the delivery of strategic product and service differentiation across both its assets and liabilities, to mitigate the impact of increased price and service competition across retail markets, whilst remaining compliant with regulation and delivering good outcomes for Members. However, there can be no assurance that the Society will be able to continue to attract the necessary volumes of savings and mortgages, required to maintain and grow its business.

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

2.6 The Society's continued ability to maintain and grow its mortgage portfolio depends on continued access to Member deposits, and other sources of funding, in quantities sufficient to finance and refinance the portfolio at costs that the Society considers to be commercially acceptable. A key component of the Society's medium-term growth strategy is to grow its savings balances to fund the growth of its business. Access to Member deposits is subject to competition and market factors that are outside of the Society's control, and accordingly it may need to increase the interest rates it offers to customers to attract deposits, which may result in increased interest expense, reduced net interest income and reduced net interest margin. The Society may not be able to obtain and maintain access to sufficient Member deposits, or other sources of funding, at costs which are commercially acceptable, to finance its planned medium-term growth.

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

2.8 A failure to successfully manage the implementation of its medium-term growth strategy for the foregoing could have a material adverse effect on the Society's business, results of operations, financial condition and prospects.

The Society faces risks relating to a failure to define, implement, monitor and deliver its strategic priorities

2.9 The Society has three clearly defined strategic priorities, all of which have detailed plans and continuous formal reporting in place to support the successful and safe delivery of each of the Society's strategic priorities. This includes close and continuous monitoring of trading performance against the Board approved Annual Operating Plan, with clearly defined escalation routes should a deviation from the plan be identified. A failure to successfully deliver on each of the Strategic Priorities could have a material adverse effect on the Society's business, results of operations, financial condition and prospects. A summary of each of the strategic priorities, together with associated risks, is provided below:

Strategic Priority: Digital Transformation

2.10 The Society is in the advanced stages of moving to a new core banking solution. The Society's Change Governance Framework is aligned with industry best practice. Close and continuous, oversight and reporting, both internally and through technically experienced independent third parties, is in place. This oversight also assesses adherence to the Change Governance Framework as well as providing assurance over system design and testing. The Society has a clearly defined governance escalation route to support efficient, and effective, decision making. Milestone updates, together with a summary of risks and mitigants are reported to the IT Transformation Steering Committees, Board Risk Committee and the Board. The Society requested an independent third-line review, which was led by IT change experts to provide assurance to the Board. The review did not identify any material concerns or remedial action that needed to be taken, however, a failure to effectively identify, manage and govern the risks associated with the IT Transformation Programme poses significant risk to the Society leading to potential adverse effects on the Society's business, regulatory standing, financial condition and prospects.

Strategic Priority: Risk Transformation

2.11 The Society recognises effective risk management is essential for the Society to successfully achieve its commercial and impact aspirations, deliver good outcomes to Members and meet regulatory requirements. The Board and Executive Team of the Society is committed to ensuring risk management is embedded across the business. A failure to successfully embed risk management poses significant risk to the Society leading to potential adverse effects on the Society's business, regulatory standing, financial condition and prospects.

Strategic Priority: Business Model Transformation

2.12 The Society recognises the successful delivery of its Business Model Transformation programme is an essential component to deliver both the Society's lending and savings plan and environmental and social impact targets, through product development and channel diversification. A failure to deliver could have a material adverse effect on the Society's business, financial condition, results of operations and prospects.

The Society faces risks relating to a loss of brand, trust and reputation

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

2.14 The unique nature of the Society may mean that failure to respond appropriately to climate risk also gives rise to reputational risk. The Society must ensure that it is apparent that it adheres closely to its stated key principles, particularly regarding the ecological basis for its lending programme, to continue to justify the trust placed in the Society by its Members. If it fails to do this, it may lose the support of its Members, which could substantially and adversely affect the Society's prospects and ability to pay Distributions on the CCDS.

2.15 Other reputational issues include, but are not limited to: appropriately addressing potential conflicts of interest; cyber security; legal and regulatory requirements; ethical issues; adequacy of anti-money laundering processes; Member privacy and data protection issues; Member service issues; information technology ("**IT**") failures and outages; colleague wellbeing; recordkeeping; sales practices; proper identification of the legal, reputational, credit, liquidity and market risks inherent in products offered; and generally poor business performance.

2.16 A failure to address these or any other relevant issues appropriately could lead to existing and new Members (mortgage and savings), and investors unwilling to do business with the Society, which could adversely affect its business, financial condition and results of operations and damage its relationships with its regulators.

2.17 The Society's brand may be damaged by the actions, behavior or performance of its employees, affiliates, suppliers, counterparties, regulators, Members and/or other activists, or the financial services industry generally. A risk event, such as compliance breaches, cyber-enabled financial crime, fraud, data protection breaches (including mishandling, misuse, loss or corruption of Member data), a significant operational or technology failure, a fall in Member service levels, or demonstrations by Members and/or other activists, may cause business disruption or adversely affect the perceptions of the Society held by the public, investors, Members, employees or regulators. A risk event itself may expose the Society to direct losses as a result of litigation, fines and penalties, remediation costs or loss of key personnel. There is also a risk that Members may not support the ongoing use of the Society's brand, which may adversely impact the Society's business, results of operations, financial condition and prospects.

The Society faces risk relating to a failure to attract, retain and ensure succession of the right people with the right skills in the right role at the right time

2.18 The Society's success depends on the continued service and performance of its key employees, particularly its executives and senior managers, and its ability to attract, retain and develop high caliber talent. The Society may not succeed in attracting new talent and retaining key personnel for a variety of reasons, including if such personnel do not identify or engage with the Society's purpose, brand and values, which represents a major component of its overall strategy. The Society competes for talented personnel with skills that are in relatively short supply, and it may not have sufficient scale to offer employees rates of compensation or opportunities to advance within the organisation comparable to its larger competitors, particularly at more senior levels. The Society may also allocate resources improperly or in ways which could create operational inefficiencies and risks and/or lead to de-motivated employees. Each of these factors could have an adverse effect on the Society's ability to recruit new personnel and retain key employees, which could, in turn, adversely affect the Society's business.

2.19 In addition, external factors such as changing labor market dynamics including higher levels of job vacancies, macro-economic conditions, the regulatory environment and direct liabilities for colleagues subject to the Senior Managers and Certification regime, regulatory restrictions on incentivisation and/or continued negative media attention on the financial services industry may adversely affect employee retention, sentiment and engagement. Any failure to attract and retain key employees, including executives and senior managers, could have a material adverse effect on the Society's business, financial condition, results of operations and prospects.

Prudential risks relating to the Society's financial performance

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

2.20.1 protecting its financial position and supporting its growth by building its capital strength;

2.20.2 its future, through the delivery of better products and services; and

2.20.3 its people, local communities and other social or environmental responsibilities through its purpose.

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

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

2.23 At the current time the Society does not have an exposure to fixed rate products, thus is not exposed to associated hedging or treasury risks. Plans to develop fixed rate products are within the Society's medium-term plan and as such the Society may be exposed to these risks in the future.

The Society faces risks relating to the management of liquidity and funding

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

2.25 The Society's primary liquidity risk exposure arises through the redemption of retail deposits where customers have the ability to withdraw funds with limited or no notice. The Society is subject to regulation that requires it to hold levels of surplus liquidity to ensure it maintains liquid assets to meet potential stressed outflows in addition to its expected cash flows, along with sufficient levels of stable funding relative to its long-term assets. These requirements may be subject to change as part of amendments to regulation or regulatory review of the Society.

2.26 The Society is exposed to liquidity risk as a result of mismatches in cash flows from balance sheet assets and liabilities and off-balance sheet financial instruments. The Society is exposed to liquidity risk where it cannot maintain surplus liquid resources to cover cash flow imbalances and fluctuations in funding. If the Society fails to manage and control these risks the Society could become unable to meet its obligations, including those under the Perpetual Capital Securities, as they fall due.

2.27 While the Society saw a reduction in liquidity in the early part of 2024, due to the competitive retail market, effective management action resulted in a much-improved position in the second half of the year. The Society continues to maintain adequate liquid resources to cover cashflow requirements and fluctuations in funding to retain full public confidence in the solvency of the Society.

2.28 Liquidity & Funding Risk, Interest Rate Risk and Capital Risk are overseen by the Society's Asset and Liabilities Committee (the "**ALCO**"). Scenario analysis, stress testing, and reverse stress testing are performed on key business risks to ultimately assist the Board in assessing whether the Society could survive a severe economic downturn and other severe business shocks. Detailed management information ("**MI**"), including sustainability metrics and key risk indicators, is presented to the ALCO each month. The Society's Chief Finance Officer chairs the ALCO. There is a clearly defined governance escalation process to enable effective risk appetite monitoring and oversight, including the outputs from forward-looking sustainability metrics. The Society's approach to liquidity and funding risk is documented in its individual Liquidity Adequacy Assessment Process Policy. This is reviewed annually, and adherence is overseen by the ALCO.

2.29 The Board is satisfied through the Internal Liquidity Adequacy Assessment Process ("**ILAAP**") that the Society has adequate levels of liquidity and capital, in line with regulatory requirements. Further details of the Society's approach to prudential risk management, including the Pillar 2A percentage and value required by the Regulator, can be found in the 2024 Annual Accounts and Annual Pillar 3 disclosure available on the Society's website: **ecology.co.uk/about/corporate**.

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

The Society faces risks relating to capital management

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

2.32 In addition, any increase in the Pillar 1 requirements, Pillar 2 requirements, the combined buffer requirement or the PRA buffer would increase the capital requirements of the Society which could have a material adverse effect on the Society's business, results of operations and financial condition.

2.33 The Board is satisfied through the Internal Capital Adequacy Assessment Process ("**ICAAP**") the Society has adequate levels of capital, in line with regulatory requirements. Further details of the Society's approach to prudential risk management, including the Pillar 2A percentage and value required by the Regulator, can be found in the 2024 Annual Accounts and Annual Pillar 3 disclosure available on the Society's website: ecology.co.uk/about/corporate.

2.34 Failure to effectively manage capital risk could have a material adverse effect on the Society's business, including the successful delivery of its strategic plans, operating results, financial condition and its prospects.

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

The Society faces risks relating to market and interest rate risk

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

2.37 2024 saw two Bank of England base rate reductions from 5.25% to 4.75%. On 8 May 2025 the Bank of England reduced its interest rate to 4.25%. Further reductions expected in 2025 may put further pressure on the Society's Net Interest Margin.

2.38 The Society is on the “administered” regulatory approach for its Treasury activities (under Supervisory Statement 20/15), has no trading book, does not hold interest rate derivatives (swaps).

2.39 The Society has a simple and lower-risk interest rate structure on its Balance Sheet given it has, to date, not offered fixed rate savings and mortgage products. The majority of the Society's mortgage assets are administered rate with a small tranche of mortgage linked to Base Rate. The Society's liquidity book is predominantly held in low-risk reserve accounts at the Bank of England. The rate for these investments tracks the Bank of England's base rate. The Society's liabilities are administered rate savings balances held for members and customers as well as the Society's equity. The Society also has a portfolio of legacy savings accounts with an effective floor of 1.00%. The Society no longer offers these savings accounts, and the book is diminishing by natural attrition.

2.40 The Society monitors and manages its interest rate risk through (the ALCO). The ALCO committee monitors the potential impact of movements in interest rates on both the Society's net interest and its economic value. Risk appetites are set for both these metrics and agreed annually within the Society's Financial Risk Management Policy (“**FRMP”**).

2.41 Failure to effectively manage market/interest risk could have a material adverse effect on the Society's business, including its operating results, financial condition and its prospects.

The Society faces risk relating to retail and commercial credit risk

2.42 Credit risk is the risk of loss arising from retail mortgages and commercial lending. Activity to further strengthen credit risk controls across the whole lifecycle of loans, including third parties such as valuers and conveyancing, was carried out in 2024. The Society has not been exposed to any material credit risk losses in 2024. While reductions to interest rates and inflation were seen in 2024, inflation remains above the Government target of 2%. As a result, the pressure on household budgets because of the effect of rising costs is likely to remain, especially for low-income households.

2.43 The Society's arrears rates have remained low and better than the industry average. Its Arrears Policy and surrounding processes were reviewed and updated in 2024, which incorporated the FCA Policy Statement: Strengthening protections for borrowers in financial difficulty. The early adoption of the rules has resulted in both improved support for Members facing financial difficulty and a further reduction in reported arrears.

2.44 The Credit Risk Committee provides risk oversight of the Society's Retail and Commercial Lending Policies and supporting Lending Criteria documents. Asset quality management information and key credit risk KRIs, including concentration risks arising from large exposures, are monitored monthly to identify trends and enable timely management action to support adherence to Risk Appetite.

2.45 Credit risk arising from mortgage and commercial lending is managed through a comprehensive analysis of both the creditworthiness of the borrower and the proposed security. Following completion, the performance of all mortgages and commercial loans are monitored closely and action is taken to manage the collection and recovery process.

2.46 An aspect of credit risk is concentration risk, which in the asset portfolio can arise from product type, geographical concentration and over exposure to single borrowers, investors or counterparties. The Society takes particular note of concentration risk arising from large exposures which results from the relatively small size of the Society. The Board sets limits for maximum exposure to both borrowers and counterparties.

