

SCHEDULE 1

Article 2

THE PRESCRIBED TERMS FOR QUALIFYING SUBORDINATED DEBT

1. Subject to paragraph 2 of this schedule the prescribed terms are terms which have effect so as—
 - (a) to prohibit the payment or crediting of interest on the debt if on the date on which such interest would, in the absence of such term, fall to be paid the borrower is for the purposes of such term insolvent and the borrower for such purpose shall be taken to be insolvent if the borrower is unable to pay its debts as they fall due or if the assets of the borrower at that date are, or after such payment of interest if made would be, not greater than the borrower's liabilities including all liabilities to creditors other than creditors in respect of the debt upon which such interest would be payable on in respect of qualifying subordinated debt ranking thereafter or *pari passu* therewith.
 - (b) to prohibit the payment or crediting of interest on the debt in respect of any financial year of the borrower or part of a year (hereinafter called "the interest period") if the borrower has cancelled the interest or dividend upon—
 - (i) shares of the borrower, being a society, of any class other than deferred shares, or
 - (ii) deposits with the borrower except other subordinated debt,

which falls, in accordance with the terms applying to that class of share or those deposits, to be paid or credited at any time before the end of the interest period and for the purposes of this term interest shall, if the borrower has deferred or suspended payment thereof, for so long as it remains outstanding be taken to have been cancelled, and interest upon shares or deposits shall be taken to fall to be paid or credited if it would have so fallen but for any provisions relating thereto entitling the borrower to cancel defer or suspend payment.

For the purposes of this term "other subordinated debt" means debt ranking before the qualifying subordinated debt but in respect of which no repayment will be made to the creditor in a winding up except where at least all sums due to other creditors in the winding up are paid to those creditors in full.

- (c) to prohibit the payment or crediting of interest on the debt for any specified period if the board of directors of the borrower, being a society are of opinion that—
 - (i) there has been a failure by the society to satisfy the first criterion and such failure is then continuing, or
 - (ii) the payment or crediting of that interest or, as the case may be, payment or crediting in full of that interest, would cause or contribute to such a failure by the society,

and in such case passes a resolution cancelling such interest or as the case may require reducing it to such extent as may be necessary to secure that there will be no such failure and upon the passing whereof the lender in respect of that debt shall cease to have any right to the interest for that period so cancelled or, as the case may be, any interest other than the reduced amount payable in accordance with that resolution;

but it shall not be contrary to this prescribed term for arrears of interest which but for such term would have accrued, to be payable if the board of directors of the borrower shall, being satisfied that there is no continuing failure to satisfy the first criterion, pass a resolution to make payment of such arrears, or such part thereof as may be paid without breach of such criterion.

2. Issue terms shall not be taken for the purposes of article 3(2)(d) of this order to be inconsistent with the prescribed terms by reason only of a provision permitting interest, the payment or crediting of which is prohibited by the prescribed term, to be accumulated, with or without interest accumulating thereon, until such date as the borrower may pay it without a breach of the prescribed term.