

The Cambridge Building Society

Conditions of Issue of the Core Capital Deferred Shares



**THE
CAMBRIDGE**
Building Society

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CONDITIONS OF ISSUE OF THE CORE CAPITAL DEFERRED SHARES

The following (save for the paragraphs in italics, which do not form part of the conditions) are the conditions of issue of the CCDS as they apply to the 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 Cambridge 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**). In the event of inconsistency between the Rules and these Conditions, the Rules will prevail.

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 established by the Society for the time being. 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.

2 FORM, TITLE AND TRANSFER

2.1 Form

The CCDS are in registered form and have a nominal value of £100 each (the **Nominal Amount**). The CCDS are transferrable 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 2,500 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. 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 Society. 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 Society shall, on behalf of the Society, issue a CCDS Certificate in respect of such holding (which will be made available at the principal office of the Society).

2.3 **CCDS certificates**

A certificate (each a **CCDS Certificate**) will, if so requested in writing by such CCDS holder, be issued to each 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 such 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 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 Society 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.

2.4 **Formalities free of charge**

Registration of transfer of CCDS will be effected without charge by or on behalf of the Society but upon payment (or the giving of such indemnity as the Society 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 shall maintain the CCDS Register, in which shall be entered the name and address of each CCDS holder. Each CCDS holder shall notify the Society immediately of any change of name or address and shall procure such evidence of change of name or address as the Society may reasonably require.
- 3.2 A CCDS holder must provide the Society with a written order containing such instructions and other information as the Society may reasonably require to complete, execute and deliver a CCDS Certificate to such CCDS holder.
- 3.3 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 principal office of the Society.

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 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 4.4(b) 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 4.4(b), 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:

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

$$\text{New Issue Amount}_{DT} + \text{Core Capital}_{DT} - \text{Cancellation Adjustment Amount}_{DT}$$

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

$$(N \times \text{Notional }_{DT}) + \text{CCCP }_{DT-1} \text{ Cancellation Adjustment Amount }_{DT} - (N \times \text{Notional }_{DT})$$

where:

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

Notional $_{DT}$ 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 $_{DT}$, **CCCP** $_{DT-1}$ and **Cancellation Adjustment Amount** $_{DT}$ 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(b)(ii) above.
- (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 £100 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 [[] August] 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 [[] February] 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. Any New Distribution Payment Dates so determined will be promptly notified to CCDS holders in accordance with Condition 14.

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 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**).

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 write to holders 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).

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 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.

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.

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 cheque or transfer

Subject as follows, all payments in respect of the CCDS will be made in sterling cheque drawn on a bank or building society in the United Kingdom, posted on the Business Day immediately preceding the relevant due date for payment and made payable 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**) at the addresses shown in the CCDS Register on the Record Date.

Upon application of the CCDS holder to the Society, in the form from time to time prescribed by the Society, not less than 10 days before the due date for any payment

in respect of its CCDS, the payment may be made by transfer on the due date for payment or, if such date is not a Business Day, on the immediately following Business Day, to a sterling account maintained by the relevant CCDS holder with a bank or building society in the United Kingdom.

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 Society will annotate the CCDS Register of the amount in fact paid.

7. PRESCRIPTION

Any amounts payable in respect of CCDS in respect of which no cheque or warrant has been cashed 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 Society 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. 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 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 may think fit and to payment of any exceptional expenses of the Society incidental to any investigation of the evidence of such alleged loss, theft or destruction. The duplicate CCDS Certificate will be made available at the principal office of the Society.

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 Equity 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 by the Society 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 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 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) and 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.
- 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 chairman.

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 chairman) 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 chairman 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 chairman and if at the adjourned meeting a quorum shall not be present within half an hour from the time appointed for the adjourned meeting, the CCDS holders present in person or by proxy at the adjourned meeting shall be a quorum.

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

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 chairman 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 the Rules.

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 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 chairman 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 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 Society shall 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 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.

The Pre-emption Offer Period shall be at least 10 Business Days but no longer than 60 Business Days.

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 Society shall 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 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.

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.

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 and currency deposits) in London.

Cap has the meaning given in Condition 5.5.

Capital Rules means the applicable rules of the Supervisory Authority (as amended or replaced from time to time) and any other rules or regulations 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 are intended to implement the reforms contained in "*Basel III: A global regulatory framework for more resilient banks and banking systems*" published by the Basel Committee on Banking Supervision in December 2010, including (without prejudice to the generality of the foregoing) *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 (commonly referred to as the **Capital Requirements Directive IV** or **CRD IV**), 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 (commonly referred to as the **Capital Requirements Regulation** or **CRR**), applicable regulatory technical standards published by the European Banking Authority and adopted by the European Commission (by way of regulation or otherwise) and any rules promulgated in connection with any of the foregoing.*

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 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) as 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.

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.

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

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;

- (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, 4.3(a), 4.4(a) and 4.4(b), 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.

Customer Contact Centre

0345 601 3344

Open 8.30am-8.30pm Mon-Fri; 9.00am-5.00pm Sat

The Cambridge Building Society

Head Office, PO Box 232

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thecambridge@cambridgebs.co.uk

All communications with us may be monitored/recorded to improve the quality of our service and for your protection and security.



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