2.47 The Society specialises in self-build lending and has clearly defined procedures and reporting in place that enable the Society to effectively manage the risks associated with self-build lending through each of the build stages. The period of heightened risk does not typically exceed 2 years.

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

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

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

The Society faces conduct and compliance risks

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

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

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

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

2.54 The Society may settle litigation or regulatory proceedings prior to a final judgment or determination of liability to avoid the cost, diversion of management time and effort or negative business, regulatory or reputational consequences of continuing to contest liability or when the potential consequences of failing to successfully contest liability would be disproportionate to the costs of settlement. Furthermore, the Society may, for similar reasons, reimburse counterparties for their losses even in situations where there are no litigation proceedings and the Society does not believe that it is legally compelled to do so. Failure to manage these risks adequately could have a material adverse effect on the Society's reputation, business, results of operations, financial condition and prospects.

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

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

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

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

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

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

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

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

2.60.1 firms are consistently placing consumers' interests at the center of their businesses and extending their focus beyond ensuring narrow compliance with specific rules to focus on delivering good outcomes for consumers;

2.60.2 competition is effective in driving market-wide benefits, with firms competing to attract and retain customers based on high standards and innovate in pursuit of good consumer outcomes; and

2.60.3 consumers get products and services which are fit for purpose, provide fair value, that they understand how to use and are supported in doing so.

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

2.61.1 review their existing products and services, including closed book products;

2.61.2 review and update, where appropriate, processes for introducing new products and services to ensure compliance with the new expectations; and

2.61.3 ensure they can evidence how they achieve good outcomes.

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

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

Risk that the Society fails to satisfy compliance requirements in respect of financial crime

2.64 The Society is subject to financial crime related regulation and legislation regarding money laundering, the financing of terrorism, sanctions, tax evasion and in respect of bribery. Monitoring compliance with financial crime related regulation, legislation and industry guidance can put a significant financial burden on building societies and other financial institutions and requires significant technical capabilities and the appropriate level of skill, knowledge and experience. In recent years, enforcement of these laws and regulations against financial institutions has increased, resulting in several landmark fines against UK financial institutions. In addition, the Society cannot predict the nature, scope or effect of future regulatory requirements to which it might be subject or the manner in which existing laws might be administered or interpreted.

2.65 Although the Society believes that its current policies and procedures are sufficient to comply with applicable financial crime related regulation and legislation, it cannot guarantee that such policies and procedures completely prevent situations of financial crime, including actions by the Society’s employees, mortgage intermediaries or third party service providers, for which it might be held responsible. Any such events may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on the Society’s business, financial condition and results of operations.

Risks relating to a failure to effectively manage operational risk

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

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

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

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

Society's ability to conduct its daily operations and its business, financial condition, results of operations and prospects.

2.70 In addition, financial models are used in the conduct of the Society's business; for example, in calculating capital requirements and measuring and stressing exposures in response to the upcoming Basel 3.1 capital changes. If the models used prove to be inadequate or are based on incorrect or invalid regulatory interpretations, assumptions and judgements, this may adversely affect the Society's business, financial condition, results of operations and prospects

2.71 The Society may look to implement new operational processes and systems to assist in responding to market developments, such as reflecting changes in regulations. Due to the scale and complexity of such projects, the Society may be required to invest significant management attention and resources, which may divert attention away from normal business activities and other ongoing projects. Additionally, where changes are undertaken in an environment of economic uncertainty and increased regulatory activity and scrutiny, operational and compliance risks are magnified, which may impact the reputation and financial condition of the Society. There is also a risk that implementation may not be completed within expected timeframes or budget, or that such changes do not deliver some or all of their anticipated benefits.

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

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

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

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

The Society faces risks arising from cyber-attacks, data breaches, or other malicious or accidental cyber events.

2.76 The Society is subject to the risk of actual or attempted cyber and information security attacks and breaches from parties with criminal or malicious intent. Should the Society's layered controls fail to detect, prevent or mitigate a cyber-attack or data breach, or should an incident occur in a system for which there is limited resilience, or should the Society's response to any breach fail to conform fully to its legal requirements or Member or regulator expectations, there may be a material adverse effect on the Society's business, financial condition, results of operations and prospects.

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

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

2.79 The Society has a range of well-designed IT security controls, including the controls to manage vulnerabilities and secure configuration. This includes the provision of WatchGuard firewalls, to manage access to the network and block network intrusions together with a Security Operations Centre (SOC) service to monitor and detect potential security issues and provides a basis for effective incident response. A recent internal audit report, finalised in May 2025, did not identify any material control deficiencies or concerns.

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

The Society faces risks associated the management of data

2.81 The Society collects and processes large amounts of personal data as an integral part of its business and must therefore comply with data protection and privacy laws and regulations, in particular, the UK General Data Protection Regulation. If the Society or any of the third party service providers on which it relies fails to appropriately collect, store, handle or transmit personal data in compliance with relevant laws and regulations or if any damage to or loss or inadvertent deletion of personal data were otherwise to occur and/or an actual or perceived breach of the Society's network security occurs, it may expose the Society to litigation, which may have a material adverse effect on the Society's business, financial condition, results of operations and prospects.

The Society faces risks associated when it makes changes to systems, processes, people or strategy

2.82 The Society has a formal Change Governance Framework together with clearly defined governance escalation route to support efficient, and effective, change and decision making.

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

The Society faces risks associated with operational resilience

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

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

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

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

The Society faces risks associated with the management of third parties

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

2.89 Failure by the Society to effectively manage third party risk could have a material adverse effect on the Society's business, financial condition and/or reputation

The Society faces risks associated with critical accounting judgements and/or estimates within its reporting

2.90 The preparation of the Society's financial statements require management to make estimates and assumptions and to exercise judgement in selecting and applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses, to ensure compliance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Some areas involving a higher degree of judgement, or where assumptions are significant to the financial statements, including, impairment provisions on credit exposures and effective interest rate assumptions. For information on the Society's critical accounting estimates and judgements, see note 1 to the financial statements in the 2024 Financial Statements.

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

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

2.92 The Society faces risks associated with changes in taxation rates or applicable tax laws, or misinterpretation of such tax laws, any of which could result in increased charges, financial loss, including penalties, and reputational damage. Any misinterpretation of tax laws that creates the perception that the Society is avoiding or evading tax, or if it is associated with customers that do so, could adversely affect its reputation. Future actions by the UK Government to adjust tax rates or to impose additional taxes (including particular taxes and levies targeted at the banking industry) could reduce the Society's profitability. Revisions to tax legislation or to its interpretation might also affect the Society's results of operations and financial condition in the future.

2.93 Further details on the Society current and deferred tax is given in notes 7 and 21 to its financial statements for its year ended 31 December 2024.

3 RISK RELATING TO THE CCDS

3.1 CCDS are financial instruments with complex features.

CCDS are the most junior ranking capital of the Society

3.2 The CCDS are the most junior ranking capital of the Society. As no other capital provider ranks behind the holders of the CCDS, they are the most exposed to risk. Holders should, therefore, be prepared to suffer losses on their investment, if the Society and/or the financial sector generally approaches or enters into a period of financial stress.

CCDS are not covered by the FSCS Guarantee

3.3 The CCDS are not protected liabilities of the Society under the Financial Services Compensation Scheme and are not guaranteed or insured by any government, government agency or compensation scheme of the United Kingdom or any other jurisdiction.

CCDS holders will be entitled to only a limited share in any surplus assets of the Society on a winding-up of the Society

3.4 The CCDS do not constitute a debt or a liability of the Society and are the most junior-ranking investment in the Society. On a winding-up or dissolution of the Society, CCDS holders will not be entitled to receive any amounts in the winding-up or dissolution unless all depositors and creditors (including subordinated creditors) of the Society are first paid in full. Save for the claim (if any) in respect of a declared but unpaid Distribution, CCDS holders will not have a fixed claim in such winding up or dissolution for the amount of their initial investment in the CCDS (or for any other amount).

3.5 Any claim CCDS holders may have is subject to the Cap and any returns available for distribution to the CCDS holders will be shared proportionately among all CCDS holders. As a result of these factors, in the event of an insolvent winding-up or dissolution of the Society, an investor in CCDS would lose the entire amount of its investment and, even on a solvent winding-up or dissolution, an investor may recover none or only some of its investment.

CCDS are perpetual instruments and the Society is under no obligation to redeem them

3.6 The CCDS constitute permanent non-withdrawable deferred shares in the Society and have no maturity date. The Society has neither an obligation nor any right to redeem the CCDS and CCDS holders do not have any right to require the Society to redeem or purchase the CCDS.

There may be no market in CCDS

3.7 Whilst an established secondary trading market for CCDS may develop, it may not be or remain liquid. As a result, an investor in CCDS should be prepared to hold its CCDS for an indefinite period of time.

3.8 The market price of the CCDS will also be affected by many factors, including the actual or perceived ability of the Society to pay Distributions in respect of the CCDS. Accordingly, even if a holder is able to sell CCDS in a secondary market, there can be no assurance that the price of such sale would enable the investor to recover its initial investment, and the investor may suffer significant losses on its investment if the market price is lower than the price at which such investor acquires CCDS. Investors in the CCDS should be prepared to hold their CCDS indefinitely.

3.9 Even if an established secondary market for CCDS develops, there can be no assurance that such market will be or remain liquid, and such market may be more volatile than for more conventional investments with a developed secondary market. The CCDS contain features which may not align directly to the investment criteria of fixed income investors or traditional equity investors, including investors that have previously invested in mutual regulatory capital. Market prices (to the extent quoted) for the CCDS can go down as well as up, depending upon a number of factors including (without limitation) the actual or perceived financial condition of the Society and prevailing market conditions generally from time to time. There can be no assurance that an investor will be able to sell its CCDS at a price equal to or higher than the price at which it purchased such CCDS, and the price which an investor achieves upon selling its CCDS could be considerably lower than the price at which it purchased such CCDS.

CCDS can only be transferred subject to a minimum amount

3.10 The CCDS will be transferable in whole numbers. The CCDS will be transferable only in amounts which are equal to or greater than a specified minimum transfer amount (the "**Minimum Transfer Amount**"). The Minimum Transfer Amount is fixed at 5,000 CCDS. Purported transfers of CCDS in a number less than the Minimum Transfer Amount will not be valid and the Clearing System will not accept instructions to settle transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount. If an investor, as a result of trading CCDS, holds less than the Minimum Transfer Amount in its clearing system or custodian account, it will first need to purchase additional CCDS in order to enable it to transfer its existing holding of CCDS.

3.11 Investors in CCDS are responsible for ensuring that any trades or transfer they enter into in respect of the CCDS are capable of settlement; failure to do so may result in an investor breaching its contract of sale and purchase.

CCDS are held through an account with the Clearing Systems

3.12 The CCDS will be represented by a global certificate registered in the name of U.S. Bank Europe DAC, UK Branch as nominee (the "**Nominee**") for the Clearing Systems. Investors in the CCDS will hold beneficial interests in the CCDS through an account with a Clearing System. However, the Nominee shall be the sole owner of legal title to the CCDS represented by the global certificate, and shall be the registered holder for those CCDS for the purposes of the Rules and the Terms and Conditions.

3.13 Accordingly, an investor holding beneficial interests in the CCDS through an account with a Clearing System will not become a member of the Society by virtue of its investment in the CCDS and will only indirectly benefit from the Terms and Conditions, the Rules, the Memorandum and the Act with respect to the CCDS through the Nominee. Such investor shall be entitled to rights in respect of its beneficial interest in the CCDS as prescribed by the rules of the relevant Clearing System and must rely on the procedures of the Clearing Systems to enforce its rights. The Society has no responsibility or liability for the records relating to beneficial interests in any CCDS.

3.14 The terms of the global certificate evidencing the CCDS provide that definitive CCDS will only be issued outside the Clearing Systems and registered directly in the name of each investor in the event that both Clearing Systems have closed for business, which the directors of the Society consider unlikely to occur. The holding structure for CCDS has a number of consequences for investors, including with respect to member voting rights and rights to conversion benefits in the event of a demutualisation of the Society.

CCDS hold no voting rights

3.15 For so long as any CCDS are held by the Nominee for and on behalf of the Clearing System, the Nominee shall be the only member of the Society in respect of those CCDS, and in its capacity as a member shall have only one vote at general meetings of the members of the Society (regardless of the number of CCDS it holds and regardless also of the size and number of any other relevant investments or interests (if any) it may have in the Society).

3.16 Given the difficulty of casting its one vote in a manner which reflects the views of all the investors holding CCDS in an account with a Clearing System and the insignificance of that vote in the context of all the votes which may be cast by members of the Society, the Nominee has informed the Society that it does not intend to exercise its vote insofar as it relates to its holding of CCDS.

3.17 Further, even if definitive CCDS were to be issued and delivered outside the Clearing Systems in the limited circumstances described above (in which case, the CCDS would be registered in the name of each holder directly and would confer membership rights directly upon each registered holder) each holder of definitive CCDS would be entitled to exercise only one vote (or, if applicable depending upon the circumstances of that particular member, one vote in its capacity as an investing member and one vote in its capacity as a borrowing member) at a general meeting of the members of the Society (subject to qualifying as a voting member under the Society's rules), regardless of the number of CCDS held by such holder and regardless also of the size and number of any other relevant investments or interests such holder may have in the Society.

