

5th September 2017

Core Capital Deferred Shares – Distribution Policy

This is 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 (core capital) 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 value to the Society of the capital provided by CCDS holders and rewarding investment in the capital of the Society in a commercially responsible manner, having regard to the risks inherent in such investments and the Society's need to maintain access to capital in the future;
- the benefits received by other members of the Society through the operation of the Society's business in accordance with the principles of mutuality; and
- the cap on Distributions under the Society's Rules,

and 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.

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If the CCDS had been in issue for the financial year ended 31 December 2016, and taking into account the policy set out above, the Board is likely to have declared a final Distribution of £5.3975 (being 500 basis points above the weighted average of the Bank of England base rate in each month during the financial year ended 31 December 2016) per CCDS for payment in May 2017.

Given the expected timing of the issue of CCDS within the Society's financial cycle, the Board currently expects to make a final Distribution payment on 1 May 2018 which, based on the indication above, would be £5.25 (being 500 basis points above the weighted average of the Bank of England base rate in each month during the period from the date of issue until 31 December 2017) per CCDS.

The Board currently expects, under normal circumstances, to adopt a stable Distribution policy and therefore expects that the Distribution level indicated above, of 500 basis points above the weighted average of the Bank of England base rate in each month during the applicable financial year (with Bank of England base rate deemed to be zero if actually less than zero), would be appropriate for future years, subject to the Society's current and anticipated financial position being viewed as satisfactory.

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 interim or final Distributions 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 and any Distribution that is declared may be higher (subject to the cap on Distributions under the Society's Rules) or lower than the indications stated above.