3.18 For the avoidance of doubt, the foregoing paragraphs relate to voting rights as member at general meetings of the Society. The CCDS Conditions contain provisions which enable separate meetings to be convened of the CCDS holders as a class only, for the purposes of considering matters affecting the rights of the CCDS holders. At such class meetings only, investors in the CCDS will be entitled to exercise one vote for each CCDS held by such investor at the relevant time.

3.19 Investors should note that such provisions provide that CCDS holders holding defined majorities of the number of CCDS outstanding are able to agree, by resolution in writing or passed at a duly convened meeting of the CCDS holders, to amendments to the Terms and Conditions which shall bind all CCDS holders, including those who do not vote in favour of the relevant resolution.

No right to Conversion Benefits.

3.20 For so long as the CCDS are held in an account with a Clearing System, the Holders thereof will not be entitled to Conversion Benefits arising on a demutualisation or other transfer of the Society's business to a company

3.21 As investors will hold their CCDS through accounts with the Clearing Systems and thus will not be members of the Society by virtue of their investment in CCDS, they will also not be entitled, by virtue of their investment in CCDS, to any Conversion Benefits (being benefits under the terms of any future transfer of the Society's business to a company, other than rights to receive ordinary shares issued by the successor entity or its parent, as specifically provided for under CCDS Condition 10) arising on a demutualisation or other transfer of the Society's business to a company.

3.22 Any Conversion Benefits arising on any such transaction will belong instead to the Nominee, as the registered holder of the CCDS. The Nominee will, on or prior to the date of issue of the CCDS, agree to assign to a selected charity nominated by the Society pursuant to any scheme for charitable assignment established by the Society any Conversion Benefits to which it would otherwise become entitled at any time. Even if definitive CCDS were to be issued each holder of definitive CCDS would have no right to retain any Conversion Benefits and would be required pursuant to the CCDS Conditions to assign any Conversion Benefits to (or waive its right to receive any Conversion Benefits in favour of) the Society.

Distributions on the CCDS are discretionary and are capped

3.23 The declaration of Distributions by the Board from time to time and, if declared, the amount of such Distributions is wholly discretionary and is, at all times, subject to the Cap and certain other limitations. If at any time the Board elects not to declare any Distribution, no Distribution or other amount in respect of the relevant period shall accumulate to CCDS holders or be payable at any time thereafter, and CCDS holders shall have no right to any Distribution or other amount in respect of such period.

CCDS holders may be diluted and statutory pre-emption rights to do not apply to CCDS

3.24 The Society may, without the consent or approval of CCDS holders, issue further CCDS or instruments ranking in priority to CCDS, which may include additional tier 1 or tier 2 capital convertible into CCDS. An offering of any such instruments may have a dilutive effect on the holding of CCDS holders. In addition, whilst the Terms and Conditions provide for certain pre-emption rights for existing CCDS holders upon an issuance of additional CCDS, there are a number of circumstances in which such rights may be disapplied.

UNITED KINGDOM TAXATION

The following statements are intended only as a general guide to certain United Kingdom ("**UK**") tax consequences of acquiring, holding or disposing of CCDS and do not purport to offer a complete analysis of all the potential UK tax consequences thereof. They are based on current UK tax law as applied in England and Wales and what is understood to be the current published practice of HM Revenue and Customs ("**HMRC**") (which may not be binding on HMRC) as at the date of this Information Memorandum, both of which are subject to change at any time, possibly with retrospective effect.

The following statements relate only to holders of CCDS who are resident solely in the UK for UK tax purposes, who hold their CCDS as an investment and who are the absolute beneficial owner both of such CCDS and of any Distribution paid in respect of them. They do not cover the tax position of other categories of CCDS holders who are subject to special rules, for example (but not limited to) persons acquiring (or deemed to acquire) their CCDS in connection with an office or employment, traders, brokers, dealers in securities, insurance companies, banks, financial institutions, tax-exempt organisations, persons who hold their CCDS through a tax-privileged savings account or persons who are connected with, or (taken together with other participators) who have control of, the Society.

Prospective investors who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the UK should consult their own tax advisers.

Taxation of Distributions

No withholding tax

The Society will not be required to withhold UK tax at source from Distributions paid on the CCDS.

Individual CCDS holders

An individual CCDS holder who is resident for tax purposes in the UK and who receives a Distribution from the Society is liable to a nil rate of tax on the first £500 of dividend income received in a tax year (the "**Dividend Allowance**"). For these purposes "dividend income" includes UK and non-UK source dividends and certain distributions in respect of shares (including a Distribution from the Society in respect of CCDS).

The rates of tax on dividend income received by such an individual holder of CCDS in excess of the Dividend Allowance are, for the tax year 6 April 2025 to 5 April 2026: (a) 8.75 per cent. for dividend income within the basic rate tax band; (b) 33.75 per cent. for dividend income within the higher rate tax band; and (c) 39.35 per cent. for dividend income within the additional rate tax band.

Dividend income that is within the Dividend Allowance counts towards an individual's basic or higher rate limits, and will therefore potentially affect the level of savings allowance to which they are entitled, and the rate of tax that is due on any dividend income in excess of the Dividend Allowance. In calculating into which tax band any dividend income over the Dividend Allowance falls, savings and dividend income are treated as the highest part of an individual's income. Where an individual has both savings and dividend income, the dividend income is treated as the top slice.

Corporate CCDS holders

CCDS holders within the charge to UK corporation tax which are "small companies" for the purposes of Chapter 2 of Part 9A of the Corporation Tax Act 2009 should not be subject to UK corporation tax on any Distribution received from the Society provided certain conditions are met (including an anti-avoidance condition).

Other CCDS holders within the charge to UK corporation tax will not be subject to UK corporation tax on Distributions received from the Society so long as the Distributions fall within an exempt class and certain conditions are met. These exemptions will typically be met but are not comprehensive and are subject to anti-avoidance rules and other conditions.

If the conditions for exemption are not met, the CCDS holder will be subject to UK corporation tax on Distributions received from the Society, at the rate of corporation tax applicable to that CCDS holder for the relevant accounting period (currently charged at the small profits rate of 19 per cent. for companies with profits under £50,000 and at the main rate of 25 per cent. for companies with profits over £250,000, with companies with profits between £50,000 and £250,000 paying tax at the main rate of 25 per cent. and reduced by a marginal relief which can be calculated online at https://www.tax.service.gov.uk/marginal-relief-calculator).

Taxation of disposals of CCDS

General

A disposal or deemed disposal of CCDS by a holder who is resident in the UK for tax purposes may, depending on the CCDS holder's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains.

Broadly, the amounts paid by a CCDS holder for CCDS will generally constitute the base cost of their holdings in those CCDS for the purposes of UK tax on chargeable gains. This base cost can be deducted from the disposal value of CCDS for the purpose of computing whether a chargeable gain or allowable loss arises.

Individual CCDS holders

For UK resident individual holders of CCDS, the principal factors that will determine the UK capital gains tax position on a disposal or deemed disposal of the CCDS are: (i) the extent to which the holder realises any other capital gains in the UK tax year in which the disposal is made; (ii) the extent to which the holder has incurred allowable losses in that or earlier UK tax years (which may be offset against the gain, subject to certain limitations); and (iii) the income tax band to which the holder belongs, and the level of the annual allowance of tax-free gains in that UK tax year (the "Annual Exempt Amount").

For the tax year from 6 April 2025 to 5 April 2026, an individual who is resident in the UK for tax purposes is entitled to an Annual Exempt Amount of £3,000 without being liable to capital gains tax. A chargeable gain on a disposal of CCDS in excess of the Annual Exempt Amount is subject to capital gains tax at 18 per cent. for individuals within the basic rate tax band and 24 per cent. for individuals within the higher or additional rate tax bands.

Corporate CCDS holders

A UK resident corporate holder within the charge to UK corporation tax will be subject to corporation tax on chargeable gains at the rate of corporation tax applicable to that CCDS holder for the relevant accounting period (as set out in the previous section).

Certain allowable losses (including losses of UK tax resident members of the same group of companies) may be set against such a chargeable gain, but this is subject to restrictions. In particular, the carrying forward of allowable losses from previous tax years is restricted and, broadly, can be set off against only 50% of any gains exceeding an annual deductions allowance of £5 million.

Non-resident CCDS holders

A holder who is not resident in the UK for tax purposes is generally not subject to UK capital gains tax, unless such a holder carries on a trade, profession or vocation in the UK through a branch or agency or, in the case of a non-UK resident corporate holder, a permanent establishment to which the holding of CCDS is attributable.

Stamp duty and Stamp Duty Reserve Tax ("SDRT")

No stamp duty or SDRT should be payable in the UK on the issue of the CCDS.

The CCDS will constitute "chargeable securities" for UK SDRT purposes. However, on the basis of current UK tax law, transfers of CCDS within the Clearing Systems should not be subject to SDRT provided that no election is or has been made under section 97A of the Finance Act 1986 (a 97A election) by the relevant Clearing System that applies to the CCDS. The Society has received confirmation from the Clearing System that the CCDS would be admitted to its systems without a 97A election applying to the CCDS. However, if a 97A election were to apply to the CCDS in the future, transfers of the CCDS within the Clearing Systems could, unless an exemption applies, be subject to SDRT (currently at the rate of 0.5 per cent. of the consideration given under the agreement to transfer the CCDS).

The above comments are intended as a guide to the general stamp duty and SDRT position and may not relate to persons such as charities, market makers, brokers, dealers, intermediaries or persons connected with depositary institutions or clearance services, to whom special rules may apply.

DEFINITIONS

Unless otherwise specified or the context requires otherwise in this Information Memorandum, the defined terms below have the following meaning:

Applicant	a person who has applied to purchase the CCDS
Board	the board of directors of the Society
Cap	the prevailing periodic investment returns cap per CCDS of the Society in respect of any given financial year, determined by the Board in accordance with the Rules
Capital Rules	as defined in the section '*Terms and Conditions*'
CCDS	core capital deferred shares to be issued by the Society as described in this Information Memorandum
Common Equity Tier 1 Capital or CET1	at any time, has the meaning ascribed thereto (or to any equivalent term) at such time in the Capital Rules
CRD IV	the legislative package comprising: (i) EU CRD IV, being: a. Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms ("**Capital Requirements Regulation**") and amending Regulation (EU) No 648/2012; and b. Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC; (ii) UK CRD IV, being: a. Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 as it forms part of domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 (the "**Withdrawal Act**");

b. the law of the United Kingdom or any part of it, which immediately before IP completion day (as defined in the European Union (Withdrawal Agreement) Act 2020) implemented Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC and its implementing measures; and

c. direct EU legislation (as defined in the Withdrawal Act), which immediately before IP completion day (as defined in the European Union (Withdrawal Agreement) Act 2020) implemented EU CRD IV as it forms part of domestic law of the United Kingdom by virtue of the Withdrawal Act

Distribution	periodic investment returns in respect of the CCDS that may be declared (on an interim and/or final basis) in respect of any financial year in the Board's sole and absolute discretion
Financial Adviser	a qualified, FCA authorised/approved professional who provides financial guidance to clients based on their needs and goals typically in relation to financial products, services, planning or advice relating to investments, retirement, insurance, mortgages, estate planning and taxes. Financial advisers can also be accountants or lawyers/solicitors.
FCA	the UK Financial Conduct Authority
Lead Manager	Allia C&C Ltd
PRA	the UK Prudential Regulation Authority
Register	the register kept by the Registrar in which the name and address of each holder of CCDS and the number of CCDS they hold will be recorded
Registrar	U.S. Bank Europe DAC, UK Branch
Relevant Person	has the meaning given on page 2
Relevant Regulators	the Supervisory Authority and/or the FCA (or any successor thereto)

Rules	the rules of the Society
Society	Ecology Building Society
Supervisory Authority	the PRA or any successor or other authority having primary supervisory authority with respect to prudential matters in relation to the Society
Surplus	on a winding-up or dissolution of the Society, the surplus assets (if any) of the Society remaining following payment in full of the claims of all depositors and creditors (including subordinated creditors) of the Society (and, if applicable, after payment of the claim in respect of declared but unpaid Distributions)
Terms and Conditions	the terms and conditions of the CCDS (as amended from time to time) set out in Appendix 2

Appendix 1: Distribution Policy

This document sets out the Board's distribution policy relating to the payment of periodic investment returns ("**Distributions**") from time to time in respect of the Society's Core Capital Deferred Shares ("**CCDS**"), which are deferred share investments for the purposes of the Rules of the Society.

When determining the Distributions (if any) to be declared in respect of the CCDS in respect of any given financial year, the Board will have regard to all relevant factors which it considers to be appropriate, including:

- the profitability of the Society and its resources available for distribution
- the outlook for the Society's business, its short-term and long-term viability and the impact on the Society of the macro-economic environment in the UK, including inflation
- the capital and liquidity position of the Society at the time of declaring the Distribution
- the desire to reward investment in the capital of the Society in a commercially responsible manner reflecting the value to the Society of the capital provided by CCDS holders
- recognition of the risks inherent in such investments
- the Society's need to maintain access to capital in the future, both for prudential reasons and to underpin the expansion of the Society's lending programme in pursuit of sustainability
- the benefits received by other members of the Society through the operation of the Society's business in ensuring fairness of approach and in accordance with the principles of mutuality
- the cap on Distributions under the Society's Rules; and
- long term investment rates and the Bank of England Base Rate

subject always to applicable law and regulation and the following overriding fiduciary duties and principles:

- the duty of the directors to act in the best interests of the Society
- the duty of the directors to have due regard to the interests of all categories of member, both current and future, of the Society; and
- the principles of mutuality that apply by virtue of being a building society.

The Board has previously paid interim and final Distributions of £0.048125 per CCDS in respect of the 3,000,000 CCDS of £1 each issued on 15 December 2020.

Since the Society issued the CCDS instruments in 2020 it has paid all interim and final distributions in full and on time.

In light of the Society's need to maintain access to capital and its desire to reward investment in the capital of the Society in a commercially responsible manner reflecting the value to the Society of the capital provided by CCDS holders, the Board considers that, if further CCDS are issued, interim and final Distributions of £0.055 per CCDS would be appropriate for future years, subject to the Society's financial position at the time each Distribution is declared being viewed as satisfactory. If further CCDS are issued, the change to the level of Distributions would take effect from 1 September 2025 and therefore any Distribution which may (subject to the terms of the Distribution Policy) be paid on 1 November 2025 would be calculated on a pro rata basis.

The indications stated above are not binding on the Society and the Board will have absolute discretion (subject to applicable law and regulation) whether or not to declare any Distribution in respect of any financial year and, if any such Distribution is declared, the amount of such Distribution. Accordingly, in respect of any given financial year, the Board may elect not to declare any Distributions, or may declare an interim and/or a final Distribution which may be higher (subject to the cap on Distributions under the Society's Rules) or lower than the indications stated above.

Appendix 2: Terms and Conditions

CONDITIONS OF ISSUE OF THE CORE CAPITAL DEFERRED SHARES

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

The core capital deferred shares (the **CCDS**, which term shall include any further core capital deferred shares issued pursuant to Condition 13 which are consolidated and form a single series with the CCDS) are issued under the Rules (the **Rules**) of Ecology Building Society (the **Society**) for the time being. CCDS holders are entitled to the benefit of, are bound by and are deemed to have notice of, the Rules. The CCDS are also issued subject to, and with the benefit of, these conditions (the **Conditions**) and subject to an agency agreement (as amended from time to time, the **Agency Agreement**) dated on or around 26 June 2025 between the Society and U.S. Bank Europe DAC, UK Branch as registrar and transfer agent (in such capacities, the **Registrar**, which term shall include any other registrar and transfer agent appointed by the Society in respect of the CCDS from time to time) and principal paying agent (in such capacity, the **Principal Paying Agent**, which term shall include any other principal paying agent appointed by the Society in respect of the CCDS from time to time). In the event of inconsistency between the Rules, these Conditions and the Agency Agreement, the Rules will prevail and, subject thereto, in the event of any inconsistency between these Conditions and the Agency Agreement, these Conditions will prevail. CCDS holders are bound by and are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

*The CCDS will initially be issued in global registered form and registered in the name of the nominee of the common depositary (the **Nominee**) for Euroclear Bank SA/NV and Clearstream Banking S.A. (together, the **Clearing Systems**). The Conditions should therefore be read in conjunction with the following section "Overview of Provisions Relating to the CCDS While Represented by the Global CCDS Certificate".*

Interests in the CCDS will be held through accounts with the Clearing Systems and will only be issued in definitive form in the very limited circumstances described under "Overview of Provisions Relating to the CCDS While Represented by the Global CCDS Certificate – Exchange of the Global CCDS Certificate and Registration of Title". While CCDS are registered in the name of the Nominee, the Nominee shall be the CCDS holder for all of the CCDS for the purposes of the Conditions, and not the investors holding beneficial interests in the CCDS through the Clearing Systems. The investors holding the beneficial interests in CCDS through Clearing System accounts shall be entitled to the rights in respect of their beneficial interests as prescribed by the rules of the relevant Clearing System.

1 GENERAL

1.1 Terms defined in the Rules will, unless otherwise defined herein or unless the context otherwise requires, have the same meanings when used in these Conditions. Other capitalised terms used in these Conditions shall have the meanings set out in Condition 17.

1.2 The CCDS:

1.2.1 are deferred shares for the purposes of section 119 of the Building Societies Act 1986, as amended (the **Act**);

1.2.2 are not protected deposits for the purpose of the Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000 as amended (the **FSMA**);

1.2.3 are not withdrawable; and

1.2.4 are Core Capital Deferred Shares for the purposes of the Rules.

1.3 By purchasing CCDS, each CCDS holder agrees to assign any rights to Conversion Benefits to which it may become entitled by reason of its holding of CCDS to a charity nominated by the Society pursuant to any scheme for charitable assignment which may be established by the Society from time to time. For these purposes, **Conversion Benefits** shall mean any benefits under the terms of any future transfer of the Society's business to a company (other than rights to receive ordinary shares issued by the Successor Entity or its parent, as specifically provided for under Condition 10) and, if the Society merges with any other building society, **Society** shall, after the date of such merger, extend to such other society.

1.4 If a CCDS holder fails to assign any Conversion Benefits as required pursuant to Condition 1.3, it acknowledges that, by purchasing CCDS, it waives its entitlement to retain any Conversion Benefits received by it and covenants promptly to pay and deliver such Conversion Benefits to a charity nominated by the Society (or to the Society for payment and delivery to the nominated charity) and until such time as payment is made, will hold a sum equal to such amount on trust for the nominated charity.

As investors holding the beneficial interests in CCDS through Clearing System accounts will not, by virtue of such holding, be Members of the Society they will not be entitled to any Conversion Benefits by virtue of such holding. Any Conversion Benefits relating to the CCDS will belong instead *to the Nominee, as the registered holder of the CCDS in the CCDS Register. The Nominee will, on or prior to date of issue of the CCDS, irrevocably agree to assign to a charity nominated by the Society.*

2 FORM, TITLE AND TRANSFER

2.1 Form

The CCDS are in registered form and have a nominal value of £1 each (the **Nominal Amount**). The CCDS are transferable in accordance with the Rules and subject to Condition 2.2.

In the event that a CCDS is subscribed at a price higher than the Nominal Amount, the difference between the subscription price and the Nominal Amount shall constitute CCDS premium (the **Premium Amount**).

2.2 Title and transfer

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

CCDS are transferrable in whole numbers and no CCDS may be transferred in part. A transfer of CCDS will not be valid, and will not be registered in the CCDS Register, unless the number of CCDS transferred is equal to or greater than the specified minimum transfer amount (the **Minimum Transfer Amount**) prevailing at the time of transfer. The initial Minimum Transfer Amount is 5,000 CCDS. The Minimum Transfer Amount may be reduced in agreement with the Relevant Regulators upon not less than 30 nor more than 60 days' notice to CCDS holders in accordance with Condition 14. Any change to the Minimum Transfer Amount will be published on the Society's website and/or via a regulatory information service as may be recognised by any stock exchange on which the CCDS are for the time being listed. No legal transfer of CCDS shall be valid unless made in the form endorsed on the CCDS Certificate or in such other form as the Board may agree, which form shall be duly completed and signed (as appropriate) and presented to the Registrar. Legal title to the CCDS will pass upon registration of such transfer in the CCDS Register and, if so requested in writing by the registered holder, the Registrar shall, on behalf of the Society, issue a CCDS Certificate in respect of such holding (which will be made available at the specified office of the Registrar).

It will not be possible for investors to transfer beneficial interests in CCDS in amounts less than the Minimum Transfer Amount prevailing as at the time of transfer. The Clearing Systems will not accept instructions to settle transfers *in amounts less than the prevailing Minimum Transfer Amount, and (in the limited circumstances in which definitive CCDS are issued) the Registrar will not register in the CCDS Register any transfer of CCDS in definitive form in amounts less than the prevailing Minimum Transfer Amount. Accordingly, purported transfers of CCDS in amounts less than the prevailing Minimum Transfer Amount will be incapable of settlement. Investors in CCDS are responsible for ensuring that any trades they enter into in respect of the CCDS are capable of settlement; failure to do so may result in an investor breaching its contract of sale and purchase.*

Any decision by the Society to propose a reduction in the Minimum Transfer Amount to the Relevant Regulators will be based on all relevant factors at the time, which may include (if it is the case) the fact that an established trading market has developed for the CCDS which would enable a wider range of investors to better assess whether or not CCDS would be a suitable investment for them. The Society does not expect to make any such proposal in the near term or to make such proposals frequently.

2.3 CCDS certificates

A certificate (each a **CCDS Certificate**) will, if so requested in writing by a CCDS holder, be issued to such CCDS holder in respect of its registered holding of CCDS. Each CCDS certificate will be numbered serially with an identifying number which will be recorded on the relevant CCDS Certificate and in the CCDS Register, and will specify the number of CCDS registered in the name of the relevant holder(s).

Each new CCDS Certificate to be issued following a transfer will be mailed by uninsured mail at the risk of the holder entitled to the CCDS to the address specified in the form of transfer within one month of the date of registration of the transfer in the CCDS Register (or, if later, within one month of the written request of the relevant CCDS holder to be issued a CCDS Certificate).

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

For so long as the CCDS are registered in the name of the Nominee on behalf of the Clearing Systems, the only *CCDS Certificate will be the CCDS Certificate issued to the*

Nominee. Investors holding the beneficial interests in CCDS through Clearing System accounts shall only be entitled to request and receive a CCDS Certificate in the limited circumstances described under "Overview of Provisions Relating to the CCDS While Represented by the Global CCDS Certificate — Exchange of the Global CCDS Certificate and Registration of Title".

2.4 Formalities free of charge

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

3 CCDS REGISTER

3.1 The Society has appointed the Registrar to act as registrar and transfer agent in respect of the CCDS under the terms of the Agency Agreement.

3.2 Pursuant to the Agency Agreement, the Society shall procure that the Registrar shall maintain the CCDS Register (which shall be a separate Deferred Shares Register for the purposes of the Rules), in which shall be entered the name and address of each CCDS holder. Each CCDS holder shall notify the Registrar immediately of any change of name or address and shall procure such evidence of change of name or address as the Registrar may reasonably require.

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

3.4 Transfers and other documents or instructions relating to or affecting the title of any CCDS shall be recorded in the CCDS Register. No charge shall be made in respect of any entry in the CCDS Register or any charge in relation to such entry. The CCDS Register shall be maintained at the specified office of the Registrar or at such other place as the Society and the Registrar shall agree.

4 STATUS, SUBORDINATION AND RIGHTS ON A WINDING-UP

4.1 Status and subordination

The CCDS constitute direct, unsecured and subordinated investments in the Society and, on a winding-up or dissolution of the Society, rank (a) *pari passu* among themselves and with any other investments ranking or expressed to rank *pari passu* with the CCDS (provided that participation of CCDS holders in the Surplus (as defined in Condition 4.2) will be in the manner and proportion described in this Condition 4), and (b) junior to (i) all Liabilities of the Society and (ii) any claims in respect of declared, unconditional and unpaid Distributions in accordance with Condition 4.6 and claims ranking or expressed to rank *pari passu* therewith.

4.2 Rights on a winding-up or dissolution

On a winding-up or dissolution of the Society, the rights of the holders of Outstanding CCDS to participate in the winding-up or dissolution shall, save as provided in Condition 4.6, be limited to an entitlement to share, to the extent and in the manner provided in Condition 4.3, in the surplus assets (if any) of the Society remaining (a **Surplus**) following payment of all amounts in respect of Liabilities of the Society and any amounts payable pursuant to Condition 4.6 and claims ranking or expressed to rank *pari passu* therewith.

4.3 Distribution of Surplus

In the event of a distribution of Surplus, such Surplus shall be shared without preference as to priority between:

a) CCDS holders, whose entitlement shall be for such amount as will, upon sharing of the Surplus, result in CCDS holders receiving, in respect of each CCDS held which is Outstanding at the Relevant Time, an amount equal to the Core Capital Contribution Share determined in accordance with Condition 4.4;

b) qualifying Members who have held share investments (other than Deferred Shares) of at least £100 continuously for two years (whose entitlement shall be calculated based on the value of their Shareholding at the Relevant Time) (where **qualifying Member, Deferred Shares,** and **Shareholding** have their respective meanings given in the Rules);

c) (unless the terms of the relevant Deferred Shares otherwise provide) holders of any other Deferred Shares in the Society at the Relevant Time (whose entitlement (if any) shall be calculated based on and subject to the terms of issue of such Deferred Shares); and

d) any other persons entitled to share in the surplus assets in accordance with the Rules from time to time (whose entitlement shall be calculated based on and subject to the Rules).

In these Conditions, **Relevant Time** means (i) the time at which an instrument or order is made (including, without limitation, an order made under a building society insolvency or building society special administration (each as defined in the Act)) or an effective resolution is passed for the winding-up or (otherwise than by virtue of section 93(5) (dissolution following an amalgamation with one or more building societies by the establishment of a successor building society), section 94(10) (dissolution following transfer of all engagements to another building society) or section 97(9) or (10) (dissolution following transfer of the whole business to a company) of the Act) dissolution of the Society, or (ii) such other time as may be specified by the administrator, receiver, liquidator or other insolvency official appointed with primary responsibility for the winding-up or dissolution of the Society.

4.4 Core Capital Contribution Share

a) The **Core Capital Contribution Share** means the amount (rounded to the nearest penny, with £0.005 being rounded up) calculated by (i) multiplying (x) the total amount of Surplus available for distribution in accordance with Condition 4.2 by (y) the Core Capital Contribution Proportion calculated in accordance with Condition 4.4b) as at the Relevant Time and (ii) dividing the resulting figure by the total number of CCDS which are Outstanding as at the Relevant Time.

b) The **Core Capital Contribution Proportion** at any given Determination Time (as defined below) is the portion (expressed as a percentage) of the total Common Equity Tier 1 Capital of the Society at such time which is determined, in accordance with the following provisions of this Condition 4.4b), to have been contributed by the CCDS which are Outstanding at such time.

(i) The Core Capital Contribution Proportion shall be calculated as at the time of issue of the first tranche of CCDS and recalculated (A) as at the time of each issue of Additional CCDS (as defined in Condition 13.1), (B) upon the cancellation of any CCDS and (C) as at the Relevant Time (the time of each such calculation, a **Determination Time**). For the purposes of calculating the Core Capital Contribution Proportion at the Relevant Time (but not at any other Determination Time), all CCDS held by the Society in its treasury function at the Relevant Time shall be deemed to be cancelled at the Relevant Time (such cancellation to be reflected in the determination of the Core Capital Contribution Proportion at the Relevant Time).

(ii) The Core Capital Contribution Proportion as at each Determination Time shall be determined by the Board (or, if applicable, in the case of determination as at the Relevant Time, by or on behalf of the administrator, receiver, liquidator or other insolvency official appointed with primary responsibility for the winding-up or dissolution of the Society) on the basis of the most recently published consolidated annual, interim or *ad hoc* accounts of the Society available as at the relevant Determination Time, and such determination shall be reviewed and confirmed by an independent accountant, or firm of accountants of recognised standing appointed or approved by the Board (or, if applicable, the relevant insolvency official) as an expert for such purpose (provided that such expert shall have no responsibility or liability whatsoever to CCDS holders in connection with such review and confirmation).

(iii) The Core Capital Contribution Proportion for a particular Determination Time (**DT**) shall be a percentage (rounded to five decimal places, with 0.000005 being rounded up) equal to:

$$\frac{\text{New Issue Amount}_{DT} + (\text{CCCP}_{DT-1} \times \text{Core Capital}_{DT}) - \text{Cancellation Adjustment Share}_{DT}}{\text{New Issue Amount}_{DT} + \text{Core Capital}_{DT} - \text{Cancellation Adjustment Amount}_{DT}}$$

New Issue Amount $_{DT}$ is the sum of the aggregate Nominal Amounts and aggregate Premium Accounts (in each case expressed in pounds sterling) of the CCDS (if any) being issued at time DT (and shall be zero if no CCDS are being issued at time DT);

CCCP $_{DT-1}$ is the Core Capital Contribution Proportion calculated as at, and applicable to, the Determination Time immediately preceding time DT (**DT-1**) (provided that, for the purposes of determining the Core Capital Contribution Proportion at the first Determination Time upon issue of the first tranche of CCDS, CCCP $_{DT-1}$ shall be zero);

Core Capital $_{DT}$ is the total amount of Common Equity Tier 1 Capital of the Society, calculated in accordance with the Capital Rules, as at time DT, adjusted if necessary to disregard the impact of (i) any New Issue Amount $_{DT}$ as a result of any CCDS being issued at time DT, (ii) any Cancellation Adjustment Amount $_{DT}$ as a result of any CCDS being cancelled at time DT and (iii) any CCDS held, as a result of treasury trading, by the Society in its treasury function as at time DT, in each case having regard to the Capital Rules and accounting standards then applicable;

Cancellation Adjustment Amount $_{\mathbf{DT}}$ is the amount (expressed in pounds sterling) by which the Common Equity Tier 1 Capital of the Society is or was reduced as a result of the purchase by the Society of the CCDS (if any) which are being cancelled at time DT (and shall be zero if no CCDS are being cancelled at time DT); and

Cancellation Adjustment Share $_{\mathbf{DT}}$ is an amount (which, for the avoidance of doubt, shall be zero if no CCDS are being cancelled at time DT) equal to:

(N x Notional $_{DT}$) + CCCP $_{DT-1}$ Cancellation Adjustment Amount $_{DT}$ – (N x Notional $_{DT}$)

where:

N is the number of CCDS which are being cancelled at time DT;

Notional $_{\mathbf{DT}}$ is the deemed notional contribution (expressed in pounds sterling) of each CCDS to the Common Equity Tier 1 Capital of the Society as at the relevant Determination Time, which shall be calculated by (i) multiplying (x) Core Capital $_{DT}$ by (y) CCCP $_{DT-1}$ and (ii) dividing the resulting figure by the total number of CCDS which are Outstanding immediately prior to the relevant Determination Time; and

Core Capital $_{\mathbf{DT}}$**, CCCP** $_{\mathbf{DT-1}}$ and **Cancellation Adjustment Amount** $_{\mathbf{DT}}$ have the meanings given above.

c) The Core Capital Contribution Proportion shall be determined as soon as reasonably practicable following each Determination Time and shall promptly, and in any event within 14 days following the confirmation of such determination in the manner provided in Condition 4.4(ii) above, be published on the Society's website and/or via a regulatory information service as may be recognised by any stock exchange on which the CCDS are for the time being listed and notice will be given in accordance with Condition 14.

d) If, at any time, by reason of any change in the Capital Rules (or official interpretation thereof) or otherwise, the CCDS cease to qualify as Common Equity Tier 1 Capital of the Society, they will, nevertheless, be treated as contributing to Common Equity Tier 1 Capital of the Society (on the same basis as immediately prior to ceasing so to qualify) for the purposes of determining the Core Capital Contribution Proportion.

4.5 CCDS issued other than for cash

If at any time CCDS are issued and allotted other than for cash (including, without limitation, CCDS issued and allotted by way of a bonus issue (including a capitalisation issue) or pursuant to a remuneration scheme for directors or employees of the Society, or CCDS issued in exchange for other securities of the Society), the Premium Amount of each such CCDS shall be determined by the Board in good faith (and in accordance with generally accepted accounting practices and the accounting policies of the Society for the time being) as an amount equal to the notional value (such notional value being, as close as practicable, the equivalent cash value) in respect of which such CCDS is issued and allotted less the £1 Nominal Amount of such CCDS. The Nominal Amount and Premium Amount of each such CCDS shall be included in any calculation of the Core Capital Contribution Proportion as if such Nominal Amount and Premium Amount had been paid to the Society in cash.

4.6 Declared and unpaid distributions

On a winding-up or dissolution of the Society, the CCDS holders shall, in respect of any declared, unconditional (which term shall, for these purposes, include any conditional Distribution (as described in Condition 5.3) or part thereof in respect of which the relevant conditions have been satisfied) and unpaid Distributions, be entitled to prove in the winding-up or dissolution of the Society, as the case may be, for the amount of such Distributions but only if, and subject to the condition that, all sums due from the Society in respect of Liabilities in the winding-up or dissolution have been paid in full, and accordingly the claims of the CCDS holders in respect thereof shall rank (a) *pari passu* amongst themselves and with any other claims ranking or expressed to rank *pari passu* therewith and (b) junior to all Liabilities of the Society. Accordingly, such claims shall constitute the most junior claim in the winding-up or dissolution of the Society other than a claim to participate in any Surplus.

4.7 Set-off

By acceptance of the CCDS, each CCDS holder will be deemed to have waived any right of set-off or counterclaim that such CCDS holder might otherwise have against the Society in respect of or arising under the CCDS whether prior to or in a winding-up or dissolution. Notwithstanding the preceding sentence, if any of the rights and claims of any CCDS holder in respect of, or arising under, the CCDS are discharged by set-off, such CCDS holder will immediately pay an amount equal to the amount of such discharge to the Society or, if applicable, the administrator, receiver, liquidator or other insolvency official appointed with primary responsibility for the winding-up or dissolution of the Society and, until such time as payment is made, will hold a sum equal to such amount on trust for the Society, or if applicable, such administrator, receiver, liquidator or other insolvency official (as the case may be). Accordingly, such discharge will be deemed not to have taken place.

5 DISTRIBUTIONS

5.1 Declaration of Distributions

The Board may, in its sole and absolute discretion, from time to time declare periodic investment returns (**Distributions**, which term shall include any Interim Distribution and any Final Distribution each as defined below) in respect of the CCDS. With respect to any given financial year of the Society, the Board may declare an interim Distribution (an **Interim Distribution**) during such financial year and/or a final distribution (a **Final Distribution**) in respect of such financial year.

A Distribution (or any part thereof) may be declared unconditionally or subject to satisfaction of such conditions as the Board may determine (which may include, without limitation, any consents or approvals which may be necessary for distribution of reserves of the Society).

If an Interim Distribution is declared during any financial year, it will (subject to satisfaction of the relevant conditions to payment, if any) be paid on 1 November in such financial year and if a Final Distribution is declared in respect of any financial year, it will (subject to satisfaction of the relevant conditions to payment, if any) be paid on 1 May falling in the financial year immediately following the financial year in respect of which the Final Distribution is declared, provided that if any such date is not a Business Day, such Interim Distribution or Final Distribution (as the case may be) will be paid on the immediately following Business Day (the **Distribution Payment Dates**).

If at any time, the Society changes its accounting reference date, the Board shall be entitled to change the Distribution Payment Date for the payment of Final Distributions to a date which the Board considers appropriate given the new accounting reference date (provided that such date shall fall not more than five months following the end of the financial year in respect of which the relevant Final Distribution is declared), and the Distribution Payment Date for the payment of Interim Distributions shall at the same time be changed to the date falling six months prior to such date (each, a **New Distribution Payment Date**). Any New Distribution Payment Dates so determined will be promptly notified to CCDS holders in accordance with Condition 14 and published on the website of the Society and/or via a regulatory information service as may be recognised by any stock exchange on which the CCDS are for the time being listed.

5.2 Distributions discretionary

The Board shall have full discretion at all times whether or not to declare any Interim Distribution or Final Distribution. Interim Distributions and Final Distributions are independent, and accordingly whether or not the Board declares an Interim Distribution during any financial year shall have no effect or bearing on the Board's discretion whether or not to declare a Final Distribution in respect of that financial year (save that the amount of the Final Distribution (if any) declared in respect of a financial year shall not, when aggregated with any Interim Distribution paid during that financial year, exceed the Cap provided in Condition 5.5). If at any time, the Board elects not to declare any Interim Distribution or Final Distribution, no Distribution or other amount in respect of the relevant period shall accumulate to CCDS holders or be payable at any time thereafter, and CCDS holders shall have no right to any Distribution or other amount in respect of such period whether in a winding-up or dissolution of the Society or otherwise.

Notwithstanding the discretion of the Board referred to above, if the Supervisory Authority, by notice in writing to the Society, requires the Society not to declare any Distributions on the CCDS at any time or whilst any specified circumstances subsist during a specified period, the Board shall not declare any Distributions until such time as the Supervisory Authority authorises it to resume Distributions on the CCDS, such circumstances cease to subsist or, as the case may be, expiration of the specified period.

5.3 Conditional Distributions

If a Distribution (or any part thereof) is declared subject to the satisfaction of one or more conditions and any such condition is not satisfied on or prior to the relevant Distribution Payment Date, such Distribution (or, as the case may be, the part of such Distribution subject to the relevant condition) shall not accumulate to CCDS holders or be payable at any time thereafter, and CCDS holders shall have no right to such Distribution (or, as the case may be, the conditional part thereof) whether in a winding-up or dissolution of the Society or otherwise.

5.4 Distributions payable out of Distributable Items

Distributions will be paid out of Distributable Items, and the Board shall not declare a Distribution that is greater than the amount of Distributable Items available for payment of such Distribution.

If the Distribution is to be paid entirely out of the Society's profits available for distribution, such payment is subject to the discretion of the Board. To the extent that the Distribution is to be paid from the Society's reserves, such payment is subject to the discretion of the Board and applicable legal and regulatory requirements relevant to making payments from the reserves.

5.5 Cap on Distributions

The total Distribution paid on each CCDS in respect of any given financial year of the Society (being the aggregate of the Interim Distribution (if any) paid during such financial year and the Final Distribution (if any) paid in respect of such financial year) shall not exceed the prevailing Periodic Distributions Cap determined in accordance with the Rules (the **Cap**). Any change to the Cap in respect of the CCDS shall be published on the Society's website and/or via a regulatory information service as may be recognised by any stock exchange on which the CCDS are for the time being listed and notice will be given in accordance with Condition 14.

5.6 Distribution due and payable following declaration

Once declared, a Distribution will be due and payable by the Society on the relevant Distribution Payment Date, provided that any Distribution (or any part thereof) that is stated to be conditional as aforesaid will become due and payable on the relevant Distribution Payment Date only if the relevant conditions are satisfied on or prior to such Distribution Payment Date.

5.7 Non-declaration not default

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

5.8 Notice of Distribution

Following determination by the Board whether any Interim Distribution or Final Distribution shall be declared, the Society will publish an announcement on the Society's website and/or via a regulatory information service as may be recognised by any stock exchange on which the CCDS are for the time being listed confirming (a) the amount (if any) of such Distribution expressed as an amount per CCDS and (b) whether the Distribution (or any part thereof) is conditional and, if so, the relevant condition(s), and notice will be given in accordance with Condition 14.

If the Board declares a Distribution which is, in whole or in part, conditional and one or more relevant conditions have not been satisfied on or before the relevant Distribution Payment Date, the Society will promptly publish an announcement on the Society's website and/or via a regulatory information service as may be recognised by any stock exchange on which the CCDS are for the time being listed confirming that such condition(s) have not been satisfied and that, accordingly, the Distribution (or the relevant part thereof) subject to such condition(s) is not, and shall not become, due and payable, and notice will be given in accordance with Condition 14.

5.9 Distribution Policy

The Society will from time to time publish on its website any distribution policy (the **Distribution Policy**) setting out the Board's expectations as regards the declaration of Distributions and certain factors which the Board may consider when determining whether or not to declare a Distribution and, if so, the amount of such Distribution. Upon any change in the policy, the Society shall promptly publish the revised Distribution Policy on its website together with an announcement on its website and/or via a regulatory information service as may be recognised by any stock exchange on which the CCDS are for the time being listed, and notice will be given in accordance with Condition 14.

The Distribution Policy may give an indication of the Board's current expectations with respect to declaration of Distributions (the **Indication**). Any Indication will not be binding on the Society and the Board shall (subject to there being available sufficient Distributable Items) have absolute discretion to declare a Distribution which is higher (subject to the Cap) or lower than the Indication or to determine that no Distribution shall be declared in respect of the relevant period. The Board will have regard to a range of factors including those set out in the Distribution Policy and must satisfy itself that the declaration of any Distribution is consistent with maintaining the financial strength of the Society.

6 PAYMENTS

6.1 Payment by transfer

Subject as follows, all payments in respect of the CCDS will be made by electronic transfer on the due date for payment or, if such date is not a Business Day, on the immediately following Business Day, to the CCDS holder appearing in the CCDS Register in respect of the CCDS of which it is the holder at the close of business on the fifteenth day before the relevant due date (the **Record Date**), in each case to a sterling account maintained by the relevant CCDS holder with a bank or building society in the United Kingdom and as shown in the CCDS Register on the Record Date or in such other manner as the Principal Paying Agent shall agree with the Society.

Notwithstanding this Condition 6.1, all payments in respect of interests in the CCDS held through Clearing System accounts will be credited to the cash accounts of Accountholders (as defined in "Overview of Provisions Relating to the CCDS While Represented by the Global CCDS Certificate – Exchange of the Global CCDS Certificate and Registration of Title") in each Clearing System in accordance with the relevant Clearing System's rules and procedures. Each investor holding beneficial interests in the CCDS through a Clearing System must look solely to the relevant Accountholder through which it holds its CCDS for its share of each payment so made. For so long as all CCDS are held in the Clearing Systems, the Record Date shall be determined in accordance with this Condition 6.1, save that the words "fifteenth day" shall be deemed to be replaced with "ICSD Business Day", which means a day on which the Clearing Systems are open for business.

6.2 Payments subject to applicable laws

Payments in respect of the CCDS will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment. In the event that a withholding or deduction is required to be made under applicable law or regulation, the Society will cause the requisite amount to be withheld or deducted and CCDS holders will be entitled to receive only the balance of the relevant Distribution following such withholding or deduction.

6.3 Partial payments

If any amount due on the CCDS is not paid in full, the Registrar will annotate the CCDS Register of the amount in fact paid.

6.4 Notification of account details

Each CCDS holder must notify the Registrar promptly of any change to its bank account details and shall be responsible for ensuring that the account details held in the CCDS Register are up to date and accurate.

6.5 Failure of payments

The Regsitrar shall not bear any responsibility for a failure to receive a due payment as a consequence of (a) the account details in the CCDS Register not being updated in accordance with 6.4, or (b) a material disruption to payment or communications systems or to financial markets which are required in order for such payment to be made in connection with the CCDS, which disruption is not caused by, and is beyond the control of, the Regsitrar and the Society, or (c) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operation of the Regsitrar or the Society which prevent the Regsitrar or the Society (as applicable) from making any payments to a CCDS holder or from communicating with a CCDS holder, and which is not caused by, and is beyond the control of, the Regsitrar and the Society.

7 PRESCRIPTION

Any amounts payable in respect of CCDS in respect of which no payment transmission has been completed and no payment claimed shall cease to be payable after 12 years from the due date and shall revert to the Society.

8 NO REDEMPTION; PURCHASES

8.1 No redemption

The CCDS constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no maturity date. The Society has neither an obligation nor any right to redeem or, save following a purchase as referred to in Condition 8.2, cancel the CCDS and CCDS holders do not have any right to require the Society to redeem, purchase or cancel the CCDS.

8.2 Purchases

The Society may, in its sole discretion but subject to Condition 8.3, at any time purchase CCDS in the open market or otherwise at any price. CCDS so purchased may, at the option of the Society, be held, re-issued and/or re-sold or surrendered to the Registrar for cancellation.

Subsidiaries of the Society shall not be permitted to purchase and hold CCDS for their own account or that of the Society, and any such purchase shall be deemed to be a purchase by the Society for immediate cancellation. Nothing in the previous sentence shall prohibit a subsidiary of the Society from purchasing or holding CCDS in its capacity as personal representative, agent or trustee for or on behalf of, or for the benefit of, a person other than the Society or a subsidiary of the Society, and any such purchase shall not be deemed to be a purchase by the Society (for immediate cancellation or otherwise).

8.3 Purchases subject to supervisory consent

Any purchase of CCDS by the Society will, if so required by the Supervisory Authority, the prudential rules applicable to the society or any laws or regulations applicable to the Deferred Shares of the Society at the relevant time, be conditional upon the Society having duly notified the Supervisory Authority of its intention to purchase the CCDS and the Supervisory Authority having consented, or, if applicable, within any applicable period not having objected, to such purchase.

9 REPLACEMENT OF CCDS CERTIFICATES

A CCDS holder who has lost a CCDS Certificate shall immediately give notice in writing of such loss to the Society at its principal office and to the Registrar and Principal Paying Agent at its specified office. If a CCDS Certificate is damaged or alleged to have been lost, stolen or destroyed, a new CCDS certificate representing the same CCDS shall be issued by the Registrar, on behalf of the Society, to the CCDS holder upon request, subject to delivery up of the old CCDS certificate or (if alleged to have been lost, stolen or destroyed) subject to compliance with such conditions as to evidence and indemnity as the Society and the Registrar may think fit and to payment of any exceptional expenses of the Society and the Registrar incidental to any investigation of the evidence of such alleged loss, theft or destruction. The duplicate CCDS Certificate will be made available at the specified office of the Registrar.

10 SUCCESSOR AND TRANSFERS

10.1 Amalgamation or transfer under section 93 or 94 of the Act

Upon an amalgamation by the Society with another building society under section 93 of the Act or a transfer of all or substantially all of its engagements to another building society under section 94 of the Act, the CCDS shall become deferred shares in the amalgamated or transferee building society, as appropriate (the **Resulting Society**), having such terms and conditions as are necessary to ensure that both the CCDS and any other deferred shares which, prior to such amalgamation or transfer, constituted Common Equity Tier 1 Capital of the other society, shall constitute Common Equity Tier 1 Capital of the Resulting Society and, subject thereto, in all material respects identical to the terms of the CCDS, all as determined by an independent financial adviser (having regard to such factors as it considers appropriate) appointed by the Society in its sole discretion.

10.2 Transfer of business under section 97 of the Act

Upon a transfer by the Society of the whole of its business in accordance with Section 97 of the Act to a company (a **Successor Entity**), which expression includes a subsidiary of a mutual society as referred to in the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 as amended (the **Mutual Societies Transfers Act**)) the Successor Entity will, in accordance with section 100(2)(a) of the Act, as from the vesting date, assume a subordinated liability (a **Subordinated Deposit**) to each holder of CCDS, which Subordinated Deposit shall be applied on the vesting date (or as soon as reasonably practicable thereafter), on behalf of the CCDS holder, in the subscription of such number of ordinary shares (which may or may not carry voting rights) in the Successor Entity or, if appropriate, any direct or indirect parent company of the Successor Entity, ranking *pari passu* in all respects with the then existing ordinary shares of such Successor Entity or such parent, as applicable, as have an aggregate market value immediately following such subscription as near as practicable to, but not less than, the market value of the CCDS immediately prior to the time of transfer of the business of the Society to the Successor Entity, as determined by an independent financial adviser (having regard to such factors as it considers appropriate, including recent trading prices if available) appointed by the Society in its sole discretion.

10.3 Basis of appointment of independent financial adviser

Any independent financial advisor appointed pursuant to Condition 10.1 or 10.2 shall act as an expert and not as an arbitrator, and all fees, costs and expenses in connection with such appointment shall be borne by the Society. Any determination made in good faith by such independent financial adviser pursuant to Condition 10.1 or 10.2 shall be binding on the Society, the Registrar and the CCDS holders. No independent financial advisor appointed pursuant to Condition 10.1 or 10.2 shall have any responsibility or liability whatsoever to any CCDS holder or to any other person in connection with any determination made by it in good faith pursuant to Condition 10.1 or 10.2.

10.4 Failure to obtain a determination by independent financial adviser

If, in circumstances which require an independent financial adviser to make any determination pursuant to Condition 10.1 or 10.2, the Society is unable to appoint such independent financial adviser, or the appointed independent financial adviser fails to make any necessary determination and the Society is unable to appoint an alternative or additional independent financial adviser to make such determination, the Society shall convene a meeting of the CCDS holders in accordance with Condition 12 in order for such holders to approve by resolution those determinations which remain to be made. Such approval may alternatively be obtained by way of a written resolution in accordance with Condition 12.7.

10.5 Undertakings

a) The Society undertakes to procure that any amalgamation or transfer referred to in Condition 10.1 or 10.2 will comply with the provisions in Condition 10.1 or, as the case may be, 10.2. The Society undertakes to use all reasonable endeavours to enter into such agreements, and to take such other reasonable steps, as are necessary to give effect to the provisions of this Condition 10 (including, but not limited to, the appointment, if applicable, of an independent financial adviser).

b) In connection with any amalgamation by the Society with another building society under section 93 of the Act or transfer of all or substantially all of its engagements to another building society under section 94 of the Act as provided in Condition 10.1, the Society:
   (i) shall, and shall use all reasonable endeavours to procure that the Resulting Society shall, comply with the rules of any competent authority, stock exchange and/or quotation system by or on which the CCDS are, for the time being, listed, traded and/or quoted; and

   (ii) shall pay, or shall use all reasonable endeavours to ensure that Resulting Society pays, any taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties payable in the United Kingdom arising on the issue and initial delivery of such deferred shares, but will not pay (and each CCDS holder as to itself will be required to pay) any other taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on or following the issue and initial delivery of such deferred shares pursuant to Condition 10.1.

c) In connection with any transfer by the Society of the whole of its business in accordance with section 97 of the Act to a company as provided in Condition 10.2, the Society:
   (i) shall, and shall use all reasonable endeavours to procure that the Successor Entity shall, comply with the rules of any competent authority, stock exchange and/or quotation system by or on which the CCDS are, for the time being, listed, traded and/or quoted; and

(ii) shall pay, or shall use all reasonable endeavours to ensure that the terms upon which its business is transferred to the Successor Entity shall require the Successor Entity to pay, any taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties payable in the United Kingdom arising on the issue and initial delivery of such ordinary shares, but will not pay (and each CCDS holder as to itself will be required to pay) any other taxes, stamp duty reserve taxes and capital, stamp, issue and registration duties arising on or following the issue and initial delivery of such ordinary shares pursuant to Condition 10.2.

11 VARIATIONS OF THESE CONDITIONS

11.1 These Conditions may only be varied by the Society with the consent in writing of the CCDS holders in accordance with Condition 12.7 or with the sanction of a resolution passed at a separate meeting of the CCDS holders held in accordance with Condition 12 (as more fully described in Schedule 5 of the Agency Agreement).

11.2 These Conditions do not limit the rights of members of the Society to amend the Rules.

11.3 The Society undertakes not to initiate any amendment to the Rules that is both (a) inconsistent with the provisions of these Conditions and (b) materially prejudicial to the interests of the CCDS holders in that capacity.

11.4 The provisions of Condition 11.2 and any amendment to the Rules or any resolution of members of the Society (in either case whether such amendment or resolution is initiated by the Society or by one or more of its members) shall not:

a) limit any rights of any CCDS holder to bring an action against the Society for breach of contract in circumstances where the Society is in breach of these Conditions, and furthermore any CCDS holder shall be entitled to bring an action against the Society as if there had been a breach of contract (such that a CCDS holder may sue for a liquidated sum equal to its loss) in circumstances where an amendment has been made to the Rules or any resolution of members of the Society has been passed which is materially prejudicial to the holders of the CCDS as a class and which would have been a breach of these Conditions had such amendment been instituted by the Society; or

b) afford the Society any defence to any claim made in any action referred to under a) above,

provided, however, that no CCDS holder shall be entitled to bring an action against the Society under a) above, and the Society shall have a valid defence to any such action under (b) above, if the holders of CCDS have at any time passed a resolution in accordance with Condition 12 (whether at a duly convened meeting of the holders of CCDS or by way of a written resolution) approving, ratifying and/or consenting to the relevant amendments to the Rules or the relevant member resolution, as the case may be.

12 MEETINGS OF THE CCDS HOLDERS

12.1 Convening the meeting, notice and quorum

The Society alone may at any time convene a separate meeting of the CCDS holders. Every meeting shall be held at such place as the Society may approve.

At least 21 clear days' notice specifying the hour, date and place of the meeting shall be given to the CCDS holders entered in the CCDS Register 35 days prior to the date specified for the meeting, such notice to be given in accordance with Condition 14. The notice shall specify generally the nature of the business to be transacted at the meeting and the terms of any resolution to be proposed to alter these Conditions.

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

At any meeting one or more persons present in person or by proxy and holding or representing in aggregate not less than one-third of the number of CCDS for the time being Outstanding shall form a quorum for the transaction of business and no business (other than the choosing of a chair) shall be transacted at any meeting unless the requisite quorum shall be present at the commencement of business. Every question submitted to the meeting (other than the choosing of a chair which will be decided by a simple majority) shall be decided by a poll of one or more persons present and holding CCDS or being proxies and representing in aggregate not less than three-quarters of the number of the CCDS represented at such meeting voting in favour of such question.

12.2 Adjournment

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

The chair may with the consent of (and shall if directed by a resolution of) the meeting adjourn any meeting from time to time and from place to place but no business shall be transacted at any adjourned meeting other than business left unfinished or not reached at the meeting from which the adjournment took place.

Notice of any adjourned meeting shall be given in the same manner as notice of an initial meeting but as if 10 were substituted for 21 in Condition 12.1.

12.3 Conduct of business of the meeting

Any director or officer of the Society and its professional advisers may attend and speak at any meeting of the CCDS holders. Save as provided above, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any such meeting unless it is a CCDS holder or is a proxy thereof.

A poll shall be taken in such manner as the chair directs and the result of the poll shall be deemed to be the resolution of the meeting.

At any meeting every CCDS holder or proxy who is present shall have one vote for each CCDS held or, as the case may be, in respect of which it is a proxy.

12.4 Proxies

A CCDS holder entitled to attend a separate meeting of the CCDS holders:

a) may appoint one person (whether or not a CCDS holder) as its proxy to attend and, on a resolution, to vote at such meeting in its place; and

b) may direct the proxy how to vote at the meeting.

A proxy shall be appointed in the manner provided in Schedule 5 to the Agency Agreement.

12.5 Effect of resolution

Any resolution passed at a meeting duly convened and held in accordance with the provisions of this Condition 12 shall be binding upon all the CCDS holders whether or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution.

12.6 Other matters

Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Society and any minutes purporting to be signed by the chair of the meeting at which resolutions were passed or proceedings had shall be conclusive evidence of the matters contained in the minutes have been so made and signed shall be deemed to have been duly held and convened and all resolutions passed or proceedings had to have been duly passed or had.

The accidental omission to send notice of a separate meeting or to send any document required to be sent with the notice or otherwise before the meeting to, or the non-receipt of notice of a separate meeting or any such document as aforesaid by, any person entitled to receive notices or documents shall not invalidate the proceedings at that meeting.

12.7 Written resolution

A resolution may also be passed, without the need for a meeting of CCDS holders, by way of a resolution in writing signed by or on behalf of CCDS holders holding in aggregate not less than three-quarters of the number of CCDS for the time being Outstanding. Such written resolution may be contained in one document or several documents in like form each signed by or on behalf of one or more such CCDS holders. Any written resolution passed shall be binding upon all the CCDS holders whether or not signing the written resolution and each of them shall be bound to give effect to the resolution accordingly.

12.8 Notice

Notice of any resolution duly passed by the CCDS holders, whether at a meeting of CCDS holders or by written resolution, shall be given in accordance with Condition 14 by the Society within 14 days of the passing of the resolution, provided that failure to give such notice shall not invalidate the resolution.

13 FURTHER ISSUES AND PRE-EMPTION

13.1 Further issues

The Society shall, subject to Condition 13.2, be at liberty from time to time, without the consent of the CCDS holders, to create and issue at any price further Deferred Shares ranking *pari passu* in all respects and so that the same shall be consolidated and form a single series with the Outstanding CCDS (**Additional CCDS**).

The Society shall be at liberty from time to time, without the consent of the CCDS holders, to create and issue, at any price, Deferred Shares upon such other terms of issue as the Society may at the time of issue determine, provided that the Society shall not issue any Core Capital Deferred Shares other than Additional CCDS.

13.2 Pre-emption Opportunity

Prior to the issue of any Additional CCDS, each Eligible CCDS Holder of CCDS then Outstanding shall, subject to Condition 13.7, be given, in the manner provided in Condition 13.3 and in priority to any other person, the opportunity (the **Pre-emption Opportunity**) to subscribe an amount of the Additional CCDS which (as nearly as practicable) bears the same proportion to the total issue of such Additional CCDS as the number of such Eligible CCDS Holder's CCDS bear to the total number of CCDS then Outstanding (the **Relevant Proportion**).

Eligible CCDS Holder means each holder of CCDS appearing in the CCDS Register at the close of business on the Business Day prior to the date on which the Pre-emption Notice is given.

The Pre-emption Opportunity shall not apply upon the re-issue or re-sale of CCDS following the purchase thereof by the Society.

13.3 Pre-emption Offer

If the Society intends to issue Additional CCDS in circumstances where the Pre-emption Opportunity applies, the Registrar shall, on behalf of the Society, give notice (the **Pre-emption Notice**) to the CCDS holders, in accordance with the Condition 14, of such intention and offering Eligible CCDS Holders the opportunity, on the same terms, to subscribe for the Relevant Proportion of the Additional CCDS to which they are entitled (the **Pre-emption Offer**).

13.4 Pre-emption Notice

The Pre-emption Notice shall specify (a) the terms on which the Pre-emption Offer is made and the conditions (if any) to which it is subject, (b) the period during which the Pre-emption Opportunity is available to Eligible CCDS Holders (the **Pre-emption Offer Period**) and (c) the procedures which Eligible CCDS Holders must follow if they wish to participate in the Pre-emption Offer.

13.5 Additional CCDS not subscribed pursuant to the Pre-emption Offer

If any Additional CCDS are not subscribed in the Pre-emption Offer (whether by Eligible CCDS Holders declining to subscribe the Relevant Proportion of Additional CCDS to which they are entitled or by Eligible CCDS Holders failing validly to participate in the Pre-emption Offer before expiration of the Pre-emption Offer Period), the Society shall be entitled to issue and offer such Additional CCDS to any person (including, but not limited to, other Eligible CCDS Holders), provided that such offer is on terms no more favourable to subscribers than the terms of the Pre-emption Offer.

13.6 Results of the Pre-emption Offer

The Registrar shall, on behalf of the Society, notify CCDS holders, in accordance with Condition 14, of the results of the Pre-emption Offer not later than 14 days following expiration of the Pre-emption Offer Period.

13.7 Disapplication of the Pre-emption Opportunity

The Pre-emption Opportunity shall not apply to Additional CCDS issued in circumstances where the Supervisory Authority has directed the Society, in writing, to disapply the Pre-emption Opportunity.

14 NOTICES

All notices regarding the CCDS shall be valid if sent either (a) by post to the CCDS holders at their respective addresses in the CCDS Register (any such notice shall be deemed to have been given on the second Business Day following the mailing of such notice); or (b) by electronic mail to the CCDS holders at their respective email addresses in the CCDS Register (any such notice shall only be effective when actually received (or made available) in a readable form, and only if it is addressed in such a manner as specified in the CCDS Register). For so long as the CCDS are listed or admitted to trading on any stock exchange, such notice shall also be made available in any other manner required by the rules of such stock exchange then in effect.

15 RIGHTS OF THIRD PARTIES

No person shall have any right to enforce any term or condition of the CCDS under the Contracts (Rights of Third Parties) Act 1999.

16 GOVERNING LAW

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

17 DEFINITIONS

For the purpose of these Conditions:

Act has the meaning given in Condition 1.2.1.

Additional CCDS has the meaning given in Condition 13.1.

Agency Agreement has the meaning given in the preamble to these Conditions.

Board means the Board of Directors of the Society.

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

Cap has the meaning given in Condition 5.5.

Capital Rules means the applicable regulations of the Supervisory Authority, in the United Kingdom namely, the Prudential Regulatory Authority (**PRA**) and the Financial Conduct Authority (**FCA**) (as amended or replaced from time to time) whether set out in legislation or in the PRA Rulebook or the FCA Handbook, as the case may be, relating to the capital adequacy or prudential requirements to which the Society and its group are subject from time to time, and shall include (without limitation, and until no longer applicable) any measures applicable to the Society which implement the capital requirements rules and also those implementing reform in relation to capital requirements contained in:

i. Assimilated Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms as it forms part of English law pursuant to the Retained EU law (Revocation and Reform) Act 2023 as amended by certain instruments;
ii. Financial Services and Markets Act 2023 and related statutory instruments;
iii. PS29/20 Capital Requirements Directive V (**CRD V**) issued by the PRA on 28 December 2020 as amended;
iv. CP16/22 – “Implementation of the Basel 3.1 standards” issued by the PRA on 30 November 2022;
v. PS17/23 – “Implementation of the Basel 3.1 standards near-final part 1” issued by the PRA on 12 December 2023;
vi. PS9/24 – “Implementation of the Basel 3.1 standards near-final part 2” issued by the PRA on 12 September 2024;
vii. PRA Rulebook: CRR Firms (**CRR**) Instrument, as amended from time to time;
viii. FCA Handbook, as appropriate, as amended from time to time;
ix. any other PRA Policy Statement on capital requirements relevant for the Society; and
x. such other guidance, statements, letters, notices, technical standards, orders or regulations issued by the Bank of England, HM Treasury or any other governmental authority, the PRA or the FCA concerning capital requirements.

CCDS has the meaning given in the preamble to these Conditions.

CCDS Certificate has the meaning given in Condition 2.3.

CCDS holder means a person whose name and address is entered in the CCDS Register as the holder of CCDS and references to a **holder** of CCDS shall be construed accordingly.

CCDS Register means the records of the Society maintained by the Registrar constituting the register of members for the purposes of the CCDS.

Common Equity Tier 1 Capital, at any time, has the meaning ascribed thereto (or to any equivalent term) at such time in the Capital Rules.

Conditions means these conditions of issue of the CCDS, and references to a numbered Condition shall be construed accordingly.

Conversion Benefits has the meaning given in Condition 1.3.

Core Capital Contribution Proportion has the meaning given in Condition 4.4.

Core Capital Contribution Share has the meaning given in Condition 4.4.

Core Capital Deferred Shares has the meaning given in the Rules (except where used in the preamble to these Conditions).

Deferred Shares Register has the meaning given in the Rules.

Determination Time or **DT** has the meaning given in Condition 4.4.

Distributable Items means, in respect of the payment of a Distribution at any time, those profits and reserves (if any) of the Society which are available, in accordance with applicable law and regulation for the time being, for the payment of such Distribution.

Distribution Payment Dates has the meaning given in Condition 5.1, and **Distribution Payment Date** shall be construed accordingly.

Distribution Policy has the meaning given in Condition 5.9.

Distributions has the meaning given in Condition 5.1, and **Distribution** shall be construed accordingly.

Eligible CCDS Holder has the meaning given in Condition 13.2.

Final Distribution has the meaning given in Condition 5.1.

Interim Distribution has the meaning given in Condition 5.1.

Liabilities means (i) the claims of all creditors (including, without limitation, creditors in respect of subordinated liabilities) of the Society and (ii) the claims of all other investing members (as defined in the Rules) of the Society (including, without limitation, holders of permanent interest bearing shares (if any)) in respect of the amounts paid up on their shares (other than Core Capital Deferred Shares), in each case including any principal amount, any interest (including post-petition interest) thereon and any other amounts owing thereon, but excluding (x) any actual, prospective or contingent claims to participate in a distribution of Surplus of the Society and (y) any claims in respect of declared, unconditional and unpaid Distributions in accordance with Condition 4.6 and claims ranking or expressed to rank *pari passu* therewith.

Member has the meaning given in the Rules.

Minimum Transfer Amount has the meaning given in Condition 2.2.

Nominal Amount has the meaning given in Condition 2.1.

Outstanding means, in relation to the CCDS, all the CCDS issued other than:

a) those CCDS which have been cancelled in accordance with Condition 8; and

b) any global CCDS Certificate to the extent that it shall have been exchanged for definitive CCDS Certificates pursuant to its provisions;

PROVIDED THAT for each of the following purposes, namely:

(i) the right to attend and vote at any meeting of the CCDS holders or any of them or to pass a resolution by way of a written resolution in place of a meeting and any direction or request by CCDS holders;

(ii) the determination of how many and which CCDS are for the time being Outstanding for the purposes of Condition 12 and Schedule 5 of the Agency Agreement;

(iii) the entitlement of a CCDS holder to a Pre-emption Opportunity (including the determination of the Relevant Proportions to which the CCDS holders are entitled);

(iv) any discretion, power or authority (whether granted under these Conditions, the Rules or applicable laws) which any person is required, expressly or impliedly, to exercise in or by reference to the interests of the CCDS holders or any of them; and

(v) the determination by any person whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the CCDS holders or any of them, those CCDS (if any) which are for the time being held by or on behalf of or for the benefit of the Society, any subsidiary of the Society or any holding company of the Society or any other subsidiary of such holding company, in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain Outstanding.

AND FURTHER PROVIDED THAT for the purposes of Conditions 4.2, 4.3a), 4.4a), 4.4b), all CCDS held by the Society in its treasury function at the Relevant time (but, for the avoidance of doubt, not at any other Determination Time) shall be deemed to be cancelled at the Relevant Time (such cancellation to be reflected in the determination of the Core Capital Contribution Proportion at the Relevant Time) and not to be or remain Outstanding for such purposes.

Pre-emption Notice has the meaning given in Condition 13.3.

Pre-emption Offer has the meaning given in Condition 13.3.

Pre-emption Offer Period has the meaning given in Condition 13.4.

Pre-emption Opportunity has the meaning given in Condition 13.2.

Principal Amount has the meaning given in Condition 2.1.

Principal Paying Agent has the meaning given in the preamble to these Conditions.

Record Date has the meaning given in Condition 6.1.

Registrar has the meaning given in the preamble to these Conditions.

Relevant Proportion has the meaning given in Condition 13.2.

Relevant Regulators means the Supervisory Authority and/or the Financial Conduct Authority (or any successor thereto) as required in the circumstances.

Relevant Time has the meaning given in Condition 4.3.

Rules has the meaning given in the preamble to these Conditions.

Supervisory Authority means the Prudential Regulation Authority (or any successor or other authority having primary supervisory authority with respect to prudential matters in relation to the Society).

Surplus has the meaning given in Condition 4.2.

OVERVIEW OF PROVISIONS RELATING TO THE CCDS WHILE REPRESENTED BY THE GLOBAL CCDS CERTIFICATE

The following is a summary of the provisions to be contained in the Agency Agreement and in the global certificate representing all the CCDS upon issue (the **Global CCDS Certificate**) which will apply to, and in some cases modify the effect of, the Conditions while the CCDS are represented by the Global CCDS Certificate:

1 EXCHANGE OF THE GLOBAL CCDS CERTIFICATE AND REGISTRATION OF TITLE

Registration of title to CCDS in a name other than that of the Nominee will be permitted only if all Clearing Systems have closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or do in fact do so.

Thereupon, the Society shall cause the exchange of the Global CCDS Certificate for definitive CCDS Certificates on or after the Exchange Date (as defined below). References herein to **Accountholders** are to each person (other than a Clearing System) who is for the time being shown in the records of a Clearing System as the holder of beneficial interests in a particular number of CCDS (in which regard any certificate or other document issued by that Clearing System as to the number of CCDS standing to the account of any person shall be conclusive and binding for all purposes).

On or after the Exchange Date, the Accountholders may surrender the Global CCDS Certificate to or to the order of the Registrar. In exchange for the Global CCDS Certificate, the Registrar will deliver, or procure the delivery of, definitive CCDS Certificates printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. On exchange of the Global CCDS Certificate, the Society will procure that it is cancelled and, if the Accountholder so requests, returned to the Accountholder together with any relevant definitive CCDS Certificates.

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 10 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Registrar is located.

2 PAYMENTS

Payments due in respect of CCDS represented by the Global CCDS Certificate shall be made by the Principal Paying Agent to or to the order of the Accountholders. A record of each payment made in respect of CCDS represented by the Global CCDS Certificate will be endorsed on the appropriate part of the schedule to the Global CCDS Certificate by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the CCDS.

Payment by the Principal Paying Agent to or to the order of the Accountholder as aforesaid will discharge the obligations of the Society in respect of the relevant payment under the CCDS. Each Accountholder must look solely to its Clearing System for its share of each payment made to or to the order of the Nominee, and each Beneficial Owner who is not itself an Accountholder must look solely to the relevant Accountholder through which it holds its CCDS for its share of each payment made to such Accountholder.

As used herein:

Beneficial Owners means each person who for the time being (or, where appropriate, as at the relevant Record Time) holds any interests in CCDS for its own account (and not only as custodian or an Intermediary for another person); and

Intermediary means each Clearing System and each Accountholder, custodian, broker or other intermediary who for the time being (or, where appropriate, as at the relevant Record Time) holds interests in CCDS (as custodian or otherwise) for the account of another person (and **Intermediaries** shall be construed accordingly).

For these purposes, CCDS will be deemed to be held by a Beneficial Owner or an Intermediary if an interest in such CCDS is (or, where appropriate, was as at the relevant Record Time) credited to the account of such Beneficial Owner or Intermediary with a Clearing System (or to an account with an Intermediary which in turn holds such CCDS, either directly or indirectly through one or more further Intermediaries, in an account with a Clearing System) and references to **held**, **holds**, **holder**, **holding** or similar references shall be construed accordingly.

3 TRANSFERS

Transfers of book-entry interests in the CCDS will be effected through the records of the Clearing Systems and their respective direct and indirect participants in accordance with their respective rules and procedures.

The Minimum Transfer Amount prevailing from time to time, as determined in accordance with Condition 2.2, shall apply *mutatis mutandis* to transfers of book-entry interests in the CCDS. Accordingly, a transfer of book-entry interests in the CCDS will only be effected by the Clearing Systems if such transfer is in respect of a whole number of CCDS equal to or greater than the Minimum Transfer Amount prevailing at the time of the transfer.

The Clearing Systems will not accept instructions to settle transfers of book-entry interests in the CCDS in amounts less than the prevailing Minimum Transfer Amount. Accordingly, purported transfers in amounts less than the prevailing Minimum Transfer Amount will be incapable of settlement. Investors in CCDS are responsible for ensuring that any trades they enter into in respect of the CCDS are capable of settlement; failure to do so may result in an investor breaching its contract of sale and purchase.

4 NOTICES

For so long as the CCDS are represented by the Global CCDS Certificate and such Global CCDS Certificate is held on behalf of one or more Clearing Systems, notices may be given to the CCDS holders by delivery of the relevant notice to the relevant Clearing Systems for communication to the relevant Accountholders and Beneficial Owners in substitution for dispatch and service as required by Condition 14. Such notice shall be deemed to have been given on the date of delivery of the notice to the relevant Clearing Systems for such communication.

5 MEETINGS; MEMBERSHIP RIGHTS WHILST THE CCDS ARE HELD THROUGH CLEARING SYSTEMS

Save as permitted in paragraph 1 above, investors will hold beneficial interests in the CCDS directly or indirectly through Accountholders with the Clearing Systems and will not themselves be entered on the CCDS Register as holder of the relevant CCDS. Instead, the holder entered on the CCDS Register for such CCDS shall be the Nominee and the relevant Accountholder's holding of interests in such CCDS will be recorded in the internal records of the relevant Clearing Systems.

This means that Accountholders and Beneficial Owners will not themselves be members of the Society and, accordingly, will not be entitled to vote at any general meeting of the members of the Society or in a postal ballot or to any other similar membership rights. Instead, the members' rights attaching to the CCDS held through the Clearing Systems will be held by the Nominee. Such Nominee will be entered in the CCDS Register as the holder of such CCDS, and will be entitled to exercise the voting and other members' rights attributable to such CCDS. Each member of the Society has one vote at any general meeting of the members of the Society. Accordingly, the Nominee will be entitled to exercise one vote at any such meeting, regardless of the number of CCDS held by it (and regardless also of the size and number of other relevant investments or interests (if any) conferring membership rights which the Nominee may have in the Society).

Given the difficulty of casting the single vote at a general meeting of the members of the Society in a manner which reflects the views of all Beneficial Owners of CCDS and the insignificance of that vote in the context of all the votes which may be cast by members of the Society, the Nominee has informed the Society that it does not intend to exercise its vote insofar as it relates to its holding of CCDS.

At a separate meeting of CCDS holders only, the Nominee will have one vote per CCDS and will act on the instructions of one or more Accountholders (who in turn will act on the direct or indirect instructions of Beneficial Owners holding through such Accountholders) received by it through the Clearing Systems. The Agency Agreement contains provisions relating to the convening and conduct of such meetings of CCDS holders. Those provisions include arrangements pursuant to which a Beneficial Owner will be able (i) to attend any such meeting and cast the votes attributable to its interests in the CCDS or (ii) otherwise to direct (including by way of electronic consents) how the votes attributable to its interests in the CCDS shall be cast at such meeting. For these purposes, notwithstanding the provisions of Condition 12.4a), the Nominee shall be entitled to appoint one or more persons as its proxy or proxies to attend, speak and, on a resolution, vote at a meeting of CCDS holders. Each proxy shall be appointed in respect of such number of CCDS specified by the Nominee (provided that no two proxies can be appointed in respect of the same CCDS). The Agency Agreement also contains provisions for the passing of resolutions, without the need for a meeting of CCDS holders, by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) by or on behalf of CCDS holders holding in aggregate not less than three-quarters of the number of CCDS for the time being Outstanding.

As Accountholders and Beneficial Owners will not be members of the Society, they will also not be entitled to any Conversion Benefits (including any rights to windfall payments) arising on a demutualisation or merger of the Society. Any Conversion Benefits arising on a demutualisation or merger of the Society will belong instead to the Nominee, as the registered holder of the CCDS in the CCDS Register. The Society shall instruct the Nominee to, on or prior to the date of issue of the CCDS, assign any rights to Conversion Benefits to which it may become entitled to a charity nominated by the Society.

6 PRE-EMPTION OPPORTUNITY

For so long as the CCDS are represented by the Global CCDS Certificate and such Global CCDS Certificate is held on behalf of one or more Clearing Systems, **Eligible CCDS Holder** shall, for the purposes of Condition 13, mean each Beneficial Owner as at the close of business on the ICSD Business Day prior to the date on which the Pre-emption

Notice is given. Such Beneficial Owners may participate in a Pre-emption Offer in accordance with the procedures of the relevant Clearing Systems from time to time, and otherwise in accordance with Condition 13, **ICSD Business Day** means a day on which the Clearing Systems are open for business.

7 RECORD DATE

For so long as all CCDS are held in the Clearing Systems, the Record Date shall be determined in accordance with Condition 6.1 provided that the words "fifteenth day" shall be deemed to be replaced with "ICSD Business Day".

8 PRESCRIPTION

Claims against the Society in respect of any amounts payable in respect of the CCDS represented by the Global CCDS Certificate will be prescribed after 12 years from the due date and shall revert to the Society.

9 PURCHASE AND CANCELLATION

Cancellation of any CCDS purchased and surrendered for cancellation in accordance with Condition 8.2 will be effected by a corresponding reduction in the number of CCDS represented by the Global CCDS Certificate.

10 DIRECT RIGHTS

Subject as follows, upon a breach of contract by the Society (which shall, for the purposes of this paragraph "*Direct Rights*", include a CCDS holder becoming entitled to bring any action against the Society as contemplated by Condition 11.4) or upon a winding-up or dissolution of the Society, each Beneficial Owner at the time of such breach or, as the case may be, at the Relevant Time (each a **Relevant Person**) shall (for the purpose only of bringing an action for such breach of contract or, as the case may be, claiming in the winding-up or dissolution of the Society in accordance with Condition 4) acquire against the Society all those rights (**Direct Rights**) which such Relevant Person would have had if, at the time of the relevant breach of contract or, as the case may be, at the Relevant Time, such Relevant Person had been identified in the CCDS Register as the registered holder of such number of CCDS (the **Underlying CCDS**) as is equal to the number of CCDS which are credited to such Relevant Person's securities account with a Clearing System (or, as the case may be, with any Intermediary) at such time.

The Relevant Persons will acquire such Direct Rights only in the circumstances and for the purposes described in the preceding paragraph and for no other purpose. Direct Rights will be acquired automatically at the time of the relevant breach of contract or, as the case may be, at the Relevant Time, without the need for any further action on behalf of any person. The Society's obligation hereunder shall be a separate and independent obligation to each Relevant Person by reference to each Underlying CCDS of such Relevant Person, and the Society agrees that a Relevant Person may assign such Direct Rights in whole or in part.

The records of the Clearing Systems and (subject to the following proviso) each Intermediary (as applicable) shall be conclusive evidence of the identity of the Relevant Persons and the number of Underlying CCDS credited to the securities account of each Relevant Person; provided that the records of an Intermediary shall be conclusive evidence of the identity of any Relevant Persons only if accompanied by records of (i) the

Accountholder (and any other Intermediary) through which such Intermediary holds the relevant CCDS and (ii) the relevant Clearing System, which records when taken together evidence a chain of ownership linking the records of such Intermediary and the records of the relevant Clearing System. For these purposes, a statement issued by a relevant Clearing System and/or a relevant Intermediary (as applicable) stating the name of the Relevant Person to which the statement is issued and the number of Underlying CCDS credited to the securities account of such Relevant Person as at the opening of business on the first business day following the time of the relevant breach of contract or the Relevant Time (as the case may be), shall be conclusive evidence of the records of the relevant Clearing System or (subject to the foregoing proviso) such Intermediary (as the case may be) at the time of the relevant breach of contract or the Relevant Time (as applicable).

11 SUCCESSION AND TRANSFERS

Upon a transfer by the Society of the whole of its business to a Successor Entity in accordance with Condition 10.2, the Society will (unless otherwise agreed as part of the terms of the transfer at the relevant time), and the Registrar and Transfer Agent shall assist the Society to, direct that the ordinary shares to be delivered to the relevant Accountholder instead be delivered directly to (or to the order of) the Beneficial Owners as if those Beneficial Owners had, at the vesting date, held in definitive form the number of CCDS corresponding to their book-entry interest in the CCDS at that time.